

# Public Document Pack



**North East  
Derbyshire  
District Council**

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Date: Tuesday, 10 January 2023

To: **All Members of the Audit & Corporate Governance Scrutiny Committee**

Please attend a meeting of the Audit & Corporate Governance Scrutiny Committee to be held on **Wednesday, 18 January 2023 at 3.00 pm in the Council Chamber**, District Council Offices, Mill Lane, Wingerworth, Chesterfield S42 6NG.

Yours sincerely

A handwritten signature in cursive script that reads "Sarah Steuberg".

**Assistant Director of Governance and Monitoring Officer**

<b><u>Conservative Group</u></b>	<b><u>Labour Group</u></b>	<b><u>Independent Group</u></b>	<b><u>Liberal Democrat Group</u></b>
Cllr W Armitage Cllr B Lewis Cllr K Tait Cllr M E Thacker	Cllr N Barker Cllr P R Kerry Cllr G Morley	Cllr P Parkin	Cllr R Shipman

## **A G E N D A**

**1 Apologies for Absence**

**2 Declarations of Interest**

Members are requested to declare the existence and nature of any disclosable pecuniary interest and/or other interest, not already on their register of interests, in any item on the agenda and withdraw from the meeting at the appropriate time.

**3 Minutes of Last Meeting (Pages 4 - 8)**

To approve as a correct record and the Chair to sign the Minutes of the Audit and Corporate Governance Scrutiny Committee held on 9 November 2022.

- 4 **Verbal Update of the External Auditors - Mazars**
- 5 **Car Parking Update**
- 6 **Reports of the Director of Finance and Resources (Section 151 Officer)**
  - a. **Medium Term Financial Plan 2023/24 - 2026/27** (Pages 9 - 37)
  - b. **Treasury Management Strategies 2023/24 - 2026/27** (Pages 38 - 91)
- 7 **Report of the Assistant Director of Governance and Monitoring Officer**
  - a. **Committee Work Programme 2022-23** (Pages 92 - 96)
- 8 **Forward Plan of Executive Decisions** (Pages 97 - 99)

To consider the attached Forward Plan of Executive Decisions dated 15<sup>th</sup> December 2022 to 15<sup>th</sup> January 2023.

The most up-to-date Forward Plan of Executive Decisions can be accessed via the following link:

<https://democracy.ne-derbyshire.gov.uk/mgListPlans.aspx?RPId=1137&RD=0&bcr=1>

- 9 **To consider any other items which the Chair is of the opinion should be considered as a matter of urgency.**
- 10 **Date of Next Meeting**

The next meeting of the Audit and Corporate Governance Scrutiny Committee is scheduled to take place on 15 February 2023.



**North East  
Derbyshire**  
District Council

### **Access for All statement**

You can request this document or information in another format such as **large print** or **language** or contact us by:

- Phone - [01246 231111](tel:01246231111)
- Email - [connectne@ne-derbyshire.gov.uk](mailto:connectne@ne-derbyshire.gov.uk)
- Text - [07800 00 24 25](tel:07800002425)

- **BSL Video [Call](#)** – a three way video call with us and a BSL interpreter. It is free to call North East Derbyshire District Council with [Sign Solutions](#) or call into the offices at Wingerworth.
- Call with [Relay UK](#) via textphone or app on [0800 500 888](#) – a free phone service
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## **AUDIT & CORPORATE GOVERNANCE SCRUTINY COMMITTEE**

### **MINUTES OF MEETING HELD ON WEDNESDAY, 9 NOVEMBER 2022**

#### **Present:**

Councillor Martin E Thacker MBE JP (Chair) (in the Chair)

Councillor William Armitage  
Councillor Stephen Clough  
Councillor Gerry Morley  
Councillor Kevin Tait

Councillor Nigel Barker  
Councillor Pat Kerry  
Councillor Ross Shipman

#### **Also Present:**

L Hickin	Managing Director - Head of Paid Service
J Dethick	Director of Finance and Resources & (Section 151 Officer)
D Johnson	Assistant Director - Property, Estates and Assets
J Williams	Head of Internal Audit Consortium
K Drury	Information Engagement & Performance Manager
T Scott	Governance and Scrutiny Officer
M Surridge	Mazars

#### **AUD Apologies for Absence**

40/2

2-23 No apologies for absence were received.

#### **AUD Declarations of Interest**

41/2

2-23 Members were requested to declare the existence and nature of any disclosable pecuniary interest and/or other interest, not already on their register of interest, in any item on the agenda and withdraw from the meeting at the appropriate time.

