

DATE: 16 February 2023
MY REF: Cabinet Executive – Supplemental Agenda
YOUR REF:
CONTACT: Democratic Services
TEL NO: 0116 272 7640
EMAIL: committees@blaby.gov.uk

To Members of the Cabinet Executive

- | | |
|--|---|
| Councillor Terry Richardson (Leader) | – Leader of the Council |
| Councillor Maggie Wright (Deputy Leader) | – Finance, People & Performance Portfolio Holder |
| Councillor Nigel Grundy | – Neighbourhood Services & Assets Portfolio Holder |
| Councillor Les Phillimore | – Housing, Community & Environmental Services Portfolio Holder |
| Councillor Ben Taylor | – Planning Delivery and Enforcement & Corporate Transformation Portfolio Holder |

Dear Councillor,

A meeting of the **CABINET EXECUTIVE** will be held in the Council Chamber - Council Offices, Narborough on **MONDAY, 20 FEBRUARY 2023 at 5.30 p.m..** Please find attached a number of supplemental items that are required for the meeting and are in addition to the agenda and report pack that has already been circulated.

Yours faithfully



Louisa Horton
Corporate Services Group Manager and Monitoring Officer



SUPPLEMENTAL ITEMS

7. Quarter 3 Budget Review 2022/23 (Pages 3 - 14)
To consider the report of the Finance Group Manager (enclosed)
9. 5 Year Capital Programme 2023/24 to 2027/28 (Pages 15 - 46)
To consider the report of the Finance Group Manager (enclosed)
10. Prudential Indicator & Treasury Management Strategy 2023/24 (Pages 47 - 100)
To consider the report of the Finance Group Manager (enclosed)
12. General Fund Budget Proposals 2022/23 (Pages 101 - 102)
To consider the report of the Executive Director (S151 Officer) (enclosed)

Blaby District Council

Cabinet Executive

Date of Meeting	20 February 2023
Title of Report	Quarter 3 Budget Review 2022/23 This is a Key Decision and is on the Forward Plan.
Lead Member	Cllr. Maggie Wright - Finance, People & Performance (Deputy Leader)
Report Author	Finance Group Manager
Corporate Priority	Medium Term Financial Strategy (MTFS)

1. What is this report about?

- 1.1 This report gives Members an overview of the financial performance against the budget for the third quarter of 2022/23

2. Recommendation(s) to Cabinet Executive

- 2.1 That the financial performance against the budget for the quarter ending 31st December 2022 is accepted.
- 2.2 That the forecast contribution of £715,058 from General Fund balances is accepted.

3. Reason for Decisions Recommended

- 3.1 The Council's performance up to 31st December 2022 together with the impact on the Council's services due to the current cost-of-living crisis has given rise to significant pressure on reserves and balances.

4. Matters to consider

4.1 Background

The Council's original budget, approved in February 2022, was £13,484,546 before contributions from reserves and Government grants. The budget was supported by contributions of £397,563 and £230,940 from General Fund balances and earmarked reserves respectively, resulting in a net expenditure budget of £12,856,043.

The last quarterly report presented to Cabinet in November noted that the budget gap at that point was £751,600. The estimated impact of the annual pay award was an additional £488,000 but this could be mitigated by the

change to the Minimum Revenue Provision (MRP) policy, bringing the forecast contribution to balances back down to £455,800.

Since the last report, a review of all budgets has been carried out by the Finance Team in conjunction with Budget Managers based on expenditure to date and forecast expenditure to the end of the financial year. Further cost pressures were identified through this process, including an additional £70,000 in respect of HVO fuel prices, and the loss of £84,000 rent income due to vacant units at Enderby Road Industrial Estate. These changes have increased the estimated call on balances to £992,000 as at 31st December 2022. However, a further review of establishment vacancies, referred to in paragraph 4.2 below, has brought this back down to £715,058.

Appendix A shows the net service expenditure to date compared with the profiled budget. Although a positive variance is shown, this does not reflect a likely outturn position due to the impact of profiling assumptions, and the fact that it is shown on a cash basis rather than an accruals basis.

4.2 Establishment

As at 31st December 2022 establishment costs were £10,851,428, against a profiled budget of £11,232,354, £380,926 less than the profiled budget. The variances are shown in the table below:

Portfolio	(Under)/Over £	Note
Leader	(109,456)	1
Finance, People & Performance	17,704	2
Neighbourhood Services	(106,094)	3
Health, Wellbeing, Community Engagement & Business Support	(43,410)	4
Housing, Community and Environmental Services	(15,786)	5
Planning Delivery and Enforcement and Corporate Transformation	(146,240)	6
Central Provisions	22,355	7
Total Variance	(380,926)	

Reasons for variances

1. The main variance is due to a vacancy within the Corporate Health & Safety team (now filled), along with a number of vacancies in the Democratic Services and Governance area, some of which remain unfilled.
2. The overspend is due to the ongoing reliance on agency staff within the Finance team to fill a vacant post and to provide interim cover for maternity leave. This is offset by vacancy savings within Performance, Income & Collections, and the Council Tax & Benefits team.

3. The underspend here is due to a number of vacancies across most of the depot-based services, as well as the Property Services team (Facilities Management).
4. Vacant posts within Building Control (Team Leader and Trainee Building Surveyor) and a vacant Community Development Officer post.
5. Due to vacancies within Environmental Services and Environmental Health, offset by ongoing cost of agency staff in the Housing team. It is expected that the agency costs can be met from the homelessness grant allocation.
6. The most significant vacancies in this group are in Customer Services, and Communications, most of which are now filled.
7. Central provisions include statutory maternity pay, statutory sick pay, and the apprenticeship levy. Against this there is a £200,000 vacancy savings provision which reduces the extent of the underspend.

The figures in the table above have been updated to reflect the backdated pay award effective from 1st April 2022.

During January, the Finance team has worked with budget holders to identify and remove any guaranteed vacancy savings from establishment budgets. As a result of this exercise, we have been able to reduce the expected contribution from balances by just over £277,000.

4.3 Key Income

	Working Budget	Profiled Budget	Actual to Date	(Surplus)/ Shortfall
	£	£	£	£
Planning Fees	(560,000)	(420,000)	(313,627)	106,373
Building Control Fees	(1,212,000)	(909,000)	(711,090)	197,910
Building Control Partnership	(99,313)	(74,485)	(68,216)	6,269
Land Charges	(247,000)	(185,250)	(163,261)	21,989
Investment Interest	(400,000)	(300,000)	(467,663)	(167,663)
Refuse and Recycling	(1,665,000)	(1,614,250)	(1,588,913)	25,337
Car Parks	(245,500)	(162,750)	(109,761)	52,989
Leisure Income	(300,550)	(225,413)	(221,741)	3,672
Total	(4,729,363)	(3,891,148)	(3,644,272)	246,876

Planning Fees

Whilst the volume of planning applications remains high, there have been very few of significant value in the period to 31st December. There is the possibility of a larger scale application in relation to a proposed solar farm but there is no guarantee that it will come forward before the year end.

Building Control

Building control income is also significantly below profile, perhaps not surprisingly in the context of the current economic climate. The loss in income will be offset by expenditure savings in relation to the establishment and other running expenses. Any shortfall in the overall Building Control Partnership budget at year end will be shared amongst partners in accordance with the agreement.

Investment income

This is the one key income stream that is performing in excess of the budget, due to the significant increases in the Bank Rate in recent months. Whilst interest is likely to fall back over the last quarter, due to the cash flow profile, it is expected that the positive variance will still grow.

Refuse & Recycling

Refuse and recycling income, whilst running below profile, is expected to end the financial year at around target.

Car Parks

The new charging order was introduced on 5th October 2022 and the income figures above reflect the increased fees and charges applicable between that date and 31st December 2022. Income levels have noticeably increased since the introduction of the new charges, on average from around £8,300 per month to around £17,500 per month. However, the budget was increased based on the figures in the Car Park Strategy report to Council in July 2022 without any reduction for the potential impact of the tariff increases on ticket sales. Ticket sales have reduced, which is reflected in the figures, but this has been further affected in quarter 3 by Blaby and Narborough Parish Councils requesting two of their four free parking days in the run up to Christmas, the reduction in train services affecting Narborough Station car park, the impact of the cost of living crisis, and some operational implementation issues. Ticket sale reductions of approximately 20% are in line with neighbouring authorities, even those that have not increased their charges. However, officers continue to work to the strategy recommendation of delivering at least cost neutrality for the car parking account and will provide details as part of the year end accounting process.

Leisure Income

Income since August 2022 is in line with the management fee agreed by Council. The variance against profile stems from the results of the open book accounting arrangements that were in place up until 31st July 2022.

General

Future reports will cover the full financial position at the end of each quarter for both Building Control and Car Parking, rather than focusing only on the income stream. This will give Members a more rounded picture of the performance for both of these key operations.

4.4 Earmarked Reserves

In addition to the General Fund balance the Council also maintains several Earmarked Reserves. Some of these have been set aside for specific purposes, others have been created to mitigate the uncertainties that continue to surround local government funding. A breakdown of the movement on Earmarked Reserves during the 3rd Quarter of the financial year appears at Appendix B.

£4,270,355 of the balance is not available for distribution as it is set aside specifically to offset the NNDR Collection Fund deficit. This is in line with the Government ruling that the deficit on 31st March 2021 could be spread across three financial years (2021/22 to 2023/24), rather than the hit being taken in one year as is the usual case.

4.5 Forecast of Outturn

As mentioned in paragraph 4.1 the call on General Fund Balances has increased to £992,101 as at 31st December 2022. This does not include savings of £273,712 arising from vacant posts, which will bring the gap down to £715,058. One of the main risks to this forecast is key income which is currently running significantly below the profiled budget. Whilst there is the possibility that some income streams may perform better in the final quarter there is a strong likelihood of a shortfall at year end. At this point it is difficult to predict the final position for key income as it is reliant on demand which, in the current economic climate, is lower than normal levels.

Other budget commitments:

HR Advisor position – the Council has supplemented the HR team with a HR advisor position on a fixed term basis for several years. Given the continued demands on the HR team there is a need to retain the expertise and resource for this position. This position has been included in this financial year and the proposed budget for 2023/24. This note is therefore to recognise formally the addition of this position permanently to the establishment of the Council; a requirement given the length of time the current post holder has been in post.

IT Programme Manager - Members will be aware of the delegated service arrangement with Hinckley & Bosworth Borough Council to provide ICT services to the Council. Given the nature of the arrangement and the increased focus on ICT for the Council's transformation programme it is proposed that a post be added to the Blaby establishment to bring ICT

expertise directly into the Council providing a dedicated resource and a subject matter expert to ensure Blaby's future ICT capability is maximised. The costs for this post (estimated to be £70,000) have been included within the budget proposals for 2023/24.

Extended resource to support Strategic Asset Review - Members will recall that authorisation was given to commission specialists to provide options for the Council's future accommodation needs and to consider the Council's strategic assets. This work is progressing, however further expenditure is needed to progress this work and ensure that the Council is best considering the use of the Council's assets. It is estimated that further expenditure of £50,000 is required in this financial year to progress this work and that a further £25,000 may be required that extends into 2023/24 and will be required to be added to the budget proposals.

5. What will it cost and are there opportunities for savings?

5.1 Not applicable

6. What are the risks and how can they be reduced?

6.1

Current Risk	Actions to reduce the risks
Net expenditure may exceed the approved budget due to a shortfall in income or overspending arising from the current economic situation.	Ongoing budget monitoring to highlight variances, income generation activities (including a review of fees and charges), and transformation of services.
The change in MRP policy, whilst generating short-term savings, will result in increased MRP charges in the medium to longer term.	The Council can consider the use of additional voluntary revenue provision to smooth the profile of future year's charges. The existing and proposed capital programme will be reviewed to identify alternative sources of finance, and opportunities to defer and/or downscale projects.

7. Other options considered

7.1 None

8. Environmental impact

8.1 In preparing this report the author has considered the impact on the environment and there are no areas of concern.

9. Other significant issues

- 9.1 In preparing this report, the author has considered issues related to Human Rights, Legal Matters, Human Resources, Equalities, Public Health Inequalities, and Climate Local and there are no areas of concern.

10. Appendix

- 10.1 Appendix A – Budget Monitoring Statement to the 31st December 2022
- 10.2 Appendix B – Reserves Position as at 31st December 2022

11. Background paper(s)

- 11.1 None

12. Report author's contact details

Nick Brown	Finance Group Manager
nick.brown@blaby.gov.uk	0116 272 7625

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BLABY DISTRICT COUNCIL
GENERAL FUND REVENUE ACCOUNT

BUDGET MONITORING STATEMENT TO 31ST DECEMBER 2022

Portfolio		A Approved Budget £	B Working Budget £	C Profiled Budget £	D Actual to P9 £	E Variance to Profile £	F Forecast Outturn £
FPP	Finance, People & Performance	2,927,303	3,057,231	2,284,212	2,189,703	(94,509)	3,057,231
HCES	Housing, Community & Environmental Services	1,914,296	2,592,911	1,995,183	1,014,452	(980,731)	2,592,911
HWCEBS	Health & Wellbeing, Community Engagement & Business Support	509,666	1,980,598	1,513,277	1,010,036	(503,241)	1,980,598
LEAD	Leader	1,440,676	1,683,458	1,293,918	1,013,437	(280,481)	1,683,458
NSA	Neighbourhood Services & Assets	2,554,596	3,191,214	2,066,020	1,862,573	(203,446)	3,191,214
PDECT	Planning Delivery, Enforcement & Corporate Transformation	2,817,157	3,681,941	2,896,185	2,236,200	(659,985)	3,681,941
Net Expenditure on Services		12,163,694	16,187,353	12,048,795	9,326,402	(2,722,393)	16,187,353
RCCO	Revenue Contributions to Capital Outlay	100,000	411,066	308,300	201,199	(107,100)	411,066
MRP	Minimum Revenue Provision	1,173,162	389,373	292,030	0	(292,030)	389,373
APPROP	Appropriations & Accounting Adjustments	47,690	85,819	64,364	71,233	6,868	(191,224)
		13,484,546	17,073,611	12,713,488	9,598,833	(3,114,655)	17,073,611
EAR	Contributions to/(from) Earmarked Reserves	(230,940)	(3,225,468)	0	0	0	(3,225,468)
GFBAL	Contributions to/(from) General Fund Balances	(397,563)	(992,101)	0	0	0	(715,058)
Net Budget Requirement		12,856,043	12,856,042	12,713,488	9,598,833	(3,114,655)	12,856,042