No Declarations of Interest were received for the meeting.

#### **AUD Minutes of Last Meeting**

42/2

2-23 RESOLVED – That the Minutes of the Audit & Corporate Governance Scrutiny Committee held on 28 September 2022 be approved as a correct record and signed by the Chair.

#### **AUD Audit Completion Report & Letter of Representation**

43/2

2-23 Members were presented with a report of the Council's External Auditor (Mazars) which outlined the Audit Completion Report and the Letter of Representation for the financial year 2021/22.

#### **RESOLVED**

(1) That the Audit and Corporate Governance Scrutiny Committee noted the attached report from the Council's external auditors Mazars.

- (2) That the Audit and Corporate Governance Scrutiny Committee approved the Letter of Representation contained within the Audit Completion Report and authorised the Chief Financial Officer to sign the letter on behalf of the Council.

**AUD** **Internal Audit Progress Update**

**44/2**

**2-23**

Members were presented with a progress report in respect of the 2022/23 Internal Audit Plan. Members were informed that a person had now been appointed to the vacant Senior Auditor post.

RESOLVED – That the Committee noted the report.

**AUD** **Performance Management**

**45/2**

**2-23**

The Information, Engagement and Performance Manager presented a report on the Quarter 2 outturns for the Council Plan 2019-2023 targets.

The report explained that out of the 77 targets:

- 49 (64%) were on track
- 1 (1%) target achieved this time, and
- 27 (35%) were achieved previously.

The Chair referred to target ECO13 ('Hold 4 events annually to foster effective links with further and higher education establishments') and felt the target needed more detail. The Information, Engagement and Performance Manager stated that the exact intention of the target would be investigated.

The Chair referred to target RES21 ('Invest in voluntary and community organisations to assist over 20,000 vulnerable and disadvantaged households per year') and felt the target should include evidence of what the Council did to help the vulnerable and disadvantaged.

Members discussed the target ECO32 ('Increase revenue from business centre meeting bookings by 10% each year to maximise the use of these district facilities') and enquired what the intention behind this target was. The Managing Director explained that the purpose of the target was to maximise meeting space.

The Chair requested that future Performance updates should be more consistent in length and format.

RESOLVED

- (1) That quarterly outturns against the Council Plan 2019-2023 targets were noted.
- (2) That the Information, Engagement and Performance Manager investigates the intentions of the ECO13 target.
- (3) That the Information, Engagement and Performance Manager

standardises the format of future Performance reports to give it a more consistent look.

**AUD** **Risk Management**

**46/2**

**2-23**

The Managing Director presented a report on the current position regarding Risk Management arrangements and the Strategic Risk Register as at 26 October 2022.

The Chair was disappointed that the Government's devolution deal had not been included in the report despite the Audit and Corporate Governance Scrutiny Committee requesting it previously. The Chair also believed that not enough was being done to communicate to the public precisely what devolution will mean.

Members discussed occasions where they had been told by officers they could not be told details of programmes like the window programme, with the reason being Data Protection. The Managing Director stated that this would be investigated.

Members discussed the joint venture with Robert Woodhead Ltd. being included in the register, and were pleased that this had been added following a request by the Committee.

RESOLVED – That the Audit and Corporate Governance Scrutiny Committee noted the report and Strategic Risk Register as at 26 October 2022 as set out in Appendix 1.

**AUD** **Corporate Debt**

**47/2**

**2-23**

The Director of Finance and Resources presented a report on the corporate debt position as at 30 September 2022.

RESOLVED – That the Audit and Corporate Governance Scrutiny Committee noted the report concerning the Council's corporate debt position as at 30 September 2022.

**AUD** **Revised Budget 2022-23**

**48/2**

**2-23**

The Director of Finance and Resources presented a report which set out revisions to the 2022/23 budget.

Members discussed the content of the report. They were concerned that some of the figures outlined would not be sustainable. The Director of Finance and Resources agreed that balancing the budget was going to be a significant challenge.

The Chair felt it would be beneficial for Members to see an action plan of efficiency tasks to be carried out. The Director of Finance and Resources explained that this would be included in the Medium Term Financial Plan.

Members referred to the 'Cost Of Ex-Employees' figure in Appendix 1 and enquired exactly what this meant. The Director of Finance and Resources

explained that this was an added cost onto pensions for employees who had retired.

Members referred to the 'Vacancy Savings' figure in Appendix 1 and were concerned that not filling vacancies to balance budgets could negatively impact service quality. The Director of Finance and Resources assured Members that the Medium Term Financial Plan would not rely on Vacancy Savings.