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FORECAST RESERVES & BALANCES AS AT 31ST MARCH 2023
APPENDIX B

	GL Code	Balance at 31/03/22 £	Contributions from I&E A/c £	Utilisation of Balances £	Balance at 31/03/23 £
Leisure Centre Renewals Fund	9999/VBA	(62,361)	0	0	(62,361)
Computer Room Environment	9999/VBB	(255,407)	0	118,000	(137,407)
Licensing Reserve	9999/VBC	(27,868)	0	0	(27,868)
Insurance Reserve Fund	9999/VBD	(100,000)	0	0	(100,000)
Blaby Plan Priorities Reserve	9999/VBJ	(452,667)	0	101,513	(351,154)
General Reserve Fund	9999/VBK	(1,697,764)	0	88,946	(1,608,818)
Ongoing Projects Reserve	9999/VBM	(2,923,063)	0	2,868,373	(54,690)
Elections Reserve	9999/VBQ	(121,944)	0	0	(121,944)
Choice Based Lettings Reserve	9999/VBR	(952)	0	0	(952)
New Homes Bonus Reserve	9999/VBT	(41,327)	0	10,000	(31,327)
COVID Support Reserve	9999/VBU	(700,000)	0	0	(700,000)
Economic Development Initiatives	9999/VBX	(50,000)	0	0	(50,000)
Provision - ERIE Sinking Fund	9999/VCA	(34,654)	0	0	(34,654)
Community Rights Reserve	9999/VCB	(48,724)	0	0	(48,724)
Hardship Reserve	9999/VCD	(325,000)	0	0	(325,000)
Parish New Homes Bonus Reserve	9999/VCE	(881)	0	0	(881)
NNDR Income Reserve	9999/VCF	(1,702,174)	(1,041,742)	0	(2,743,916)
Flexible Working Reserve	9999/VCG	(162,678)	0	0	(162,678)
Local Plan Reserve	9999/VCJ	(483,595)	0	59,661	(423,934)
Lottery Reserve	9999/VCK	(21,132)	0	5,855	(15,277)
IT System Replacement Reserve	9999/VCL	(54,415)	0	18,120	(36,295)
Property Fund Reserve	9999/VCM	(88,462)	(45,000)	0	(133,462)
S31 Grant Reserve	9999/VCO	(4,270,355)	0	2,768,199	(1,502,156)
Huncote Major Reserve	9999/VCP	(423,433)	(100,000)	0	(523,433)
Court Fees Income Reserve	9999/VCQ	(31,813)	0	0	(31,813)
		(14,080,669)	(1,186,742)	6,038,667	(9,228,744)
Less Earmarked Reserves set aside to meet the Collection Fund Deficit		4,270,355			1,502,156
Usable Earmarked Reserves		(9,810,314)			(7,726,588)
General Fund Balance		(4,698,909)	100,000	715,058	(3,883,851)

TOTAL RESERVES & BALANCES
(14,509,224)
(11,610,440)

NB: Council has approved the use of £100,000 from the Hardship Reserve to mitigate the impact of increased service demand arising from the cost of living crisis. This contribution will be reflected as and when any expenditure is required.

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Blaby District Council

Cabinet Executive

Date of Meeting	20 February 2023
Title of Report	5 Year Capital Programme 2023/24 to 2027/28 This is not a Key Decision and is on the Forward Plan
Lead Member	Cllr. Maggie Wright - Finance, People & Performance (Deputy Leader)
Report Author	Finance Group Manager
Corporate Priority	Medium Term Financial Strategy (MTFS)

1. What is this report about?

- 1.1 This report sets out the Council's proposed Capital Programme and resources for the next five financial years commencing in 2023/24. The Capital Programme covers our planned expenditure on the acquisition, construction and/or enhancement of non-current assets, i.e., those assets with a useful life of greater than one year.
- 1.2 The report also presents the Council's updated Capital Strategy in accordance with the requirements of the 2017 Prudential Code.

2. Recommendation(s) to Cabinet Executive and Council

- 2.1 That the 5 Year Capital Programme for 2023/24 to 2027/28, set out at Appendix A, is approved.
- 2.2 That the application of capital resources of 3,618,500 for 2023/24, including a borrowing requirement of 2,295,500, is approved.
- 2.3 That the Capital Strategy 2023/24 to 2027/28 is approved

3. Reason for Decisions Recommended

- 3.1 To obtain approval for the proposed level of capital expenditure in 2023/24 and the suggested method of financing that expenditure.
- 3.2 To provide a longer term forecast of capital expenditure and financing requirements for the period 2023/24 to 2027/28.
- 3.3 To ensure compliance with the Prudential Code.

4. Matters to consider

4.1 Background

The Council approved its current Capital Strategy on 24th February 2022. The Capital Strategy is a high-level document that considers the Council's future capital spending plans and available capital resources, together with the implications for the revenue account. The strategy also sets out the overall governance process for setting the Capital Programme.

Part of the governance process involves the approval of a rolling 5 Year Capital Programme based around the Council's strategic priorities and planned renewal and replacement of existing assets.

The summarised 5 Year Capital Programme covering the financial years 2023/24 to 2027/28 is attached at Appendix A. The starting point is the existing 5-year programme, which was also approved by Council at the above meeting. The Senior Leadership Team has reviewed the existing programme and separated the schemes into the following categories as a way of targeting resources where the need is most urgent or where longer-term savings will be generated:

- Invest to Save schemes
- Essential schemes or those where the Council is contractually committed
- Desirable schemes subject to affordability
- Schemes that are externally funded

Consideration has also been given to where schemes can be, or need to be, deferred to a future financial year. The headline proposals were considered by Strategic Board in November 2022, although some of the detail has since been refined to reflect emerging priorities and slippage to the planned programme of works.

4.2 Proposal(s)

As can be seen at Appendix A, the total proposed Capital Programme for the next five years amounts to £11.1m, of which just over £3.6m falls in 2023/24. At this point in time, many of the schemes put forward for inclusion in the Capital Programme require further refinement in terms of specification and cost. Some of those schemes may also require separate approval from Council before proceeding. In cases such as this a further report will be brought before Council at the appropriate time.

Across the life of the 5 Year Capital Programme, it is forecast that just under £2.1m of capital expenditure can be met from the Council's own resources (e.g., capital receipts and reserves), and another £3.3m from capital Grants and contributions. This leaves a projected borrowing requirement of £5.7m between 2023/24 and 2027/28.

The estimated borrowing requirement in 2023/24 is £2.3m with the remainder of the programme being funded from a mixture of government grant, Section 106 contributions, capital receipts, and earmarked reserves. The main expenditure requirements in 2023/24 are as follows:

- Fleet Vehicle Replacement Programme (£1,505,000) – this allows for 5 refuse vehicles at an approximate cost of £200,000 each, a sweeper and transit van for District Cleansing (£125,000), and various vehicles for the Open Spaces team (£380,000). At this point it has been agreed that we will not seek to purchase electric vehicles until we have the necessary charging infrastructure in place, and whilst the price margin between diesel and electric vehicles remains at current levels.
- Disabled Facilities Grants (£660,000) - the precise grant allocation has not yet been released but is expected to be similar to 2022/23. £30,000 of this sum is earmarked for the provision of housing support grants.
- Installation of solar panels and an air source heat pump at the Depot (£600,000) – as mentioned on the previous page, this is an indicative cost and will require further market testing. A separate report will be brought back to Council before proceeding. It is anticipated that this scheme will generate longer term efficiencies in terms of reduced energy costs.
- Electric Vehicle Infrastructure for Depot (£250,000) – the progression of this investment will be dependent upon the extent to which the Council decides to move to electrification of the fleet.

In September 2022, Council approved a change to its Minimum Revenue Provision (MRP) Policy, effective from 2022/23. This involves moving from a straight-line “depreciation” method of writing down borrowing costs to an annuity-based method using the weighted average asset life of assets included in the capital programme during the financial year.

Under the new policy, the additional MRP chargeable in respect of schemes in the 2023/24 Capital Programme is just under £300,000, although this charge will not hit the General Fund budget until 2024/25, the year after the borrowing is incurred. There will also be additional revenue costs in respect of loan interest payable, and other running costs as shown in the table below.

Additional Revenue Costs:	2023/24 £	Full Year £
MRP related to new borrowing	0	265,395
Interest payable	43,000	86,000
Other running costs	24,100	24,100
	67,100	375,495

The costs above have been built into the base budget and medium-term financial strategy. Capital schemes that fall within the category of “Invest to Save” are expected to generate efficiencies and savings in future financial years, although these savings have yet to be quantified and included within the base budget.

Given the impact of the current cost-of-living crisis, and high inflation, it should be noted that many of the budgets included in the capital proposals are best estimates and subject to change. They are designed to give a broad indication of the likely cost of each scheme and will need to be refined as the procurement process gets underway. Where there is a significant departure, outside of the tolerances permitted by the financial regulations, a further report will be brought back to Council with final costs when they are known.

Furthermore, it will be necessary for the Asset Management Group to closely monitor the progress against the Capital Programme and, if the revenue implications become prohibitive, because of increasing costs or changes to available funding, schemes may be recommended for deferral. Similarly, if it becomes apparent that the Council can utilise more of its own resources to fund capital expenditure, instead of borrowing, this will also be considered to reduce ongoing revenue costs.

4.3 Capital Strategy

The 2021 Prudential Code makes it incumbent upon local authorities to produce an annual Capital Strategy. This is largely in response to the major expansion of local authority investment activity over recent years into the purchase of non-financial investments, particularly property.

The main issues raised in the Code are:

- A local authority should define its risk appetite and its governance processes for managing risk.
- A local authority should assess the risks and rewards of significant investments over the long term, to ensure the long-term financial sustainability of the authority. CIPFA has not defined what longer term means but it infers a timescale of 20-30 years in line with the financing time horizon and the expected life of the assets, while medium term financial planning, at a higher level of detail, is probably aimed at around a 10-year time frame and to focus on affordability.
- The Prudential Code stresses that local authorities should ensure that their approach to commercial activities should be proportional to its overall resources.
- A local authority should have access to the appropriate level of expertise to be able to operate safely in all areas of investment and capital expenditure, and to involve members adequately in making properly informed decisions on such investments.

Up to now, since Blaby has not purchased any non-financial assets, it has not been considered necessary to produce a 20-to-30-year Capital Strategy. Now that Council has approved, in principle, the investment in property for regeneration purposes, it may be necessary to widen the timescale covered by the Capital Strategy in future. However, for the time being, only the capital proposals for the period 2023/24 to 2027/28 have been built into the updated Capital Strategy which appears at Appendix B.

5. What will it cost and are there opportunities for savings?

5.1 The costs are detailed in the body of this report and in Appendices A and B.

6. What are the risks and how can they be reduced?

6.1

Current Risk	Actions to reduce the risks
Investment in capital schemes which may not be aligned to Council priorities, or which might not be affordable.	All bids submitted for inclusion in the capital programme are reviewed against the Council's priorities, whether the investment supports service delivery, and the capital and revenue consequences for the budget.
That the authorised capital expenditure is exceeded as projects progress throughout the year.	The projects are monitored throughout the year by the AMG, which highlights any possible variances at the earliest opportunity.
That the revenue costs arising from the Capital Programme are unaffordable in light of changes to local government funding.	Future year's schemes may need to be reviewed and, where necessary deferred or stopped completely, if revenue savings need to be identified.

7. Other options considered

7.1 None. It is important to produce a 5-year Capital Programme as a minimum requirement of the Capital Strategy, and that the programme aligns with the Council's Medium Term Financial Strategy.

8. Environmental impact

8.1 None arising directly from this report, but all capital bids are required to make clear how they help to achieve the Council's Carbon Net Zero target.

9. Other significant issues

9.1 In preparing this report, the author has considered issues related to Human Rights, Legal Matters, Human Resources, Equalities, Public Health Inequalities, and Climate Local and there are no areas of concern.

10. Appendix

10.1 Appendix A – 5 Year Capital Programme

10.2 Appendix B – Capital Strategy

11. Background paper(s)

11.1 None.

12. Report author's contact details

Nick Brown	Finance Group Manager
Nick.Brown@blaby.gov.uk	0116 272 7625

FIVE YEAR CAPITAL PROGRAMME 2023/24 - 2027/28

Project	Planned Capital Expenditure					
	2023/24 £	2024/25 £	2025/26 £	2026/27 £	2027/28 £	Total £
<u>Invest to Save Schemes</u>						
Regeneration Property	0	0	0	0	0	0
Solar Panels & Air Source Heat Pump for Depot	600,000	0	0	0	0	600,000
Replacement/Upgrade of Service Specific IT Systems	0	200,000	0	0	150,000	350,000
Sub-total Invest to Save Schemes	600,000	200,000	0	0	150,000	950,000
<u>Essential/Contractual Schemes</u>						
Electric Vehicle Infrastructure for Depot	250,000	0	60,000	35,000	35,000	380,000
Landfill Gas Monitoring Works	25,000	40,000	0	0	0	65,000
Leisure Centres	0	175,292	0	0	0	175,292
Fleet Vehicle Replacement Programme	1,505,000	1,476,000	120,000	0	1,515,000	4,616,000
Improvement Works to Strategic Parks & Open Spaces	11,000	0	0	0	0	11,000
Capital Grants Programme	54,500	54,500	54,500	54,500	54,500	272,500
Corporate IT Infrastructure & Security	245,000	0	282,000	118,000	0	645,000
Replacement/Upgrade of Service Specific IT Systems	200,000	20,000	0	0	210,000	430,000
Sub-total Essential/Contractual Schemes	2,290,500	1,765,792	516,500	207,500	1,814,500	6,594,792
<u>Desirable Schemes (subject to affordability)</u>						
Improvement Works to Strategic Parks & Open Spaces	22,000	0	0	0	0	22,000
Sub-total Desirable Schemes	22,000	0	0	0	0	22,000
<u>Externally Funded Schemes</u>						
Disabled Facilities Grants	630,000	630,000	630,000	630,000	630,000	3,150,000
Housing Support Grants	30,000	30,000	30,000	30,000	30,000	150,000
Improvement Works to Strategic Parks & Open Spaces	46,000	98,000	43,000	14,000	32,000	233,000
	706,000	758,000	703,000	674,000	692,000	3,533,000
TOTAL CAPITAL EXPENDITURE	3,618,500	2,723,792	1,219,500	881,500	2,656,500	11,099,792

	Planned Capital Resources					
	2023/24 £	2024/25 £	2025/26 £	2026/27 £	2027/28 £	Total £
<u>Financed by:</u>						
Borrowing	2,295,500	1,445,792	334,500	207,500	1,464,500	5,747,792
Capital Receipts	525,000	520,000	150,000	0	500,000	1,695,000
Capital Grants	660,000	660,000	660,000	660,000	660,000	3,300,000
Section 106 Contributions	46,000	98,000	43,000	14,000	32,000	233,000
Capital Reserves	92,000	0	32,000	0	0	124,000
TOTAL CAPITAL FINANCING	3,618,500	2,723,792	1,219,500	881,500	2,656,500	11,099,792

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CAPITAL STRATEGY 2023/24 – 2027/28

1. INTRODUCTION

1.1 Background

1.1.1 The Prudential Code for Capital Finance in Local Authorities was developed by the Chartered Institute of Public Finance Accountants (CIPFA) to support local authorities with their capital investment decision making processes. Local authorities are required by Regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003.

1.1.2 The most recent versions of the CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report to 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 Members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite. The revised reporting requirements include changes to this Capital Strategy, prudential indicators, and investment reporting. There is an implicit requirement that an authority must not borrow to invest primarily for financial return.

1.2 Aims and Principles

1.2.1 In terms of capital expenditure and investment, the Council's main aim is to deliver our corporate objectives and priorities whilst ensuring that our capital plans are affordable, prudent, and sustainable.

1.2.2 The Capital Strategy demonstrates that the Council takes capital expenditure and investment decisions in line with service objectives, and properly takes account of stewardship, value for money, prudence, sustainability, and affordability. The strategy sets out the long-term context in which capital expenditure and investment decisions are made, and to give due consideration to risk and reward, and the impact on the achievement of priority outcomes. It comprises the following distinct but inter-related elements:

- Capital expenditure.
- The Five-Year Capital Plan.
- Financing our capital expenditure plans.
- The capital appraisal and prioritisation process.
- An overview of the governance process, including approval, monitoring, and reporting.
- Debt and other treasury management issues
- Commercial activity

- Skills and knowledge required to deliver our capital plans.

1.2.3 The Capital Strategy should be read in conjunction with our Treasury Management Strategy and the Minimum Revenue Provision (MRP) Policy since our capital expenditure plans have a direct impact on debt and the MRP.

1.2.4 The key principles upon which the Capital Strategy is based are as follows:

- Ensuring that capital investment is focused on the delivery of our Vision and corporate priorities, as set out in the Blaby Plan.
- Maximising our available capital resources and ensuring value for money.
- Ensuring proper stewardship and sound governance in our decision-making process.
- Ensuring that our plans are affordable, prudent, and sustainable.

2. CAPITAL EXPENDITURE

2.1 Definition of Capital Expenditure

2.1.1 Capital expenditure is broadly defined as expenditure on the acquisition, creation, or enhancement of non-current assets. Non-current assets are those items of land, property and vehicles, plant or equipment which have a continuing benefit to the Council for a period extending beyond one year.

2.1.2 Grants or loans made to a third party, towards expenditure which meets the definition above, may also be capitalised. An example of this would be disabled facilities grants.

2.1.3 The Council will incur capital expenditure for several reasons, including:

- To refurbish and extend the useful life of existing assets.
- To deliver its corporate priorities.
- To meet statutory requirements and/or health and safety regulations.
- To avoid unnecessary revenue expenditure.

2.2 Capitalisation Policy

2.2.1 The Council operates a de-minimis limit of £10,000 for expenditure to be considered for capitalisation. Below that limit, expenditure will be charged to the revenue account.

2.2.2 Subject to the de-minimis limit referred to above, the following categories of expenditure will be capitalised:

- The acquisition, reclamation, enhancement or laying out of land.
- The acquisition, construction, preparation, enhancement or replacement of buildings and other infrastructure.
- The acquisition, installation or replacement of vehicles, plant, machinery, and equipment.
- The making of grants, loans, or other financial assistance towards expenditure.
- The acquisition of share or loan capital.
- The acquisition of computer software licences.

3. THE FIVE-YEAR CAPITAL PLAN

3.1 Capital Plans

3.1.1 The five-year capital programme is sub-divided into the following categories:

- Invest to save schemes.
- Schemes that are deemed to be essential to the delivery of our services or are linked to a long-term contract.
- Schemes that are considered to be desirable, but which are subject to affordability and the availability of resources.
- Externally funded schemes.

3.2 Our Vision and Priorities

3.2.1 Our vision is that Blaby District is made up of thriving and vibrant communities where people are happy to live, work and visit.

3.2.2 Our priorities link back to the vision and are:

- A Place to Live
- A Place to Work
- A Place to Visit

Corporate priorities are set out within the Blaby District Plan 2021 to 2024 that was approved by Council on 19th January 2021. Key objectives sit below each priority and services will develop operational action plans to support the delivery of those objectives.

3.2.3 A Place to Live

Strong, healthy, safe, sustainable communities where the most vulnerable are supported.

We will:

- Deliver our Climate Change Strategy and, champion the Green Agenda in all we do
- Deliver the right housing in the right places
- Work in partnership to keep our communities safe and healthy
- Help people to help themselves and live independently
- Deliver services which are “digital by choice”

3.2.4 A Place to Work

A thriving, prosperous, innovative local economy with a skilled and healthy workforce contributing to the local community.

We will:

- Support businesses in our district, encourage investment and growth and respond to evolving challenges that they may face
- Work with partners to deliver accessible, local employment and training opportunities
- Promote a healthy workforce and workplaces across Blaby District
- Promote “think local” in everything that we do

3.2.5 A Place to Visit

A strong leisure and tourism sector and well maintained and accessible attractions available in the local area encourage visitors to the district.

We will:

- Promote Blaby District as a tourism destination
- Continue to promote and focus on our ambitions for Walk / Ride Blaby District
- Provide desirable, accessible green spaces for our visitors and communities

3.2.6 Linked to the above are two overarching themes, the People Strategy, and the Medium-Term Financial Strategy. Key objectives for 2023/24 include transforming the way we work as we recover from the COVID-19 pandemic, maximising income, seeking external funding opportunities, and adopting a business-like approach to service delivery.

3.3 Asset Management Planning

3.3.1 The Council owns a relatively small number of assets that, in general, make an important and positive contribution towards the delivery of our corporate priorities. The quality, condition, suitability, and sustainability of our operational assets have a direct bearing on our service delivery. Therefore, it is essential that our assets are managed proactively and efficiently to ensure that they are fit for purpose.

3.3.2 The Council's key asset management priorities are:

- Evaluate the appraisals of the Council office campus in addition to other key locations and where appropriate undertake more detailed assessments to determine the long-term potential for office accommodation and affordable homes.
- Deliver further accommodation improvements to support the transformation to more developed hybrid working such as a desk booking system and a staff communal area.

- Implementation of the new parks and open spaces strategy and associated management plans including exploring opportunities to fund improvements through biodiversity net gain funding
 - Installation of solar panels, an air source heat pump, and electric charging infrastructure at the depot, in support of the Council's net zero carbon ambitions.
- 3.3.3 Although the Council's asset base is relatively small, it is nevertheless paramount that we make the best use of those assets. Consequently, an officer group meets regularly to consider options for the future use of assets that are surplus to requirements in terms of direct service delivery. Options will generally include disposal or redevelopment, and a report will be brought before Council for consideration depending upon the most sustainable proposals for the asset in question. An example of this is the redevelopment of the Old Bank, Narborough into flats which, in the longer term, will provide an income stream for the Council.
- 3.3.4 The Parks and Open Spaces team is close to completing the longer-term plan for the Council's strategic parks and open spaces. This plan will help to further inform the 5 Year Capital Programme and will consider options that will make the sites more sustainable in the future, with a focus upon income generation and environmental considerations arising from the Environment Bill.
- 3.3.5 One of the Council's key objectives, as set out in the Blaby District Plan 2021 – 2024, is to deliver our Climate Change Strategy and strive to meet our carbon net zero ambitions. All capital bids must demonstrate how they contribute to the delivery of the Council's strategic outcomes, objectives, and priorities. A key part of this will be how the capital proposals will help to meet our green agenda. However, it is important to recognise that there may be constraints, including financial, that mean this is not always practical. Examples of such initiatives that are included within the 2023/24 capital Programme are:
- The installation of solar panels and an air source heat pump at the depot.
 - The installation of electric vehicle infrastructure at the depot.

3.4 Commercialisation

- 3.4.1 The Council recognises that future changes to the business rates mechanism and the wider Local Government funding formula will reinforce the need to seek new, innovative ways of generating income or reducing costs to support service delivery.
- 3.4.2 The Council takes a commercial, business-like approach to how it delivers services, monitors expenditure, and considers charging for services. This is balanced alongside the need to place our customers at the heart of everything we do and providing support for the most vulnerable in our community. The

Council has approved a Commercial Strategy which will provide focus and structure to the work that is already underway in the Council.

3.4.3 The vision of the Strategy is:

“To place Blaby in the best financial position possible, enabling Blaby District to be a Great Place to Live, Work and Visit.”

It aligns closely to the Council's other key strategies; the Blaby District Plan, Medium Term Financial Strategy, the Council's Economic Development Strategy - “Building Blaby, Shaping Futures”, and the Tourism Strategy.

3.4.4 The Strategy includes five priority themes:

- Strengthening and Efficiency of Services
- Investment in and Maximisation of Asset Utilisation
- Selling Services
- Maximising Partnership Working and Encouraging Corporate Social Responsibility
- Exploiting External Funding Opportunities

3.4.5 The Commercial Strategy was reviewed and refreshed in February 2022 in the wake of the COVID-19 pandemic, considering the current and future financial landscape. The updated Strategy includes a Priority Action Plan which details work that is currently being undertaken or is planned. Further detail is contained within the Commercial Strategy itself which is available to download from the Council's website.

3.4.6 The introduction of the general power of competence, on the back of the Localism Act 2011, has given local authorities more flexibility in the types of activity in which they can engage. As a result of the financial challenges facing local government, many local authorities began to consider much different and innovative types of investment than would previously been the case. However, the level of borrowing undertaken by local authorities to fund investment for commercial return has given the government cause for concern. This has been exacerbated by the number of authorities that have issued Section 114 notices in response to difficulties over financial sustainability. This has resulted in the current position, reflected in the changes introduced in the 2021 Prudential Code, whereby the wider powers and flexibilities referred to above are still in place, but the ability to borrow purely for financial gain has been removed.

3.4.7 At its meeting in September 2022, the Council approved the following “Commercialism Position Statement”:

The Council recognises the need to balance bold, innovative action with social value creation when considering any commercial venture.

In addition, the Council also recognises the need for achieving best value and efficiency in both service delivery and commercial activity. As such, the following areas will be considered more favourably when evaluating which activities should be pursued:

- Investment in regeneration activity that supports strategic development aims and generates a financial return, making the investment sustainable and not placing further pressure on revenue budgets.
- Where the impact on local business is minimised.
- Where Blaby's reputation, locally and nationally, would be enhanced.

An investment of the nature described above, since it has stated service aims, would not be precluded under the changes to the 2021 Prudential Code.

3.4.8 Council has also approved the addition of £2.5m to the 2022/23 Capital Programme for the strategic investment in commercial property for regeneration purposes, subject to any investment meeting the following criteria:

- Is there a benefit to the local economy or Blaby residents that can be gained from the activity?
- Can income be generated to support the activity?
- Can the income stream(s) be developed (at scale) within the next financial year?
- Can the income stream(s) be delivered with relative certainty?
- Are there significant financial risks associated with the opportunity?
- Is there a track record within the Council – or other local authorities – which demonstrate the opportunity is viable?
- Does the Council have any commercial advantage in addressing an opportunity compared to the private sector (or, potentially, neighbouring local authorities or other public bodies)?
- (Conversely) is the Council at a commercial disadvantage compared to existing players in the market who may have existing brands, infrastructure, or track record of service delivery?
- Could the private sector respond to the Council entering the market by competing aggressively – e.g., through price competition - such that an initial or extended period of trading losses might ensue?
- Does the Commercial opportunity come with significant legal or regulatory risk?
- Does the Council have skills and capacity within the existing workforce that enable the delivery of the commercial opportunity?
- Could the Council easily access skills and capacity from the employment / interim / consultancy markets that that enable the delivery of the commercial opportunity?
- Are there political or ethical reasons which may constrain the Council's ability to provide services on a commercial basis?

Any potential commercial investment activity for regeneration will be graded against these criteria and assessed independently. Given the complex and

many faceted aspects of any opportunity, there is no strict level for pass/fail; opportunities will be assessed on their merits.

Due to the current economic climate, there has not been the opportunity to progress any commercial investment to date, and it is unlikely that market conditions will be conducive for the remainder of 2022/23. However, the £2.5m budget has been left in the Capital Programme for 2022/23 but will be rolled forward into 2023/24 in the event that no further progress is made by year end.

3.5 Five Year Capital Programme

3.5.1 The Council recognises that its capital plans are inextricably linked with its service revenue expenditure, through borrowing costs (loan interest and the MRP) and other associated running costs. It is, therefore, essential that the longer-term capital planning implications are reflected in the Medium-Term Financial Strategy.