**RESOLVED**

- (1) That the Audit and Corporate Governance Scrutiny Committee noted the report concerning the Council's Medium Term Financial Plan - Revised Budgets 2022/23.
- (2) That the Audit and Corporate Governance Scrutiny Committee would be given the opportunity to scrutinise an action plan of efficiency tasks to be carried out when it considers the next Medium Term Financial Plan.

**AUD** **Statement of Accounts 2021/22**

**48/2**

**2-**

**231**

The Director of Finance and Resources presented a report proposing approval of the audited Statement of Accounts for 2021/22.

**RESOLVED**

- (1) That the Audit and Corporate Governance Scrutiny Committee approved the audited Statement of Accounts in respect of 2021/22.
- (2) That delegated powers were granted to the Chief Financial Officer in consultation with the Chair or Deputy Chair of the Audit and Corporate Governance Scrutiny Committee to agree any changes which may be necessary in order to ensure the finalisation of the external audit currently being concluded by the Council's external auditors, Mazars, to ensure completion of the Statement of Accounts by the statutory deadline of 30 November 2022.

**AUD** **Assessment of Going Concern 2021/22**

**48/2**

**2-**

**232**

The Director of Finance and Resources presented a report informing the Committee of an assessment of the Council as a 'going concern' for the purposes of producing the 2021/22 accounts.

**RESOLVED** – That the Audit and Corporate Governance Scrutiny Committee accepted the outcome of the Council's Section 151 Officer's assessment of the Council's 'going concern' status for the purpose of preparing the Statement of Accounts for 2021/22.

**AUD** **Committee Work Programme 2022-23**

**49/2**

**2-23**

The Head of Internal Audit Consortium referred to Internal Audit updates being included in the Work Programme for both meetings on 18 January 2023 and 15 February 2023, and suggested that there would not be anything to update at both

meetings because of them being in quick succession. The Chair agreed and requested that the Internal Audit update scheduled for 18 January 2023 should be removed from the Work Programme.

**RESOLVED**

- (1) That the Internal Audit update scheduled for 18 January 2023 was removed from the Work Programme.
- (2) That the Committee noted and approved the Audit and Corporate Governance Scrutiny Work Programme for the remainder of the 2022/2023 municipal year as set out in the attached Appendix 1.

**AUD** **Forward Plan of Executive Decisions**

**50/2**

**2-23**

**RESOLVED** – That the Forward Plan of Executive Decisions be noted.

**AUD** **To consider any other items which the Chair is of the opinion should be considered as a matter of urgency.**

**51/2**

**2-23**

There were no urgent items to be discussed at the meeting.

**AUD** **Date of Next Meeting**

**52/2**

**2-23**

The next meeting of the Audit and Corporate Governance Scrutiny Committee will be on 3.00pm 18 January 2023.



## North East Derbyshire District Council

### Audit and Corporate Governance Scrutiny Committee

18 January 2023

<b>Medium Term Financial Plan 2022/23 to 2026/27</b>
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#### Report of the Director of Finance and Resources (S151 Officer)

Report By: Jayne Dethick, Director of Finance and Resources (S151 Officer)

Contact Officer: Jayne Dethick

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#### PURPOSE/SUMMARY

To enable the Audit and Corporate Governance Scrutiny Committee to consider the attached report concerning the Medium Term Financial Plan (MTFP) 2022/23 to 2026/27 prior to the report being taken to Cabinet and Council.

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#### RECOMMENDATIONS

1. That the Audit and Corporate Governance Scrutiny Committee note the report and make any comments that they believe to be appropriate with regards to the attached report which will be taken to Cabinet on 26 January 2023.
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#### IMPLICATIONS

##### Finance and Risk

Yes ✓

No

These are detailed in the attached report.

On Behalf of the Section 151 Officer

##### Legal including Data Protection

Yes ✓

No

These are detailed in the attached report.

On Behalf of the Solicitor to the Council

##### Staffing

Yes

No ✓

There are no staffing issues arising directly from this report.