3.5.2 The 5 Year Capital Programme covering the period 2023/24 to 2027/28 is summarised in the table below.

Project	Planned Capital Expenditure					
	2023/24 £	2024/25 £	2025/26 £	2026/27 £	2027/28 £	Total £
<u>Invest to Save Schemes</u>						
Solar Panels & Air Source Heat Pump for Depot	600,000	0	0	0	0	600,000
Replacement/Upgrade of Service IT Systems	0	200,000	0	0	150,000	350,000
<i>Sub-total Invest to Save Schemes</i>	600,000	200,000	0	0	150,000	950,000
<u>Essential and Contractual Schemes</u>						
Electric Vehicle Infrastructure for Depot	250,000	0	60,000	35,000	35,000	380,000
Landfill Gas Monitoring	25,000	40,000	0	0	0	65,000
Leisure Centres	0	175,292	0	0	0	175,292
Fleet Vehicle Replacement Programme	1,505,000	1,476,000	120,000	0	1,515,000	4,616,000
Improvements to Strategic Parks & Open Spaces	11,000	0	0	0	0	11,000
Capital Grants Programme	54,500	54,500	54,500	54,500	54,500	272,500
Corporate IT Infrastructure & Security	245,000	0	282,000	118,000	0	645,000
Replacement/Upgrade of Specific IT Systems	200,000	20,000	0	0	210,000	430,000
<i>Sub-total Essential & Contractual Schemes</i>	2,290,500	1,765,792	516,500	207,500	1,814,500	6,594,792
<i>Desirable Schemes</i>	22,000	0	0	0	0	22,000
<i>Externally Funded Schemes</i>	706,000	758,000	703,000	674,000	692,000	3,533,000
TOTAL CAPITAL EXPENDITURE	3,618,500	2,723,792	1,219,500	881,500	2,656,500	11,099,792

4. CAPITAL RESOURCES

4.1 Capital Receipts

- 4.1.1 Capital receipts mainly arise from the disposal of the Council's assets, subject to a statutory de-minimis limit of £10,000, below which the income is credited to the revenue account instead.
- 4.1.2 The Council also continues to generate capital receipts through the VAT Shelter arrangement and "Right to Buy" sales arising from the legacy arrangements in place following the housing stock transfer.
- 4.1.3 It is recognised that the Council's small asset base means that there are limited opportunities to dispose of assets to generate capital receipts.
- 4.1.4 Capital receipts may also be applied to repay debt. This has the effect of reducing the MRP liability and, therefore, generates revenue savings.
- 4.1.5 On 31st March 2023, it is estimated that the Council will have approximately £1.8m capital receipts available to finance its capital expenditure plans, of which just over £0.2m has been earmarked to affordable housing projects.

4.2 Government Grants

- 4.2.1 The Council's main government grant available to fund capital expenditure is the Disabled Facilities Grant (DFG) allocation which amounted to £660,000 in 2022/23. This grant is required to be spent in accordance with a Better Care Fund spending plan jointly agreed by local authorities and Clinical Commissioning Groups. In 2022/23, approximately £210,000 of the allocation was top-sliced and retained by the Better Care Fund to support county-wide initiatives to deliver additional occupational therapist provision, and assistive technology as part of a dementia pilot scheme.
- 4.2.2 The DFG allocation must be used for the specific purpose of providing adaptations for disabled people or other social care capital projects agreed with the Better Care Fund.
- 4.2.3 From time to time the Council receives other government grants that are usually ring-fenced for specific purposes, e.g., air quality monitoring.

4.3 Borrowing

- 4.3.1 Local authorities can borrow money for capital purposes, subject to the cost of borrowing being affordable, prudent, and sustainable. The affordability of any proposed borrowing is gauged by way of the Prudential Indicators, specifically the measure of financing costs as a proportion of the net revenue stream.

4.3.2 Borrowing may be sourced externally, e.g., through the Public Works Loan Board (PWLB), through the money markets, or other local authorities, or by way of applying our own cash balances, i.e., internal borrowing. In recent years the Council has, in the main, been able to use internal balances since, based on current market interest rates, it is cheaper to forego investment interest than it is to incur additional loan interest. The exception to this was in 2019/20 when the Council borrowed £6m to strengthen the maturity profile of the debt portfolio, and to finance the refurbishment of its leisure centres.

4.3.3 As borrowing has a consequential impact on the revenue budget, in terms of loan interest and MRP, the Council aims to limit the amount of borrowing it undertakes where possible unless it can be demonstrated that it leads to savings or generates additional income, such as with the recent refurbishment of our major leisure facilities at Enderby and Huncote.

4.4 Section 106 Contributions

4.4.1 Section 106 (S106) contributions are planning obligations arising from new developments within the district. Generally, they are intended to cover new infrastructure requirements that might arise because of the development, e.g., affordable housing, community facilities, open spaces.

4.4.2 The allocation of S106 contributions is managed by the Planning Obligations Monitoring Group, a joint officer and member group. Proposed schemes which meet the criteria for award of S106 funding must be presented to the Planning Obligations Monitoring Group for consideration.

4.4.3 Where it is appropriate to do so, the Council may also allocate S106 funding to support its own capital schemes.

4.5 Reserves

4.5.1 Reserves may be built up from revenue resources over time to pay for capital expenditure.

4.6 Revenue Contributions

4.6.1 Local authorities are also able to contribute from their revenue budget towards the financing of capital schemes – sometimes known as direct revenue funding. No limits are imposed on this form of funding, but plans must be affordable in terms of the MTFS.

4.7 Available Resources

4.7.1 The table below sets out the estimated current and future resources available to finance our capital expenditure plans.

	Estimated Balance as at 31/03/23 £'000	Income 2023/24 £'000	Income 2024/25 £'000	Income 2025/26 £'000	Income 2026/27 £'000	Income 2027/28 £'000	Total Expected Income £'000
Capital Receipts	1,604	70	70	70	70	70	1,954
Capital Grants	11	660	660	660	660	660	3,311
Reserves	525	0	0	0	0	0	525

Section 106 contributions have been excluded from the table above since each individual contribution will differ in terms of the type and location of scheme that they may be able to support.

4.7.2 The Council's 5 Year Capital Programme and planned financing is summarised below. This includes schemes that have already been approved (e.g., investment in regeneration property) and recurring expenditure such as DFGs.

Estimated Capital Programme	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	Total £'000
Invest to Save Schemes	600	200	0	0	160	950
Essential & Contractual Schemes	2,291	1,766	516	207	1,815	6,595
Desirable Schemes	22	0	0	0	0	22
Externally Funded Schemes	706	758	703	674	692	3,533
Total Schemes	3,619	2,724	1,219	881	2,657	11,100

Financed by:	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	Total £'000
Borrowing	2,296	1,446	334	207	1,465	5,748
Capital Receipts	525	520	150	0	500	1,695
Government Grant	660	660	660	660	660	3,300
Section 106 Contributions	46	98	43	14	32	233
Reserves	92	0	32	0	0	124
Total Funding	3,619	2,724	1,219	881	2,657	11,100

4.7.3 The following table indicates the remaining capital resources available if the 5 Year Capital Programme above is approved. It is assumed that the Council will receive £70,000 per annum from vehicle sales and a share of the sale proceeds of former Council dwellings.

Unallocated Resources	31/03/24 £'000	31/03/25 £'000	31/03/26 £'000	31/03/27 £'000	31/03/28 £'000
Capital Receipts	1,149	699	619	689	259
Reserves	433	433	401	401	401
Total Available	1,582	1,132	1,020	1,090	660

5. Capital Appraisal and Prioritisation Process

5.1 Capital Appraisal

- 5.1.1 The Five-Year Capital Programme is prepared by officers and approved annually by full Council as part of the budget setting process. Schemes falling within Year 1 are subject to full appraisal by the Asset Management Group, and Senior Leadership Team before being recommended to Council for approval. Years 2 to 5 remain as indicative costs to aid the forward planning process and to provide a link with the MTFS.
- 5.1.2 The Five-Year Capital Programme is refreshed and updated on an annual basis.
- 5.1.3 The existence of a five-year plan ensures a degree of certainty in terms of future capital costs and their impact on the revenue budget, with only new initiatives or urgent schemes coming forward outside of this process.
- 5.1.4 Capital schemes that are deemed to be Major Corporate Projects are appraised and monitored by Programme Board, essentially comprising members of the Senior Leadership Team. Any such schemes are subject to individual report to and approval by full Council in accordance with the Financial Regulations.
- 5.1.5 Other capital schemes will fall into four broad categories, as discussed in previous chapters.
- Schemes that involve forward investment to generate future revenue savings (this will include commercial investment).
 - Schemes that are deemed to be essential or which involve some form of contractual commitment, e.g., the fleet replacement programme, replacement, or upgrade of IT software etc.
 - Schemes that meet corporate objectives and are desirable, but which will only be progressed if affordable.
 - Externally funded schemes.

5.2 Major Corporate Projects

- 5.2.1 Capital schemes that are designated as Major Corporate Projects will be appraised and monitored by Programme Board.
- 5.2.2 Major Corporate Projects will be subject to separate, individual approval by full Council, outside of the capital planning process.
- 5.2.3 Not all Major Corporate Projects will be capital schemes, but it is likely that they will include at least an element of capital expenditure – e.g., the acquisition of new wheeled bins as part of the alternate weekly Refuse and Recycling service that was introduced in recent years.

5.3 Other Capital Schemes

5.3.1 Other capital schemes should, as far as possible, be identified for inclusion in the rolling 5 Year Capital Programme. It is anticipated that most schemes falling under the commercialisation agenda would, however, constitute a Major Corporate Project.

5.3.2 The capital planning process will run in tandem with the annual budget cycle. Service Managers will be required to identify their expected capital expenditure requirements over the next five years. This will require sufficient detail to allow the compilation of an indicative 5 Year Capital Programme, including the following:

- The asset type, e.g., car park, vehicle, open space, IT software.
- A brief description of the scheme
- The indicative cost of the scheme
- The year(s) in which expenditure is expected to fall
- The revenue implications (cost or savings)
- Links to corporate priorities, health and safety etc.

5.3.3 Once the draft 5 Year Capital Programme has been compiled, more detail in respect of any scheme falling within Year 1 (i.e., the next financial year) will need to be provided on a Capital Appraisal Form. This will include evidence in support of the appraisal criteria required for the scheme to be considered for inclusion in the Capital Programme.

5.3.4 Evaluation and appraisal of proposed capital schemes will be undertaken by the Asset Management Group using the criteria set out on the Capital Appraisal Form.

5.4 Urgent Capital Schemes

5.4.1 It is recognised that urgent capital expenditure requirements may come forward during the financial year outside of the budget cycle.

5.4.2 Urgent capital schemes should be submitted to Asset Management Group using the Capital Appraisal Form.

5.4.3 Asset Management Group will evaluate the proposed scheme considering the following:

- The availability of unallocated resources
- Whether there are any existing schemes which no longer require funding
- Whether there are any existing schemes which can be deferred and replaced by the urgent scheme

5.4.4 If the new scheme can be accommodated within existing resources, then it may be added to the Capital Programme. If additional resources are required, then approval must be sought from Council.

6. The Governance Process

6.1 Prudential Code

- 6.1.1 The CIPFA Prudential Code for Capital Finance in Local Authorities (referred to as the 'Prudential Code') states that the governance procedure for setting and revising the Capital Strategy and prudential indicators is the responsibility of the same body that takes decisions on setting the budget, i.e., full Council.
- 6.1.2 The chief finance officer, in Blaby's case the Executive Director (Section 151), is responsible for ensuring that all matters to be considered are reported to the decision-making body for consideration, and for establishing procedures for monitoring of performance.
- 6.1.3 The Code requires local authorities to have regard for the following matters when agreeing or revising the capital programme and prudential indicators:
- Service objectives – do spending plans meet our strategic aims and objectives?
 - Stewardship of assets – is capital investment being made on new assets at the expense of maintaining existing assets?
 - Value for money – do the benefits of capital investment outweigh the cost?
 - Prudence and sustainability – can the Council afford the borrowing now and in the future?
 - Affordability – what are the implications for the budget and council tax?
 - Practicality – is the delivery of the plan achievable?
- 6.1.4 The Council is required by regulation to comply with the Prudential Code when assessing the affordability, prudence and sustainability of its capital investment plans. Fundamental to the prudential framework is a requirement to set a series of prudential indicators. These indicators are intended to collectively build a picture that demonstrates the impact over time of the Council's capital expenditure plans upon the revenue budget and upon borrowing and investment levels and explain the overall controls that will ensure that the activity remains affordable, prudent, and sustainable.
- 6.1.5 The Government has now restricted access to Public Works Loan Board (PWLB) funding for local authorities where the authority plans to purchase commercial investment property for yield. This applies whether or not a loan is specifically attached to an individual commercial property. In addition to this, an amendment to the 2021 Code prevents the acquisition of commercial investment property financed through borrowing. This means that the acquisition of assets purely to generate a commercial return is extremely difficult unless it can be achieved by applying existing resources.

6.2 Prudential Indicators

6.2.1 The Prudential Code specifies the indicators which the Council must set and monitor to ensure that our capital expenditure plans are prudent, affordable and sustainable.

Prudential Indicator	Purpose
Capital Expenditure Plans	Sets out planned expenditure for capital purposes, and how these plans are being financed. It also identifies any shortfall in resources which result in a need to borrow.
Capital Financing Requirement (CFR)	The CFR is the total historic capital expenditure which has not yet been paid for from either capital or revenue resources. It is basically a measure of our outstanding debt and consequential underlying need to borrow. Any capital expenditure which has not been paid for immediately, (e.g., by applying capital receipts), will increase the CFR.
Debt compared to the CFR	Provides a comparison of debt with the underlying need to borrow, to demonstrate that borrowing is only being undertaken for capital purposes.
Liability Benchmark	Acts as a tool to manage the net treasury position, with the aim of minimising or reducing refinancing, interest rate and credit risk.
Operational Boundary	The level of debt which the Council would not normally expect to exceed but which may be breached in an emergency.
Authorised Limit	The maximum amount of debt which the Council may borrow. This limit should not be breached and may only be changed by full Council.
Ratio of Financing Costs to Net Revenue Stream	Illustrates how much of the Council's key revenue streams (i.e., Government Grants, Council Tax and Business Rates) are used to service debt. An increasing percentage may indicate that capital borrowing is not sustainable.

6.3 Blaby's Governance Process

- 6.3.1 The Constitution specifies that full Council is responsible for approving the Council's policy framework and budget, which will be proposed by Cabinet Executive. In terms of financial planning this includes the approval of the Capital Programme and Capital Strategy.
- 6.3.2 The Executive Director (Section 151) is responsible for determining the capital resources available to fund the Council's capital expenditure plans. The Directors are responsible for ensuring that a Capital Programme, including details of any associated revenue implications, is prepared on an annual basis for consideration by Cabinet Executive before submission to full Council for approval.
- 6.3.3 Scrutiny Commission are also given opportunity to review the proposed Capital Programme, ahead of formal submission to Cabinet Executive and Council, and make comments and/or recommendations as necessary.
- 6.3.4 Progress against delivery of the Capital Programme is reported to Cabinet Executive and Council on a quarterly basis.
- 6.3.5 The Asset Management Group, an officer-led working group, plays a key role in the monitoring and review of the Capital Programme. The main responsibilities of the Asset Management Group are as follows:
- To continuously review, update, monitor progress and make recommendations for any necessary changes to the Capital Strategy.
 - To regularly review, update and monitor progress of current year capital schemes to ensure maximal delivery of the Capital Programme.
 - To receive and consider requests from project officers for budget transfers (virements) and to report any significant movements to Council.
 - To receive bids from project officers in respect of any new or urgent schemes emerging in the current financial year, outside of the budget setting cycle.
 - To ensure that capital bids meet the criteria set out on the Capital Appraisal Form, to make the optimal use of the available capital resources.