On Behalf of the Head of Paid Service

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## **DECISION INFORMATION**

<b>Decision Information</b>	
<b>Is the decision a Key Decision?</b> A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds:  <b>NEDDC:</b> <b>Revenue - £100,000 <input type="checkbox"/> Capital - £250,000 <input type="checkbox"/></b> <input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i>	No
<b>Is the decision subject to Call-In?</b> (Only Key Decisions are subject to Call-In)	No
<b>District Wards Significantly Affected</b>	None
<b>Consultation:</b> <b>Leader / Deputy Leader <input checked="" type="checkbox"/> Cabinet <input type="checkbox"/></b> <b>SMT <input checked="" type="checkbox"/> Relevant Service Manager <input checked="" type="checkbox"/></b> <b>Members <input checked="" type="checkbox"/> Public <input type="checkbox"/> Other <input type="checkbox"/></b>	Yes  Details:

<b>Links to Council Plan priorities, including Climate Change, Equalities, and Economics and Health implications.</b>
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All
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## **1 REPORT DETAILS**

- 1.1 To update Members of the Audit and Corporate Governance Scrutiny Committee to ensure they are kept informed of the Council's financial position as set out in the MTFP 2022/23 to 2026/27. Any comments expressed by the Audit and Corporate Governance Scrutiny Committee will be taken into account in the report, or reported verbally to Cabinet.
- 1.2 The appendices providing details of the financial plans that will be taken to Cabinet on 26 January 2023 and to Council on the 30 January 2023 are attached to this report.
- 1.3 The main variations in the MTFP are reported below.

### **General Fund Revenue Account**

- 1.4 The proposed budget for 2023/24 currently shows a shortfall of £0.977m before any council tax increases. If the recommended council tax increase is approved by Cabinet then the shortfall reduces to £0.784m. The Council continues to face financial challenges over the life of this financial plan, especially in the later years, so it remains important to ensure that ongoing savings are identified and implemented.

### 1.5 Local Government Finance Settlement

In the local government finance policy statement 2023-24 – 2024-25 published on 12 December 2022, the Government confirmed that the next two years will essentially be rollover settlements but stated that there are still several matters that remain unresolved for 2024/25. The policy statement encourages local authorities to utilise reserves to maintain services in the face of immediate inflationary pressures, taking account, of course, of the need to maintain appropriate levels of reserves to support financial sustainability.

1.6 Funding reforms or changes to funding distribution will not be implemented until 2025-26 at the earliest now which means a further delay to the Fair Funding Review and the review of business rates including the baseline reset. This delay relieves some pressure on the 2023/24 budget and 2024/25 forecast. However, forecasting for the remainder of the financial plan is challenging whilst little is known about the next Spending Review. There is a real lack of certainty from 2025/26 which makes financial planning with any accuracy for future years difficult, especially in light of the medium term fiscal forecasts and the need to achieve sustainable public services, as outlined in the Autumn Statement and subsequent Financial Settlement.

1.7 The main principles of the Settlement are:

#### New Homes Bonus

1.8 The settlement confirms that New Homes Bonus (NHB) will continue in 2023/24 with the possibility that there will be a further year in 2024/25. NHB will be paid on the same basis as 2022/23. The legacy payments which end in the current year are being used to fund the 3% funding guarantee. Ministers have committed to setting out the future position of NHB in the context of the wider review of lower tier funding so it is largely expected by the sector that NHB payments will continue in 2024/25 whilst this review takes place. NHB has therefore been included in the 2024/25 forecasts.

#### Increased “core” Band D Council Tax

1.9 The maximum increases in Band D have been confirmed in the Settlement. The core Band D element is at an increased level of 3% in 2023/24. The 2024/25 level is yet to be confirmed however there has been wide speculation that it will remain at 3% in 2024/25 too.

#### 3% Funding Guarantee

1.10 The 3% Funding Guarantee was an addition in the Settlement that wasn't included as part of the Autumn Statement. This guarantee will ensure that every council has an increase of at least 3% in Core Spending Power, before Council Tax increases. It replaces the Lower Tier Services Grant which ensured no local authority had a cash terms cut last year. The Council's allocated amount in 2023/24 is £0.259m. Whilst not confirmed in the Settlement it is widely expected at this time that the grant will also be awarded in 2024/25 ahead of the wider funding reforms the following year and so has been included in the estimates.

#### Services Grant

1.11 Services Grant has been awarded in 2023/24 and is again expected to continue into 2024/25. The allocation methodology is the same as in 2022/23, using the 2013/14 Settlement Funding Assessment (SFA). Funding allocated for the now reversed increase

in National Insurance contributions has been clawed back through this grant. The Council's allocation is £0.109m in 2023/24.

#### Business Rates

- 1.12 Members will be aware that the Council has been a member of the Derbyshire Business Rates Pool since its establishment in 2015/16. Being a member of the pool allows us to retain more of our Business Rates income locally and all Councils have elected to remain members in 2023/24. Business rates forecasts are showing positive signs of recovery post Covid and this has been reflected in the forecasts.

#### Business Rates Reset

- 1.13 It has been confirmed in the Settlement that the business rates baseline reset will not proceed until the next spending review. The reset will mean that any growth gained since 2013/14 (the last reset) will be built into a new baseline, effectively wiping it out. The lack of clarity around the national business rates review and/or reset beyond 2024/25 makes forecasting challenging but the Government have renewed their commitment to fundamentally review local government funding including business rates in the next spending review so it is still reasonable to assume that reform will proceed at this time. Therefore, from April 2025 the impact of the reset has been factored into this plan.

#### Business Rates Revaluation

- 1.14 The 2023 revaluation has gone ahead as planned with the Valuation Office Agency (VOA) issuing draft lists in November 2023. The revaluation is intended to be fiscally neutral and the Settlement includes a technical adjustment to offset the change from the revaluation which has been included in the estimates.

#### Assumptions

- 1.15 In developing the financial projections a number of assumptions have been made:
- Budgets are cash limited except where contractual commitments to increase costs exist
  - A pay award of 4% has been included in 2023 pay budgets. This is based on the assumption that inflation will average 7% next year. 2% has been included in 2024 and 1% thereafter when public finances are expected to further tighten.
  - Energy costs and fuel have been forecast to reflect anticipated price changes.
  - Fees and charges – annual service specific increases have been applied in 2023/24.
  - Salary vacancy efficiencies of 3.5% in 2023/24 and 2% thereafter

#### **Housing Revenue Account (HRA)**

- 1.16 The proposed budget for 2023/24 currently shows a balanced position. The HRA budget makes the same assumptions as the General Fund budget for staff costs and inflation. There are however, some additional assumptions that are specific to the HRA which are set out within the sections below.

#### Rents Increase 2023/24

- 1.17 In response to rising levels of inflation, which would have permitted rent increases in the region of 11%, the Department for Levelling Up, Housing and Communities (DLUHC) issued a consultation in August to seek the sector's views on a new Direction in relation to social housing rent policy. The consultation focussed on the introduction of a rent ceiling from 1 April 2023 to 31 March 2024, which would act as an upper limit on the maximum amount by which Registered Providers of social housing can increase rents in that year.

- 1.18 The consultation identified that in the face of “*these exceptional challenges*” there was a strong case for making a temporary amendment to the CPI+1% policy for 2023/24 in order to provide a backstop of protection for social housing tenants from significant rent increases.
- 1.19 The proposed Direction would require the Regulator to amend its Rent Standard so that the current CPI+1% limit on annual rent increases would be subject to a ceiling from 1 April 2023 to 31 March 2024. Through the consultation, DLUHC were seeking views on where this ceiling should be set and proposed a direction of CPI+1% policy subject to a 5% ceiling from 1 April 2023 to 31 March 2024. This would mean that, for rent periods that begin in the 12 months from 1 April 2023 to 31 March 2024, Registered Providers would be permitted to increase rents by up to CPI+1% or by 5%, whichever is lower. Views were also sought on 3%, 5% and 7% as ceiling options, as well as any other proposals put forward by consultees.
- 1.20 DLUHC recognised in the consultation that imposing a ceiling on rent increases would leave Registered Providers with less money to invest in providing new social housing, improving the quality and energy performance of their existing homes and providing services to tenants. DLUHC also recognised that any decision to restrict rent increases would inevitably involve tough choices. On balance, their view was that imposing a ceiling was the right approach to provide a backstop of protection for tenants.
- 1.21 DLUHC considered the responses from the sector and in the Autumn Statement on 17 November the Chancellor confirmed that a Direction would be issued to the Social Housing Regulator putting a ceiling of 7% on rent increases for the 2023/24 rent year. As in previous years, landlords will continue to be free to apply a lower increase if they wish to do so. Providers should consider the local market context when deciding on the level of rent increase as well as the levels of Housing Benefit or Universal Credit available to claimant households who might occupy their properties.
- 1.22 The decision to increase rents in 2023/24 clearly needs to be taken in the context of the increasing cost pressures on the HRA. There is a statutory requirement that the HRA breaks even each year and rental income is the main source of revenue to meet the costs of management and maintenance of the homes. It also has to be sufficient to cover the cost of servicing debt each year. Inflationary pressures are having a major impact on pay costs, materials, contracts and interest charges on borrowing.
- 1.23 Taking all of the above into consideration a rent increase of 5% is being recommended in the budget for 2023/24. Future year rent increases will be considered as part of the annual refresh of this plan each year

#### Fees and Charges

- 1.24 These charges are set on the principle that wherever possible charges for services should reflect the cost of providing those services.