6.3.6 Given the necessity for potential transactions to be assessed, negotiated, and completed quickly, delegated authority has been approved by Council for the following persons to progress any future strategic property investment opportunities:

- The Chief Executive
- The Executive Director (S151 Officer)
- The Monitoring Officer

In consultation with:

- The Leader of the Council
- The Deputy Leader (Portfolio Holder for Finance, People and Performance)

Each case will be the subject of a retrospective, exempt report to Council in which full details of the transaction will be disclosed for transparency purposes.

6.4 Membership of the Asset Management Group

6.4.1 Asset Management Group comprises the following core team of officers:

- Neighbourhood Services & Assets Group Manager
- Finance Group Manager
- Service Manager – Assets
- Democratic Services, Scrutiny and Governance Manager
- Assets/Open Spaces Manager
- Head of Leicestershire ICT Partnership
- Senior Business Accountant

Other Service Managers and/or project officers attend the group on an ad hoc basis according to their respective area of expertise and authority.

7. Debt and Other Treasury Management Issues

7.1 External Debt and the use of Internal Borrowing

- 7.1.1 The following table provides a projection of external debt and use of internal borrowing to support capital expenditure compared with the CFR.

	31/03/24 £'000	31/03/25 £'000	31/03/26 £'000	31/03/27 £'000	31/03/28 £'000
CFR	19,902	20,354	19,485	18,397	18,487
External Borrowing	9,468	10,112	10,404	10,704	12,203
Internal Borrowing	10,233	10,042	8,881	7,493	6,084

7.2 Provision for the Repayment of Debt

- 7.2.1 The Council makes provision for the repayment of external debt in line with the life of the underlying debt. This is known as the Minimum Revenue Provision (MRP). The Council approves an annual MRP Statement as part of the budget reporting process. MRP represents a significant charge against the Council's annual budget. It is important to consider the revenue implications of borrowing when determining the capital expenditure plans, as it has a considerable bearing on the sustainability of the Council's financial position.

7.3 Authorised Limit and Operational Boundary

- 7.3.1 The authorised limit represents a control on the maximum level of borrowing. This is the limit beyond which external debt is prohibited. 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. The authorised limit for 2023/24 is £23,000,000 – further details are contained within the Treasury Management Strategy 2023/24.
- 7.3.2 The operational boundary is the limit 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. For 2023/24 the operational boundary has been set at £20,700,000 – see the Treasury Management Strategy 2023/24 for future years' projections.

7.4 Treasury Management

- 7.4.1 The Council's approach to Treasury Management is set out in its Annual Treasury Management Strategy which is presented to Council for approval in February. 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 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.

- 7.4.2 The processes to be followed when considering loans and investments are laid down in the Council's Treasury Management Practices document, which has been compiled in accordance with the Prudential Code, and the Treasury Management Code of Practice.
- 7.4.3 In terms of due diligence, before undertaking any new borrowing or investment arrangements, the Council will ensure that it has the legal powers to do so and that its financial position is always safeguarded.
- 7.4.4 Risk appetite – The Council places the security and liquidity of its funds ahead of the return on investment. In terms of treasury investments, the Council uses a tried and trusted set of credit criteria developed by its treasury advisors, Link Asset Services. Surplus funds will only be invested with counterparties that meet those criteria, and a lending list has been developed accordingly. Officer will add and remove counterparties to and from the list during the year where there is a change in credit ratings. However, the Council also recognises that there are also risks attached to doing nothing and will seek to strike a balance accordingly.

8. Commercial Activity

8.1 Commercialisation Strategy

8.1.1 The Council approved an update to its Commercialisation Strategy on 24th February 2022.

8.1.2 The vision linked with the strategy is set out in paragraph 3.4.3 and will be achieved through the following means:

- Creating a commercial culture and ethos – that Council understands the need for all services to operate effectively & efficiently to strengthen service provision and where possible generate income.
- Maximising Income but still retaining the status as ‘the safety net for the vulnerable’.
- Maximising the Blaby Pound – encouraging those who reside, work or trade in the district to spend within the district and support the local economy and their community.
- Focusing resources on initiatives that will drive financial or social benefit.
- Continuing to communicate with residents and customers to promote access to our services and Blaby’s reputation for delivering quality services.
- Recognising that chargeable Non-Statutory Services be cost neutral as a minimum.

8.1.3 Further details are available in the Commercial Strategy and Action Plan which are available to download from the Council’s website.

9. Skills and Knowledge

9.1 In-house Resources

9.1.1 The Council employs a small Assets Team as part of the Neighbourhood Services and Assets Group. Alongside the Neighbourhood Services and Assets Group Manager this team comprises:

- Service Manager – Assets
- Assets/Open Space Manager
- Property & Asset Officer

These officers have extensive knowledge and experience of the development of capital schemes, including the commissioning of partners/suppliers to deliver the capital programme.

9.1.2 The Council also operates in-house Legal and Finance teams that provide support to officers involved in the delivery of capital schemes

9.1.3 The Council has also secured support for the development of Blaby's commercial agenda, on a consultancy basis, from the Strategic Director – Commercial and Economic Development at Charnwood Borough Council, who has significant experience in this field. In addition to providing advice in respect of strategic property investment, the Strategic Director will also provide commercial awareness training to all senior managers at Blaby.

9.2 External Resources

9.2.1 Blaby also makes use of external advice from several sources when developing projects or undertaking due diligence. This includes the use of the following external experts:

- Treasury Management and Capital Financing – Link Treasury Services
- Procurement services – Welland Procurement
- External valuers
- External legal advisors
- Property condition experts

Other advice is commissioned as and when required.

9.3 Members

9.3.1 Members are fully engaged with the budget process, including Scrutiny Commission, Cabinet Executive and Council, the latter being responsible for approving the Budget, Capital Programme and Treasury Management Strategy.

9.3.2 The Council runs Member Induction training for newly elected Members, and this programme includes an overview of finance and the budget.

9.3.3 In addition to the induction programme, Blaby also operates a Member Training Plan, and this enables the Council to provide any additional training requirements as and when they are identified.

Blaby District Council

Cabinet Executive

Date of Meeting	20 February 2023
Title of Report	Prudential Indicator & Treasury Management Strategy 2023/24
	This is not a Key Decision and is on the Forward Plan
Lead Member	Cllr. Maggie Wright - Finance, People & Performance (Deputy Leader)
Report Author	Finance Group Manager
Corporate Priority	Medium Term Financial Strategy (MTFS)

1. What is this report about?

- 1.1 This report lays down the guidelines and rules that Officers are required to follow when making decisions to borrow or when investing Council funds. Such decisions are made daily under delegated authority. The report outlines the Council's prudential indicators for 2023/24 to 2027/28 and sets out the expected treasury management activities for that period. The report also sets out the financial institutions the Council may invest in, the maximum investment level and the periods over which the investments can be made.
- 1.2 The report also fulfils four key legislative requirements:
 - The reporting of the prudential indicators which set out the expected capital activities - as required by The Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities.
 - The Council's Minimum Revenue Provision (MRP) Policy, which sets out how the Council will pay for capital assets through revenue each year.
 - The Treasury Management Strategy which sets out how the Council's treasury service will support the decisions taken above, the day-to-day treasury management activity, and the limitations on borrowing and investing through treasury prudential indicators. This accords with the CIPFA Code of Practice on Treasury Management in the Public Services.
 - The Annual Investment Strategy in accordance with investment guidance issued by the Department for Levelling Up, Housing and Communities (DLUHC).

2. Recommendation(s) to Cabinet Executive and Council

- 2.1 That the capital prudential indicators and limits for 2023/24 to 2027/28 are approved.
- 2.2 That the Treasury Management Strategy for 2023/274 and the treasury prudential indicators are approved.
- 2.3 That the Investment Strategy for 2023/24 is approved.
- 2.4 That the Minimum Revenue Provision (MRP) Statement for 2023/24 is approved.

3. Reason for Decisions Recommended

- 3.1 The Local Government Act 2003 and supporting regulations requires the Council to “have regard to” the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent, and sustainable.
- 3.2 The Act requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy. This covers the Council’s criteria for choosing investment counterparties and limiting exposure to the risk of loss.
- 3.3 The Act also requires the Council to undertake an annual review of its policy for calculating the minimum revenue provision (MRP) for repayment of external debt.

4. Matters to consider

4.1 Background

DLUHC guidance requires that there is sufficient Member scrutiny of the Council’s treasury management function. For Blaby, Cabinet Executive is the responsible body for scrutinising the Treasury Management Strategy. To facilitate the decision-making process and support capital investment decisions the Prudential Code requires local authorities to agree and monitor a minimum number of prudential indicators. These are mandatory and must, as a minimum, cover the forthcoming three financial years.

The Treasury Management Code includes a new requirement to include a liability benchmark prudential indicator to manage an authority’s borrowing needs and maturities. This is a tool used in the support of cashflow management and borrowing decision making. The maturity benchmark is based on the forecast net loans requirement (loans less investments, plus a short-term liquidity allowance). The actual loans portfolio is then compared to

this to highlight any liquidity or interest rate risk.

The indicators are solely for the internal use of the Council and are not intended to be used for comparative purposes with other local authorities. They should not be considered in isolation since the benefit to be gained from monitoring comes from the movement in the indicators over time.

The prudential indicators in this report, and the appendices, are based on the financial plans contained within the revenue and capital reports elsewhere on this agenda.

The Treasury Management Strategy is attached at Appendix A including the prudential indicators that relate to the treasury management function. This strategy covers the operation of the treasury function and its activities for the forthcoming year and reflects the Council's capital and commercial investment strategies. The strategy has been informed by advice received from the Council's treasury management consultants.

4.2 Treasury Management Strategy

The main considerations set out in the Treasury Management Strategy (Appendix A) are as follows:

Capital Expenditure

The capital spending plans are based on available resources and the affordability of any associated borrowing, which has been built into the Medium-Term Financial Strategy.

	2021/22 Actual £000	2022/23 Revised £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Capital Expenditure	2,147	7,669	3,619	2,724	1,220	882	2,657
Financed by:							
Capital Receipts	(286)	(365)	(525)	(520)	(150)	0	(500)
Capital Grants & Contributions	(984)	(2,135)	(706)	(758)	(703)	(674)	(692)
Capital Reserves	(357)	(260)	(92)	0	(32)	0	.0
Revenue Contributions	(76)	(151)	0	0	0	0	.0
Net financing need for the year	444	4,758	2,296	1,446	335	208	1,465

Borrowing Requirement

As shown in the table above, the capital expenditure plans can be partly funded from capital receipts, grants and contributions, and from reserves, leaving a residual amount to be funded through borrowing. This increases the Capital Financing Requirement (CFR) but the CFR is also reduced each year by a statutory revenue charge, the Minimum Revenue Provision (MRP). The

Council is also able to top-up this repayment by applying a Voluntary Revenue Provision (VRP).

Capital Financing Requirement

The projected CFR over the life of the Medium-Term Financial Strategy is set out in the table below.

	2021/22 Actual £000	2022/23 Revised £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Total CFR	13,965	18,334	19,902	20,354	19,485	18,397	18,487
Movement in CFR	(701)	4,369	1,568	452	(869)	(1,088)	90

MRP Policy

In September 2022, the Council approved a change to the method it uses to calculate the MRP, resulting in a lower charge in the medium term. The MRP is an annual revenue charge based on the outstanding Capital Financing Requirement (CFR) brought forward from the preceding financial year. The CFR represents the Council's underlying need to borrow and is basically that part of capital expenditure which has not yet been financed. It is effectively capital expenditure financed through borrowing, whether that is external borrowing or internal borrowing (i.e., from the Council's own reserves and balances). Each year the Council is required to repay a proportion of that outstanding "borrowing cost" by way of the MRP, and it must approve its policy for charging MRP annually in advance of the forthcoming financial year. For 2022/23 the recommended policy is set out in paragraph 2.3 of Appendix A.

Borrowing

The Council's anticipated net borrowing requirement (net of investments) is shown below with a comparison against the CFR. The Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and the next two financial years. This allows some flexibility for limited early borrowing for future years. The Council's gross borrowing remains significantly below its CFR due to the ongoing use of internal borrowing. Whilst internal reserves and balances remain at current levels, internal borrowing is a prudent method of financing capital expenditure since it is cheaper than external borrowing.

	2021/22 Actual £000	2022/23 Revised £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Gross Borrowing	8,597	7,685	9,468	10,112	10,404	10,704	12,204
Investments	(36,654)	(20,000)	(15,000)	(10,000)	(8,000)	(6,000)	(6,000)
Net Borrowing	(28,057)	(12,315)	(5,532)	112	2,404	4,704	6,204
CFR	13,965	18,334	19,902	20,354	19,485	18,397	18,487

The Council's borrowing limits are as follows:

	2022/23 Revised £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Operational Boundary for External Debt	20,700	20,700	23,400	23,400	21,600	21,600
Authorised Limit for External Debt	23,000	23,000	26,000	26,000	24,000	24,000

Liability Benchmark

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

There are four components to the Liability Benchmark:

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.

Further details are included in paragraph 2.3 to Appendix A.

4.3 Prudential Code

CIPFA published a revised version of the Prudential Code for Capital Finance in Local Authorities (Prudential Code) and Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code) in 2021. The updated Prudential Code includes some significant changes, most notably the provisions in that borrowing purely for yield is no longer permissible. However, activities such as regeneration, although technically commercial, are not primarily driven by profit and do not represent an unnecessary risk to public funds.

A new requirement has been added so that capital strategies are required to report investments under the following headings: service, treasury management and commercial investments (where these were implemented prior to the changes in regulations with the aim to highlight these type of investments).

The updated Codes had a 'soft' launch in 2022/23 financial year, i.e., where possible, local authorities were encouraged to adhere to the new provisions

and not undertake any new investments that would not be consistent with the changes and will be fully implemented in the 2023/24 financial year.