#### Capital Programme

- 1.25 The proposed Capital Programme for the General Fund totals £18.569m for 2023/24; £19.839m for 2024/25, £5.145m for 2025/26 and £1.709m for 2026/27. The budget in 2023/24 includes the redevelopment of Sharley Park Leisure Centre and the Clay Cross Town Deal Programmes. It also includes the cyclical Vehicle Replacement Programme along with the annual Asset Management Programme.

1.26 The proposed Capital Programme for the HRA totals £29.864m for 2023/24; £28.094m for 2024/25; £12.252m for 2025/26 and £12.252m for 2026/27.

## **2 Reasons for Recommendation**

2.1 These are detailed in the attached report.

## **3 Alternative Options and Reasons for Rejection**

3.1 These are detailed in the attached report.

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### **DOCUMENT INFORMATION**

<b>Appendix No</b>	<b>Title</b>
1	Medium Term Financial Plan 2022/23 to 2026/27 and Appendices 1-4
<b>Background Papers</b>	

**North East Derbyshire District Council**

**Cabinet**

**26 January 2023**

**Medium Term Financial Plan 2023/24 to 2026/27**

**Report of the Portfolio Holder for Economy, Transformation & Climate Change**

Classification: This report is public

Report By: Jayne Dethick, Director of Finance and Resources (S151 Officer)

Contact Officer: Jayne Dethick

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**PURPOSE/SUMMARY**

To seek approval of the Current Budget for 2022/23 and Original Budget for 2023/24 for the General Fund, Housing Revenue Account and Capital Programme as part of the Council's Medium Term Financial Plan covering the years 2022/23 to 2026/27.

To provide Elected Members with an overview of the Council's medium term financial position.

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**RECOMMENDATIONS**

1. That all recommendations below are referred to the Council meeting of 30 January 2023.

The following recommendations to Council are made:

2. That the view of the Director of Finance & Resources, that the estimates included in the Medium Term Financial Plan 2022/23 to 2026/27 are robust and that the level of financial reserves are adequate at this time, be accepted.
3. That officers report back to Cabinet and the Audit and Corporate Governance Scrutiny Committee on a quarterly basis regarding the overall position in respect of the Council's budgets.

**General Fund**

4. A Council Tax increase of £5.93 will be levied in respect of a notional Band D property (2.99%).

5. The Medium Term Financial Plan in respect of the General Fund as set out in **Appendix 1** of this report be approved as the Current Budget 2022/23, as the Original Budget 2023/24, and as the financial projections in respect of 2024/25 to 2026/27.
6. That the shortfall in the General Fund budget for 2023/24 as set out in **Appendix 1** be met from the resilience reserve.
7. That the General Fund Capital Programme as set out in **Appendix 4** be approved as the Current Budget in respect of 2022/23, and as the Approved Programme for 2023/24 to 2026/27.
8. That any under spend in respect of 2022/23 be transferred to the Resilience Reserve to provide increased financial resilience for future years of the plan.

### **Housing Revenue Account (HRA)**

9. That Council sets its rent levels for 2023/24 in consideration of the Social Housing Rent Standard increasing rents by 5% from 1<sup>st</sup> April 2023.
10. That all other charges be implemented in line with the table shown at 1.43 below with effect from 1 April 2023.
11. The Medium Term Financial Plan in respect of the Housing Revenue Account as set out in **Appendix 3** of this report be approved as the Current Budget in respect of 2022/23, as the Original Budget in respect of 2023/24, and the financial projection in respect of 2024/25 to 2026/27.
12. That the HRA Capital Programme as set out in **Appendix 4** be approved as the Current Budget in respect of 2022/23, and as the Approved Programme for 2023/24 to 2026/27.
13. That the Management Fee for undertaking housing services at £10.612m and the Management Fee for undertaking capital works at £1.1m to Rykneld Homes in respect of 2023/24 be approved.
14. That Members endorse the section in the financial framework within the Management Agreement which enables the Council to pay temporary cash advances to Rykneld Homes in order to help meet the cash flow requirements of the company should unforeseen circumstances arise in any particular month.
15. That Members note the requirement to provide Rykneld Homes with a 'letter of comfort' to the company's auditors and grant delegated authority to the Council's Director – Finance & Resources in consultation with the Portfolio Holder for Housing and Assets to agree the contents of that letter.