4.4 Capital Strategy

The Prudential Code also makes it a requirement to produce a Capital Strategy which links to the Treasury Management Strategy. The Capital Strategy is an overarching document that sets the policy framework for the development, management, and monitoring of capital investment. It should focus on the core principles that underpin the Council's capital plans; short, medium, and long-term objectives; key issues and risks affecting the delivery of the capital programme; and the governance framework.

The strategy aims to drive the Council's capital plans by ensuring that capital expenditure and financing, and treasury management are appropriately aligned to support the sustainable, long-term delivery of our services. The strategy is reported as part of the 5 Year Capital Programme report elsewhere on this agenda.

5. What will it cost and are there opportunities for savings?

- 5.1 There are no direct costs arising from this report. Instead, it provides a basis on which to undertake the treasury management activities necessary to support the Council's capital expenditure plans.

6. What are the risks and how can they be reduced?

6.1

Current Risk	Actions to reduce the risks
That external borrowing might not be undertaken at the most advantageous rate	Treasury officers maintain regular contact with the Council's advisors, Link Asset Services, who monitor movements in interest rates on our behalf. The aim is always to drawdown loans when interest rates are at their lowest point.
Credit risk – the risk that other parties might fail to pay amounts due, e.g., deposits with banks etc.	The Annual Investment Strategy sets the criteria through which the Council decides with whom it may invest. The lending list is updated regularly to reflect changes in credit ratings.
Liquidity risk – the Council might not have sufficient funds to meet its commitments	Daily monitoring of cash flow balances. Access to the money markets to cover any short-term cash shortfall.
Refinancing and maturity risk – the risk that the Council might need to renew a loan or investment at disadvantageous interest rates	Monitoring of the maturity profile of debt to make sure that loans do not all mature in the same period. Monitoring the maturity profile of investments to ensure there is

	sufficient liquidity to meet day to day cash flow needs.
Market risk – losses may arise as a result of changes in interest rates etc	Maximum limits are set for exposure to fixed and variable interest rates. The Finance team will monitor market rates and forecast interest rates to limit exposure
Loss on the Property Fund investment if property values continue to fall.	The Lothbury Property Trust should be seen as a longer-term investment where the value of the fund can fluctuate both upwards and downwards. Historically, property prices tend to rise over time, but officers will monitor the trajectory of the fund and consider withdrawal if the valuation continues to fall.

7. Other options considered

- 7.1 None. The approval of the Treasury Management Strategy and prudential indicators is a statutory requirement.

8. Environmental impact

- 8.1 The Council is actively seeking opportunities to invest its surplus balances in a way which supports the Green Strategy, with the caveat that such investments meet the primary considerations of security, liquidity, and return.

9. Other significant issues

- 9.1 In preparing this report, the author has considered issues related to Human Rights, Legal Matters, Human Resources, Equalities, Public Health Inequalities, and Climate Local and there are no areas of concern.

10. Appendix

- 10.1 Appendix A – Capital prudential indicators and treasury management strategy 2023/24 to 2027/28.
- 10.2 Appendix B – Interest rate forecasts 2022 – 2025
- 10.3 Appendix C – Economic background
- 10.4 Appendix D – Credit and counterparty risk management
- 10.5 Appendix E – Approved counterparty list
- 10.6 Appendix F – Approved countries for investment
- 10.7 Appendix G – Treasury management scheme of delegation

10.8 Appendix H – The treasury management role of the S151 Officer

11. Background paper(s)

11.1 The CIPFA Prudential Code
CIPFA's Code of Treasury Management in the Public Services
The Treasury Management Policy, Practices and Schedules

12. Report author's contact details

Nick Brown	Finance Group Manager
Nick.Brown@blaby.gov.uk	0116 272 7625

APPENDIX A

Capital Prudential Indicators and Treasury Management Strategy 2023/24 to 2027/28

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

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

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 fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

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.

Prudential and treasury indicators and treasury strategy (this report) – The first, and most important, report 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)

A mid-year treasury management report – This is primarily a progress report and will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

An annual treasury report – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

The above reports are required to be adequately scrutinised before being recommended to Council. This role is undertaken by Scrutiny Committee and the Cabinet Executive.

Quarterly reports

In addition to the three major reports detailed above, from 2023/24 the Code also specifies that quarterly updates are provided. However, these additional reports do not need to be reported to the full Council, although they do need to be adequately scrutinised. It is proposed that the quarterly updates, which should include reporting on treasury and prudential indicators, are reported to Cabinet Executive.

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
- Policy on the use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Department for Levelling Up, Housing and Communities (DLUHC) MRP Guidance, the CIPFA Treasury Management Code, and DLUHC Investment Guidance.

1.4 Training

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management.

Furthermore, the Code also expects “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

The scale and nature of this will depend on the size and complexity of the organisation’s treasury management needs. Organisations should consider how to assess whether treasury management staff and board/council members have the required knowledge and skills to undertake their roles and whether

they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/council members.
- Require treasury management officers and board/council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis.”

In further support of the revised training requirements, CIPFA’s Better Governance Forum and Treasury Management Network have produced a ‘self-assessment by members responsible for the scrutiny of treasury management’, which is available from the CIPFA website to download.

Cabinet members last received refresher training from our treasury consultants, Link Treasury Services, in October 2018, and further training is planned for Spring 2023.

The training needs of treasury management officers are periodically reviewed.

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

1.5 Treasury Management Consultants

The Council uses Link Group, Link Treasury Services Limited 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 our external service providers. All decisions will be undertaken with regard to all available information, including, but not solely, our treasury advisors.

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.

The Council does not currently have any non-treasury investments but, in September 2022, the Council approved budget provision to be used for strategic property investment purposes, subject to it meeting the criteria set out in the CIPFA Code. The Council has secured specialist advice in this area through a fixed term shared service with Charnwood Borough Council.

2 THE CAPITAL PRUDENTIAL INDICATORS 2023/24 – 2027/28

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

2.1 Capital expenditure and financing

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. This indicator also covers how those plans are to be financed by capital or revenue resources. Members are asked to approve the estimated capital expenditure and resources in the table below. Any shortfall in resources results in a need to borrow.

	2021/22 Actual £000	2022/23 Revised £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Capital Expenditure	2,147	7,669	3,619	2,724	1,220	882	2,657
Financed by:							
Capital Receipts	(286)	(365)	(525)	(520)	(150)	0	(500)
Capital Grants & Contributions	(984)	(2,135)	(706)	(758)	(703)	(674)	(692)
Capital Reserves	(357)	(260)	(92)	0	(32)	0	.0
Revenue Contributions	(76)	(151)	0	0	0	0	.0
Net financing need for the year	444	4,758	2,296	1,446	335	208	1,465

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 the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It represents a measure of the Council's underlying need to borrow. Any capital expenditure above, which has not immediately been paid for, 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 borrowing need 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 such as finance leases. Whilst

this increases the CFR and, therefore, the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has just under £0.5m of finance lease liabilities within the CFR.

The Council is asked to approve the following CFR projections:

	2021/22 Actual £000	2022/23 Revised £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Total CFR	13,965	18,334	19,902	20,354	19,485	18,397	18,487
Movement in CFR	(701)	4,369	1,568	452	(869)	(1,088)	90

Movement in CFR represented by:							
Net financing need for the year (above)	444	4,758	2,296	1,446	335	208	1,465
MRP/VRP and other financing movements	(1,145)	(389)	(728)	(992)	(1,202)	(1,296)	(1,375)
Movement in CFR	(701)	4,369	1,568	452	(869)	(1,088)	90

The following table analyses the planned external borrowing for capital expenditure purposes and conforms to the DLUHC requirements for applying for certainty rate borrowing from the Public Works Loan Board (PWLb).

	2021/22 Actual £000	2022/23 Revised £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Service spend	444	2,258	2,296	1,446	335	208	1,465
Housing	0	0	0	0	0	0	0
Regeneration	0	2,500	0	0	0	0	0
Preventative action	0	0	0	0	0	0	0
Projects for yield	0	0	0	0	0	0	0
Total	444	4,758	2,296	1,446	335	208	1,465

Borrowing for schemes that fall under the heading of "projects for yield" will automatically disqualify the Council from being able to borrow from the PWLB in any year, so this table demonstrates that The Council is complying with the Code in this regard.

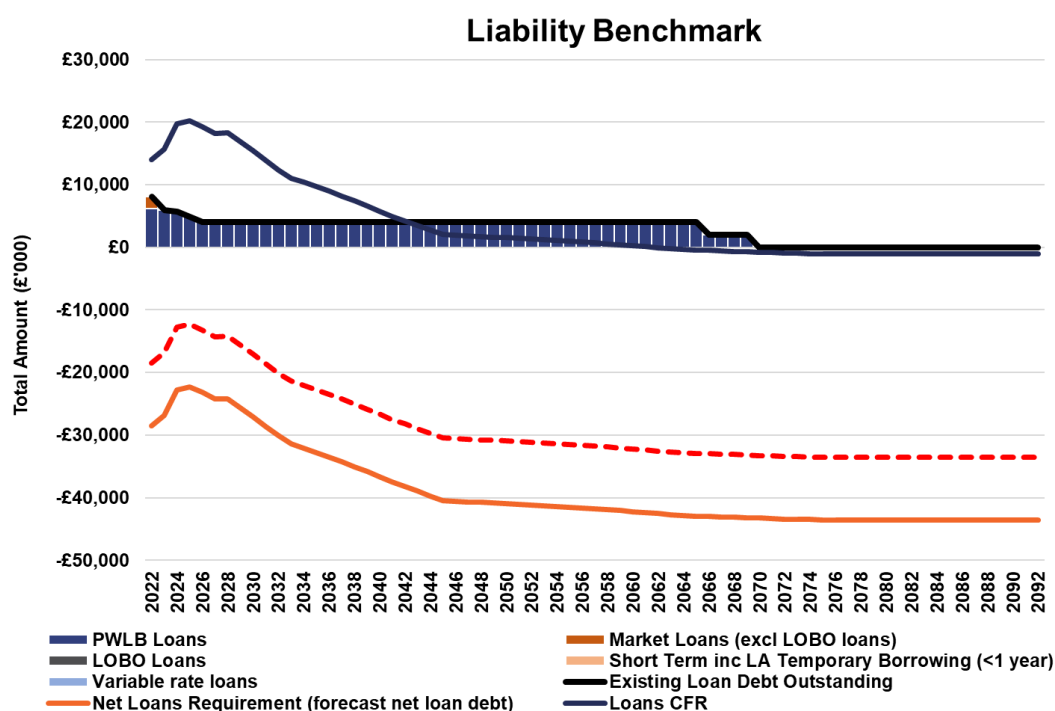
2.3 Liability Benchmark

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

There are four components to the Liability Benchmark:

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

The graph below shows that the Council's borrowing is below the CFR and will reduce over time. However, it should be noted that this is a snapshot and when the debt matures those loans will need to be refinanced. The graph also shows that the liability benchmark is negative, meaning that the Council has sufficient cash reserves to maintain internal borrowing for the foreseeable future, even when allowing for a liquidity buffer.



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 in the following table are high level estimates of the year end balances for each resource and anticipated day to day cash flow balances.

	2021/22 Actual £000	2022/23 Revised £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Fund Balances & Reserves	(18,780)	(12,936)	(10,907)	(8,956)	(8,219)	(7,514)	(6,809)
Capital Receipts	(2,124)	(1,829)	(1,374)	(924)	(844)	(914)	(484)
Provisions	(2,103)	(1,980)	(3,007)	(4,160)	(5,338)	(6,638)	(7,964)
Other	2,958	1,872	(388)	(388)	(388)	(388)	(388)
Total Core Funds	(20,049)	(14,873)	(15,675)	(14,428)	(14,789)	(15,454)	(15,645)
Working Capital*	(21,973)	(13,076)	(9,558)	(5,614)	(2,092)	1,962	3,561
(Over)/Under Borrowing	5,368	10,649	10,433	10,242	9,081	7,692	6,284
Expected Investments	(36,654)	(20,000)	(15,000)	(10,000)	(8,000)	(6,000)	(6,000)

* Working capital balances shown are estimated year end; these may be higher mid-year.

2.5 Minimum revenue provision (MRP) policy statement

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

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

The MRP policy statement must be approved by full Council in advance of each financial year. The Council is recommended to approve the following MRP statement:

For supported capital expenditure incurred before 1st April 2008, the Authority will apply the Asset Life Method using an annuity calculation over 50 years.

Unsupported borrowing will be subject to MRP under option 3 of the guidance (Asset Life Method), which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of the expenditure. For example, capital expenditure on a new building, or on the

refurbishment or enhancement of a building, will be related to the estimated life of that building. An annuity method will be used for the MRP calculation on a weighted average basis.

The interest rate applied to the annuity calculations will reflect the market conditions at the time and will for the current financial year be the Council's weighted average borrowing rate.

The following table gives an indication of the useful asset lives of different categories of assets/capital expenditure type, and hence the period over which MRP will be charged.

Capital Expenditure incurred on:	Estimated Asset Life for MRP purposes
Construction of new buildings	40 – 60 years
Disabled Facilities Grants – Stairlifts	5 years
Disabled Facilities Grants – Bathrooms/Major Adaptations	20 years
Enhancement and refurbishment of land and buildings	10 years
Refuse vehicles	7 years
Other vehicles, plant and equipment	5 – 7 years
Other capital grants	5 years
IT Systems	2 - 5 years

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

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

MRP in respect of assets acquired under Finance Lease will be charged at a rate equal to the principal element of the annual lease rental for the year in question.

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

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

There have been no cumulative VRP overpayments made to date.

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. 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 31st March 2022 is shown below compared with the position as at 31st January 2023.

	Actual 31/03/22 £000	Actual 31/03/22 %	Actual 31/01/23 £000	Actual 31/01/23 %
Treasury Investments				
Banks	23,560	64%	27,337	63%
Local Authorities	0	0%	2,000	5%
Money Market Funds	12,000	33%	12,637	30%
Total managed in house	35,560	97%	41,974	98%
Property Funds	1,094	3%	857	2%
Total managed externally	1,094	3%	857	2%
Total Treasury Investments	36,654	100%	42,831	100%
External Borrowing				
Local Authorities	2,000	25%	0	0%
Public Works Loans Board	6,142	75%	6,037	100%
Total External Borrowing	8,142	100%	6,037	100%
Net Treasury Investments/(Borrowing)	28,512		36,794	

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.