Approved by the Portfolio Holder

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## **IMPLICATIONS**

### **Finance and Risk**

Yes ✓

No

The issue of financial risk and resilience is covered throughout the report. In addition, it should be noted that not achieving a balanced budget is outlined as a key risk within the Council's Strategic Risk Register. While officers are of the view that these risks are being appropriately managed it needs to be recognised that the continued budget pressures on the Council's financial position need careful consideration when approving the Medium Term Financial Plan.

The capital programme identifies and recognises the need to maintain the Council's assets in a fit for purpose state and to retain and attract income streams for the Council. The financing of the capital programme is secured for 2023/24 thus minimising the risk of any additional unplanned borrowing.

All other financial implications are covered in the relevant sections throughout the report.

On Behalf of the Section 151 Officer

### **Legal including Data Protection**

Yes ✓

No

The Council is legally obliged to approve a budget prior to the commencement of the new financial year, 1 April 2023. This report together with the associated budget timetable has been prepared in order to comply with our legal obligations.

The recommended budget for the General Fund, Housing Revenue Account and Capital Programme complies with the Council's legal obligation to agree a balanced budget.

There are no Data Protection issues arising directly from this report.

On Behalf of the Solicitor to the Council

### **Staffing**

Yes

No ✓

There are no staffing issues arising directly from this report.

On Behalf of the Head of Paid Service

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## **DECISION INFORMATION**

<b>Is the decision a Key Decision?</b> A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds:  <b>NEDDC:</b> <b>Revenue - £100,000</b> <input checked="" type="checkbox"/> <b>Capital - £250,000</b> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i>	Yes
<b>Is the decision subject to Call-In?</b>	Yes

(Only Key Decisions are subject to Call-In)	
<b>District Wards Significantly Affected</b>	None
<b>Consultation:</b> <b>Leader / Deputy Leader</b> <input type="checkbox"/> <b>Cabinet</b> <input type="checkbox"/> <b>SMT</b> <input checked="" type="checkbox"/> <b>Relevant Service Manager</b> <input checked="" type="checkbox"/> <b>Members</b> <input checked="" type="checkbox"/> <b>Public</b> <input type="checkbox"/> <b>Other</b> <input type="checkbox"/>	Yes  Details: Audit and Corporate Governance Scrutiny Committee 18 January 2023

**Links to Council Plan priorities, including Climate Change, Equalities, and Economics and Health implications.**

All

## **REPORT DETAILS**

### **1 Introduction**

- 1.1 This report presents the following budgets for Members to consider:
- General Fund – **Appendix 1 and 2**
  - Housing Revenue Account (HRA) – **Appendix 3**
  - Capital Programme – **Appendix 4**
- 1.2 In particular financial projections are provided for:
- 2022/23 Current Budget – this is the current year budget, revised to take account of any changes during the financial year that will end on 31 March 2023.
  - 2023/24 Original Budget – this is the proposed budget for the next financial year starting 1 April 2023. For the General Fund, this is the budget on which the Council Tax will be based. The HRA budget also includes proposals on increases to rents and charges.
  - 2024/25 to 2026/27 Financial Plan - In accordance with good practice the Council agrees its annual budgets within the context of a Medium Term Financial Plan (MTFP). This includes financial projections in respect of the next three financial years for the General Fund, HRA and Capital Programme.
- 1.3 Once Cabinet has considered this report and the appendices, the recommendations agreed will be referred to the Council meeting of 30 January 2023 for members' consideration and approval.

### **General Fund Revenue Account**

#### **2022/23 Current Budget**

- 1.4 In January 2022, Members agreed a budget for 2022/23 to determine Council Tax. At this time there was a requirement to achieve efficiencies of £0.111m to balance the budget.

- 1.5 The Revised Budget was considered by Cabinet at its meeting on 24 November 2022 at which time the budget shortfall had increased to £0.343m, largely as a result of the annual pay settlement being higher than forecast along with the increase to energy bills. There have been no material changes to the budget position since this time.
- 1.6 The final position will clearly be dependent on the actual financial performance out-turning in line with the revised budgets and there may be further budget changes required as the year progresses.