	2021/22 Actual £000	2022/23 Revised £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Loans at 1 st April	8,349	8,142	7,230	9,013	9,658	9,950	10,250
Leases at 1 st April	456	455	455	455	454	454	454
Gross Opening Debt	8,805	8,597	7,685	9,468	10,112	10,404	10,704
New loans in year	0	1,300	2,000	1,500	1,150	300	1,500
New leases in year	0	0	0	0	0	0	0
Loan repayments	(207)	(2,212)	(217)	(855)	(858)	0	0
Lease repayments	(1)	0	0	(1)	0	0	0
Loans at 31 st March	8,142	7,230	9,013	9,658	9,950	10,250	11,750
Leases at 31 st March	455	455	455	454	454	454	454
Gross Closing Debt	8,597	7,685	9,468	10,112	10,404	10,704	12,204
Capital Financing Requirement	13,965	18,334	19,902	20,354	19,485	18,397	18,487
Under/(over) borrowing	5,368	10,649	10,434	10,242	9,081	7,693	6,284

Within the prudential indicators there are several 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 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Executive Director (Section 151) is pleased to report that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes account of current commitments, existing plans, and the proposals in the budget report.

3.2 Treasury Indicators – limits to borrowing activity

The operational boundary – This is the limit 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.

	2022/23 Revised £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Borrowing	20,200	20,200	20,900	20,900	19,100	19,100
Other long-term liabilities	500	500	2,500	2,500	2,500	2,500
Total	20,700	20,700	23,400	23,400	21,600	21,600

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

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

	2022/23 Revised £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Borrowing	22,444	22,444	23,222	23,222	21,222	21,222
Other long-term liabilities	556	556	2,778	2,778	2,778	2,778
Total	23,000	23,000	26,000	26,000	24,000	24,000

Both the Authorised Limit and the Operational Boundary for 2024/25 onwards have been increased by £2m to allow for the introduction of IFRS16. This acts as a provision for leases that are currently off-balance sheet (accounted for as operating leases) to be brought onto the balance sheet on 1st April 2024. The increase is based broadly on the outstanding operating lease liability on 31st March 2022.

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's central view appears at Appendix B. Their forecasts take account of certainty rates, gilt yields plus 80 basis points.

Link's central forecast for interest rates was updated on 19th December 2022 and reflected a view that the Monetary Policy Committee (MPC) would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. Bank Rate stands at 3.5% currently but is expected to reach a peak of 4.5% in the first half of 2023.

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

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

Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started and will focus on the short, medium and longer end of the curve in equal measure, now that the short-lived effects of the Autumn Statement unfunded dash for growth policy are firmly in the rear-view mirror.

In the upcoming months, forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. More recently, the heightened tensions between China, Taiwan, and the US also have the potential to have a wider and negative economic impact.

On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy, and rent/mortgage payments.

PWLB Rates

- The yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.10% to 4.80%.
- Link view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

The balance of risks to the UK economy:

- The overall balance of risks to economic growth in the UK is to the downside.

Downside risks to current forecasts for UK gilt yields and PWLB rates include:

- Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).
- The Bank of England acts too quickly, or too far, over the next year to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than currently anticipated.
- UK / EU trade arrangements – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- Geopolitical risks, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea, and Middle Eastern countries, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates:

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than currently projected or even necessitates a further series of increases in Bank Rate.
- The Government acts too quickly to cut taxes and/or increases expenditure in light of the cost-of-living squeeze.
- The pound weakens because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer term US treasury yields rise strongly and pull gilt yields up higher than currently forecast.
- Projected gilt issuance, inclusive of natural maturities and QT, could be too much for the markets to comfortably digest without higher yields consequently.

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

Suggested budgeted earnings rates for investments up to about three months' duration in each financial year are as follows:

- | | |
|----------------|-------|
| • 2022/23 | 4.00% |
| • 2023/24 | 4.40% |
| • 2024/25 | 3.30% |
| • 2025/26 | 2.60% |
| • 2026/27 | 2.50% |
| • Years 6 to 9 | 2.80% |
| • Year 10+ | 2.80% |

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

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

3.4 Borrowing Strategy

The Council is currently maintaining a position whereby its outstanding debt is lower than the underlying need to borrow (the CFR). 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. That is, the Bank Rate increases over the first half of 2023.

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Executive Director (S151) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp **fall** in borrowing rates then borrowing will be postponed.
- if it was felt that there was a significant risk of a much sharper **rise** in borrowing rates than that currently forecast, 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 CFR 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.

Borrowing in advance will be made within the constraints that:

- It will be limited to no more than the sum of the expected increase in borrowing need (CFR) over the next three years; and
- The Council would not look to borrow more than 24 months in advance of need.

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 any rescheduling is done, it will be reported to Council at the earliest opportunity following its enactment.

3.7 New Financial Institutions as a source of borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).
- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).
- UK Infrastructure Bank (as above)

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

3.8 Approved Sources of Long- and Short-Term Borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
Municipal Bond Agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
UK Infrastructure Bank	●	●
Market – long term	●	●
Market – temporary	●	●
Market – LOBOs	●	●
Stock issues	●	●
Local temporary	●	●
Local bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable bonds	●	●
Internal – capital receipts and revenue balances	●	●
Commercial paper	●	
Medium term notes	●	
Finance leases	●	●

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, part of the 5 Year Capital Programme report.

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. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, 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. The Council has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in Appendix D 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 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 more than 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 does not currently place a limit on the maximum total exposure to non-specified investments as a percentage of the total investment portfolio.
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 Appendix D.
8. The Council 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. The Council has engaged external consultants, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
11. All investments will be denominated in sterling.
12. As a result of the change in accounting standards for 2022/23 under IFRS 9, the Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31st March 2023. At the current juncture it has not been determined whether a further extension to the over-ride will be agreed by the government. This will apply to the Council's investment in the Lothbury Property

Fund. Once the statutory override expires, the Council will need to reflect movements in its Property Fund in the General Fund, in accordance with IFRS 9.

However, the Council will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year

The above criteria are unchanged from last year.

4.2 Creditworthiness policy

This Council 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 and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

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

This modelling approach combines credit ratings, and any associated credit watches and credit 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 Council to determine the suggested duration for investments. The Council will, therefore, use counterparties within the following durational bands:

- | | |
|--------------|--|
| • Yellow | 5 years |
| • Dark Pink | 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25 |
| • Light Pink | 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5 |
| • Purple | 2 years |
| • Blue | 1 year (nationalised/or semi nationalised UK Banks) |
| • Orange | 1 year |
| • Red | 6 months |
| • Green | 100 days |
| • No Colour | not to be used (NB: except building societies) |

	Colour/long term rating	Money and/or % limit	Time Limit
UK Banks/Non-UK Banks	Yellow	£5m/£3m	5 years
UK Banks/Non-UK Banks	Purple	£5m/£3m	2 years
UK Banks/Non-UK Banks	Orange	£5m/£3m	1 year
Banks – part nationalised • RBS	Blue	£8m	1 year
UK Banks/Non-UK Banks	Red	£8m/£5m/£3m	6 months
UK Banks/Non-UK Banks	Green	£5m/£3m	100 days
UK Banks/Non-UK Banks	No colour	n/a	n/a
Building Societies	No colour/P-2	£5m	100 days
Council's own banker (not meeting usual criteria)	No colour	£8m	Overnight
DMADF	AAA	unlimited	6 months
Local authorities	n/a	£5m	5 years
Property Funds	n/a	£1m	Unlimited
Money Market Funds			
• CNAV	AAA	£8m	Liquid
• LVNAV	AAA	£8m	Liquid
• VNAV	AAA	£8m	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	Dark pink/AAA	£3m	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.50	Light pink/AAA	£3m	Liquid

In respect of building societies, the Council will use those societies that have assets in excess of £10 billion, subject to them having a minimum credit rating of P-2 (Moody's).

The Link creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not place undue emphasis on just one agency's ratings.

Typically the minimum credit ratings criteria the Council use 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 on an ongoing basis. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service.

- if a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in CDS spreads against the iTraxx European 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 Council's lending list.

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

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 at the end of March/early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, 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 Council has access to this information via its Link-provided Passport portal.

4.3 Country limits

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 counterparty rating). Furthermore the maximum amount which may be invested with non-UK banks will be limited to £3m per institution. The list of countries that qualify using the sovereign credit rating criteria as at the date of this report are shown in Appendix F. This list will be maintained by officers in accordance with this policy if ratings change.

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, 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. Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

The Council's proposed Approved Counterparty List appears at Appendix E.

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 are as follows:

- 2022/23 4.00%
- 2023/24 4.40%
- 2024/25 3.30%
- 2025/26 2.60%
- 2026/27 2.50%
- Years 6 to 9 2.80%
- Year 10+ 2.80%

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

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 investments 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	2023/24	2024/25	2025/26	2026/27	2027/28
Principal sums invested > 365 days	£6.0m	£6.0m	£6.0m	£6.0m	£6.0m
Current investments as at 31/01/23, in excess of 1 year, maturing in each year	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m

4.5 Performance indicators

The Council will use the 3 month average earnings as a benchmark for assessing its investment performance.

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 Report.

4.7 Property Fund Managers

Property funds are a longer-term investment tool, generally with an investment period of greater than 5 years. Investment balances are normally based on the projected level of reserves and balances available for longer-term investment and appropriate due diligence should be undertaken before investing in Property Funds. Following Council approval in December 2018 and a full property fund selection, the Authority has invested £1m in the Lothbury Property Trust.

4.8 Ethical Investment Policy

The Council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the Council's mission and values. This would include, inter alia, avoiding direct investment in institutions with material links to:

- Human rights abuse (e.g. child labour, political oppression)
- Environmentally harmful activities (e.g. pollutants, destruction of habitat, fossil fuels)
- Socially harmful activities (e.g. tobacco, gambling)

In addition to this, and in furtherance of the Council's carbon neutral ambitions, the Council will invest in green deposit notice accounts, providing that they are in accordance with the Council's prevailing investment criteria.

5. THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2023/24 – 2027/28

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 Capital Expenditure

	2021/22 Actual £000	2022/23 Revised £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Capital Expenditure	2,147	7,669	3,619	2,724	1,220	882	2,657
Financed by:							
Capital Receipts	(286)	(365)	(525)	(520)	(150)	0	(500)
Capital Grants & Contributions	(984)	(2,135)	(706)	(758)	(703)	(674)	(692)
Capital Reserves	(357)	(260)	(92)	0	(32)	0	.0
Revenue Contributions	(76)	(151)	0	0	0	0	.0
Net financing need for the year	444	4,758	2,296	1,446	335	208	1,465

5.2 Affordability prudential indicators

The previous sections deal with the prudential indicators relating to overall capital expenditure and control of borrowing, 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 financial position. 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. The estimates of financing costs include current commitments and the proposals in the budget report.

	2021/22 Actual	2022/23 Revised	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
General Fund	11.23%	7.03%	8.10%	10.76%	12.90%	14.23%	15.31%

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

Commercial and Service Investment Income to Net Revenue Stream

This Indicator is aimed at showing the financial exposure of the Council to the loss of its non-treasury investment income. The higher the ratio, the more reliant the Council is on income from commercial and service investments which represents a potential affordability risk should those investments perform badly or fail.

Local Authorities without commercial and service investments need not report this indicator which is currently the case for Blaby as it does not hold any commercial investments that are held for purely financial return. Where assets generate income, these are long standing assets held for historic or regeneration benefit such as the Enderby Road Industrial Estate Units, or for housing purposes like the Old Bank.

5.3 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%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%
Maturity structure of variable interest rate borrowing 2023/24		
	Lower	Upper
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%

The maturity structure limits are designed to ensure that the Council has the maximum possible flexibility to be able to restructure its loans portfolio in order to maximise the financial benefit to the General Fund.

5.4 Control of Interest Rate Exposure

See paragraphs 3.3, 3.4 and 4.4

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

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ECONOMIC BACKGROUND

A Narrative taken from information sourced from the Council's Treasury advisors: Link Group

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	3.5%	2.0%	4.25%-4.50%
GDP	-0.2%q/q Q3 (2.4%y/y)	+0.2%q/q Q3 (2.1%y/y)	2.6% Q3 Annualised
Inflation	10.7%y/y (Nov)	10.1%y/y (Nov)	7.1%y/y (Nov)
Unemployment Rate	3.7% (Oct)	6.5% (Oct)	3.7% (Nov)

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

The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22nd February 2022.

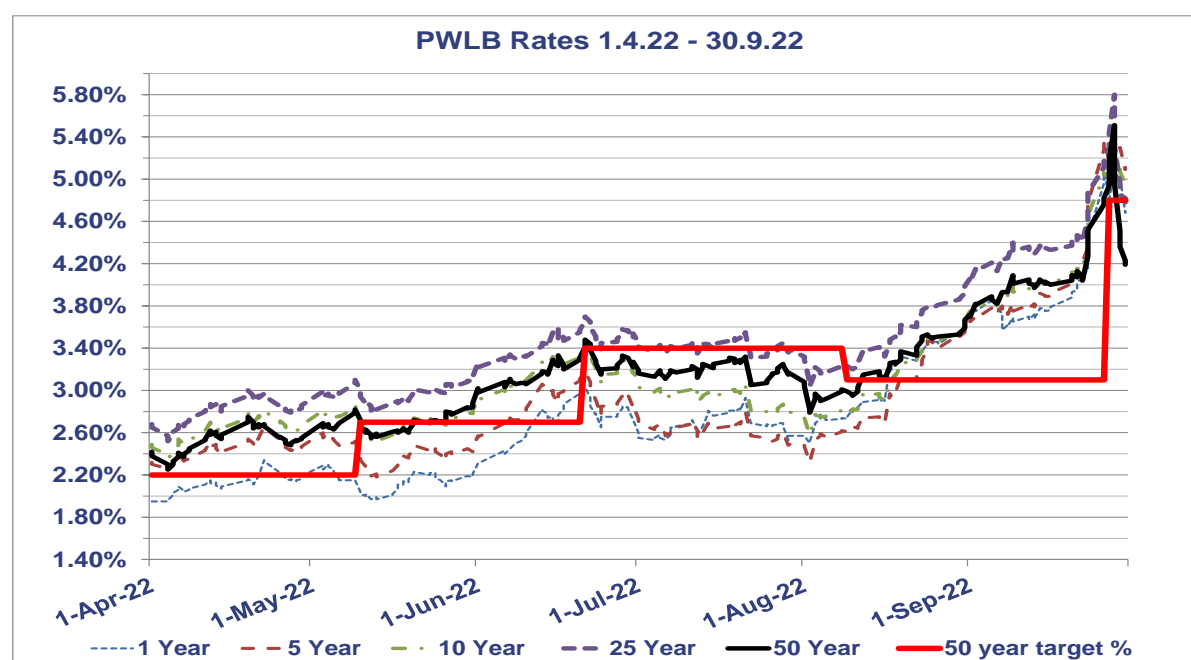
Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3.5% in December and the market expects Bank Rate to hit 4.5% by May 2023.

Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and October. The markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of 17th November gave rise to a net £55bn fiscal tightening, although much of the “heavy lifting” has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have almost completely reversed the increases seen under the previous tenants of No10/11 Downing Street.

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one, if not more, quarters of GDP contraction. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank.

The £ has strengthened of late, recovering from a record low of \$1.035, on the Monday following the Truss government’s “fiscal event”, to \$1.22. Notwithstanding the £’s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

In the table below, the rise in gilt yields, and therein PWLB rates, through the first half of 2022/23 is clear to see.



However, the peak in rates on 28th September as illustrated in the table covering April to September 2022 below, has been followed by the whole curve shifting lower. PWLB rates at the front end of the curve are generally over 1% lower now whilst the 50 years is over 1.75% lower.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

After a shaky start to the year, the S&P 500 and FTSE 100 have climbed in recent weeks, albeit the former is still 17% down and the FTSE 2% up. The German DAX is 9% down for the year.

CENTRAL BANK CONCERNS – DECEMBER 2022

In December, the Fed decided to push up US rates by 0.5% to a range of 4.25% to 4.5%, whilst the MPC followed by raising Bank Rate from 3% to 3.5%, in line with market expectations. EZ rates have also increased to 2% with further tightening in the pipeline.

Having said that, the sentiment expressed in the press conferences in the US and the UK were very different. In the US, Fed Chair, Jerome Powell, stated that rates will be elevated and stay higher for longer than markets had expected. Governor Bailey, here in the UK, said the opposite and explained that the two economies are positioned very differently so you should not, therefore, expect the same policy or messaging.

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.5% - 4.75%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data has proven stronger than expected.

In addition, the Bank's central message that GDP will fall for eight quarters starting with Q3 2022 may prove to be a little pessimistic. Will the £160bn excess savings accumulated by households through the Covid lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

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CREDIT AND COUNTERPARTY RISK MANAGEMENT

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months.)

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria/ colour band	Maximum investment limit per institution	Maximum maturity period
DMADF – UK Government	Yellow	unlimited	6 months
UK Government gilts*	Yellow	£5m	1 year
UK Government Treasury bills*	Yellow	£5m	1 year
Money market funds – Constant Net Asset Value (CNAV)	AAA	£8m per fund^	Liquid
Money market funds – Low Volatility Net Asset Value (LVNAV)	AAA	£8m per fund^	Liquid
Money market funds – Variable Net Asset Value (VNAV)	AAA	£8m per fund^	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	£3m per fund	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	£3m per fund	Liquid
Local authorities	Yellow	£5m per authority	1 year
UK Banks	Orange Red Green	£5m	1 year 6 months 100 days

Part nationalised UK Banks	Blue	£8m	1 year
Non-UK Banks (with a Sovereign Rating of AA-)	Orange Red Green	£3m	1 year 6 months 100 days
Building Societies	Orange Red Green	£5m	Up to 1 year Up to 6 Months Up to 100 days

* UK Government gilts and treasury bills are rarely, if ever, used but are included in this list as a potential, high credit quality investment.

^ Approved limits were increased by Council on 9th April 2020 to allow more flexibility for investment of unusually large sums, in light of the COVID-19 Business Grant funding.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria/ colour band	Maximum investment limit per institution	Maximum maturity period
Local authorities	n/a	£5m per authority	5 years
UK Banks	Yellow Purple	£5m	5 years 2 years
Non-UK Banks (with a Sovereign Rating of AA-)	Yellow Purple	£3m	5 years 2 years
Building Societies	P-2 (Moody's)	£5m	Up to 100 days
Property Funds	n/a	£1m	Minimum of 5 years
Council's own bank	n/a	£8m^	Overnight

^ Approved limits were increased by Council on 9th April 2020 to allow more flexibility for investment of unusually large sums, in light of the COVID-19 Business Grant funding.

The criteria in this appendix are intended to be the operational criteria in normal times. At times of heightened volatility, risk and concern in financial markets, this strategy may be amended by temporary operational criteria further limiting investments to counterparties of a higher creditworthiness and/or restricted time limits

The Council will undertake investments for periods in excess of one year only when it has been clearly established that core funds are available, and that any funds invested will not be required during the term of the investment.

The Council's policy is not to invest with subsidiaries of counterparties where those subsidiaries do not have credit ratings in their own right, even where they have an unconditional guarantee from a parent.

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APPENDIX E

APPROVED COUNTERPARTY LENDING LIST 2023/24

	Country	Monetary Limit	Maximum Period for Investment
UK Banks			
Bank of Scotland plc (RFB)	UK	£5m	6 months
Barclays Bank plc (NRFB)	UK	£5m	6 months
Barclays Bank plc (RFB)	UK	£5m	6 months
Close Brothers	UK	£5m	6 months
Clydesdale Bank PLC	UK	£5m	100 days
Goldman Sachs International Bank	UK	£5m	6 months
Handelsbanken plc	UK	£5m	1 year
HSBC Bank PLC (NRFB)	UK	£5m	1 year
HSBC UK Bank plc (RFB)	UK	£5m	1 year
Lloyds Bank Corporate Markets plc (NRFB)	UK	£5m	6 months
Lloyds Bank plc (RFB)	UK	£5m	6 months
NatWest Markets plc (NRFB)	UK	£5m	6 months
Santander Financial Services plc (NRFB)	UK	£5m	6 months
Santander UK plc	UK	£5m	6 months
SMBC Bank International Limited	UK	£5m	6 months
Standard Chartered Bank	UK	£5m	6 months
Nationalised/Part Nationalised Banks			
National Westminster Bank plc (RFB)	UK	£5m	1 year
The Royal Bank of Scotland plc (RFB)	UK	£5m	1 year
Non-UK Banks			
Australia and New Zealand Banking Group Ltd	Australia	£3m	1 year
Commonwealth Bank of Australia	Australia	£3m	1 year
Macquarie Bank Limited	Australia	£3m	6 months
National Australia Bank Ltd	Australia	£3m	1 year
Westpac Banking Corporation	Australia	£3m	1 year
BNP Paribas Fortis	Belgium	£3m	6 months
KBC Bank NV	Belgium	£3m	1 year
Bank of Montreal	Canada	£3m	1 year
Bank of Nova Scotia	Canada	£3m	1 year
Canadian Imperial Bank of Commerce	Canada	£3m	1 year
National Bank of Canada	Canada	£3m	6 months
Royal Bank of Canada	Canada	£3m	1 year
Toronto Dominion Bank	Canada	£3m	1 year
Danske Bank	Denmark	£3m	6 months
Nordea Bank Abp	Finland	£3m	1 year
OP Corporate Bank plc	Finland	£3m	1 year
BNP Paribas	France	£3m	1 year
Credit Agricole Corporate & Investment Bank	France	£3m	1 year
Credit Agricole SA	France	£3m	1 year
Credit Industriel et Commercial	France	£3m	1 year
Societe Generale	France	£3m	6 months
Bayerische Landesbank	Germany	£3m	6 months
Commerzbank	Germany	£3m	100 days
Deutsche Bank AG	Germany	£3m	100 days
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	Germany	£3m	1 year
Landesbank Baden-Wuerttemberg	Germany	£3m	6 months
Landesbank Berlin AG	Germany	£3m	1 year
Landesbank Hessen-Thueringen Girozentrale	Germany	£3m	1 year
Landwirtschaftliche Rentenbank	Germany	£3m	2 years
Norddeutsche Landesbank Girozentrale	Germany	£3m	100 days
NRW Bank	Germany	£3m	2 years
ABN AMRO Bank NV	Netherlands	£3m	6 months
Bank Nederlandse Gemeenten NV	Netherlands	£3m	2 years
Coöperatieve Rabobank UA	Netherlands	£3m	1 year
ING Bank NV	Netherlands	£3m	1 year
Nederlandse Waterschapsbank NV	Netherlands	£3m	2 years
DNB Bank ASA	Norway	£3m	1 year
DBS Bank Ltd	Singapore	£3m	1 year
Oversea Chinese Banking Corporation Ltd	Singapore	£3m	1 year
United Overseas Bank Ltd	Singapore	£3m	1 year
Skandinaviska Enskilda Banken AB	Sweden	£3m	1 year
Swedbank AB	Sweden	£3m	1 year
Svenska Handelsbanken AB	Sweden	£3m	1 year
UBS AG	Switzerland	£3m	1 year
Bank of America, N.A.	USA	£3m	1 year
The Bank of New York Mellon	USA	£3m	2 years
Citibank NA	USA	£3m	1 year
JP Morgan Chase Bank NA	USA	£3m	1 year
Wells Fargo Bank NA	USA	£3m	1 year
Building Societies			
Coventry Building Society	UK	£5m	6 months
Leeds Building Society	UK	£5m	100 days
Nationwide Building Society	UK	£5m	6 months
Principality Building Society	UK	£5m	100 days
Skipton Building Society	UK	£5m	6 months
Yorkshire Building Society	UK	£5m	100 days
Other Institutions			
Local Authorities (per authority)	UK	£5m	5 years
Collateralised LA Deposit	UK	£5m	5 years
UK Debt Management Office (DMADF)	UK	unlimited	5 years
Multilateral Development Banks	UK	£5m	5 years
Supranationals	UK	£5m	5 years
UK Gilts	UK	£5m	5 years
Money Market Funds (per Fund) - Constant Net Asset Value (CNAV)	UK	£8m	Liquid
Money Market Funds (per Fund) - Low Volatility Net Asset Value (LVNAV)	UK	£8m	Liquid
Money Market Funds (per Fund) - Variable Net Asset Value (VNAV)	UK	£8m	Liquid
HSBC Call Account	UK	£8m	Liquid
Property Funds	UK	£3m	Minimum of 5 years

NB: Monetary limits apply to groups as well as individual counterparties.

RFB = Ring Fenced Bank

NRFB = Non Ring Fenced Bank

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APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link Group credit worthiness service.

Based on lowest rating available

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- France

AA-

- Belgium
- United Kingdom

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TREASURY MANAGEMENT SCHEME OF DELEGATION

The following is an extract from TMP5 – Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements.

5.1 Allocation of responsibilities

Council:

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

Cabinet Executive:

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

Scrutiny Committee:

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

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ROLE OF THE SECTION 151 OFFICER

5.4 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 that person is the Executive Director (Section 151). 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.
- 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, to include the following:
 - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios.*
 - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments.*
 - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making.*
 - *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken.*
 - *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

ANALYSIS OF RESERVES - REVISED BUDGET 2022/23 & BASE BUDGET 2023/24

Appendix B

	GL Code	Actual 31/03/22 £	Reallocations 2022/23 £	Movement in 2022/23 £	Estimated 31/03/23 £	Movement in 2023/24 £	Estimated 31/03/24 £
Earmarked Reserves							
Leisure Centre Renewals Fund	0001/VBA	(62,361)	0	0	(62,361)	0	(62,361)
IT Reserve Fund	0001/VBB	(255,407)	0	118,000	(137,407)	53,000	(84,407)
Licensing Reserve	0001/VBC	(27,868)	0	0	(27,868)	0	(27,868)
Insurance Reserve Fund	0001/VBD	(100,000)	0	0	(100,000)	0	(100,000)
Blaby District Plan Priorities Reserve	0001/VBJ	(452,667)	0	101,513	(351,154)	47,000	(304,154)
General Fund Reserve	0001/VBK	(1,697,764)	0	88,946	(1,608,818)	0	(1,608,818)
Ongoing Projects Reserve	0001/VBM	(2,923,063)	0	2,868,373	(54,690)	54,690	0
Elections Reserve	0001/VBQ	(121,944)	0	0	(121,944)	100,000	(21,944)
Choice Based Lettings Reserve	0001/VBR	(952)	0	0	(952)	0	(952)
New Home Bonus	0001/VBT	(41,327)	0	10,000	(31,327)	31,327	0
COVID Support Reserve	0001/VBU	(700,000)	0	0	(700,000)	0	(700,000)
Economic Development Reserve	0001/VBX	(50,000)	0	0	(50,000)	0	(50,000)
ERIE Sinking Fund	0001/VCA	(34,654)	0	0	(34,654)	0	(34,654)
Community Rights Reserve	0001/VCB	(48,724)	0	0	(48,724)	0	(48,724)
Council Tax Support Reserve	0001/VCD	(325,000)	0	0	(325,000)	0	(325,000)
Parish New Homes Bonus Reserve	0001/VCE	(881)	0	0	(881)	0	(881)
NNDR Income Reserve	0001/VCF	(1,702,174)	0	(1,041,742)	(2,743,916)	453,500	(2,290,416)
Agile Working Reserve	0001/VCG	(162,678)	0	0	(162,678)	0	(162,678)
Local Plan Reserve	0001/VCH	(483,595)	0	59,661	(423,934)	0	(423,934)
Lottery Reserve	0001/VCK	(21,132)	0	5,855	(15,277)	0	(15,277)
IT System Replacement Reserve	0001/VCL	(54,415)	0	18,120	(36,295)	0	(36,295)
Property Fund Reserve	0001/VCM	(88,462)	0	(45,000)	(133,462)	(45,000)	(178,462)
Tax Income Guarantee Reserve	9999/VCN	0	0	0	0	0	0
S31 Grant Reserve	9999/VCO	(4,270,355)	0	2,768,199	(1,502,156)	1,502,156	0
Huncote Major Incident Reserve	9999/VCP	(423,433)	(100,000)	0	(523,433)	0	(523,433)
Court Fees Income Reserve	9999/VCQ	(31,813)	0	0	(31,813)	0	(31,813)
Total - All Earmarked Reserves		(14,080,669)	(100,000)	4,951,925	(9,228,744)	2,196,673	(7,032,071)
General Fund Balance	9999/ZZA	(4,698,909)	100,000	715,058	(3,883,851)	166,007	(3,717,844)

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