## **2023/24 Original Budget and 2024/25 - 2026/27 Financial Plan**

### Local Government Finance Settlement

- 1.7 In the Autumn Statement the Chancellor announced that difficult decisions will be necessary to put national public finances back on to a sustainable footing in the medium term. Further, all public sector bodies will be required to keep spending focused on their priorities and to help manage pressures from higher inflation they will need to identify efficiency savings in their day-to-day budgets.
- 1.8 In the local government finance policy statement 2023-24 – 2024-25 published on 12 December 2022, the Government confirmed that the next two years will essentially be rollover settlements but stated that there are still several matters that remain unresolved for 2024/25. The policy statement encourages local authorities to utilise reserves to maintain services in the face of immediate inflationary pressures, taking account, of course, of the need to maintain appropriate levels of reserves to support financial sustainability.
- 1.9 Funding reforms or changes to funding distribution will not be implemented until 2025-26 at the earliest now which means a further delay to the Fair Funding Review and the review of business rates including the baseline reset. This delay relieves some pressure on the 2023/24 budget and 2024/25 forecast. However, forecasting for the remainder of the financial plan is challenging whilst little is known about the next Spending Review. There is a real lack of certainty from 2025/26 which makes financial planning with any accuracy for future years difficult, especially in light of the medium term fiscal forecasts and the need to achieve sustainable public services, as outlined in the Autumn Statement and subsequent Financial Settlement.
- 1.10 The main principles of the Settlement are:

### New Homes Bonus

- 1.11 The settlement confirms that New Homes Bonus (NHB) will continue in 2023/24 with the possibility that there will be a further year in 2024/25. NHB will be paid on the same basis as 2022/23. The legacy payments which end in the current year are being used to fund the 3% funding guarantee (see 1.14 below). Ministers have committed to setting out the future position of NHB in the context of the wider review of lower tier funding so it is largely expected by the sector that NHB payments will continue in 2024/25 whilst this review takes place. NHB has therefore been included in the 2024/25 forecasts.

### Increased “core” Band D Council Tax

- 1.12 The maximum increases in Band D have been confirmed in the Settlement. The core Band D element is at an increased level of 3% in 2023/24. The 2024/25 level is yet to be confirmed however there has been wide speculation that it will remain at 3% in 2024/25 too.

### 3% Funding Guarantee

- 1.13 The 3% Funding Guarantee was an addition in the Settlement that wasn't included as part of the Autumn Statement. This guarantee will ensure that every council has an increase of at least 3% in Core Spending Power, before Council Tax increases. It replaces the Lower Tier Services Grant which ensured no local authority had a cash terms cut last year. The Council's allocated amount in 2023/24 is £0.259m. Whilst not confirmed in the Settlement it is widely expected at this time that the grant will also be awarded in 2024/25 ahead of the wider funding reforms the following year and so has been included in the estimates.

### Services Grant

- 1.14 Services Grant has been awarded in 2023/24 and is again expected to continue into 2024/25. The allocation methodology is the same as in 2022/23, using the 2013/14 Settlement Funding Assessment (SFA). Funding allocated for the now reversed increase in National Insurance contributions has been clawed back through this grant. The Council's allocation is £0.109m in 2023/24.

### Business Rates

- 1.15 Members will be aware that the Council has been a member of the Derbyshire Business Rates Pool since its establishment in 2015/16. Being a member of the pool allows us to retain more of our Business Rates income locally and all Councils have elected to remain members in 2023/24. Business rates forecasts are showing positive signs of recovery post Covid and this has been reflected in the forecasts.

### Business Rates Reset

- 1.16 It has been confirmed in the Settlement that the business rates baseline reset will not proceed until the next spending review. The reset will mean that any growth gained since 2013/14 (the last reset) will be built into a new baseline, effectively wiping it out. The lack of clarity around the national business rates review and/or reset beyond 2024/25 makes forecasting challenging but the Government have renewed their commitment to fundamentally review local government funding including business rates in the next spending review so it is still reasonable to assume that reform will proceed at this time. Therefore, from April 2025 the impact of the reset has been factored into this plan.

### Business Rates Revaluation

- 1.17 The 2023 revaluation has gone ahead as planned with the Valuation Office Agency (VOA) issuing draft lists in November 2023. The revaluation is intended to be fiscally neutral and the Settlement includes a technical adjustment to offset the change from the revaluation which has been included in the estimates.

1.18 Table 1 below summarises the Government Grants in this year's Settlement compared to 2022/23:

**Table 1**

	<b>2022/23 £000</b>	<b>2023/24 £000</b>
NHB	720	602
Lower Tier Services Grant	128	0
Services Grant	193	109
3% Funding Guarantee	0	259
<b>Total</b>	<b>1,041</b>	<b>970</b>

Assumptions

- 1.19 In developing the financial projections a number of assumptions have been made:
- Budgets are cash limited except where contractual commitments to increase costs exist
  - A pay award of 4% has been included in 2023 pay budgets. This is based on the assumption that inflation will average 7% next year. 2% has been included in 2024 and 1% thereafter when public finances are expected to further tighten.
  - Energy costs and fuel have been forecast to reflect anticipated price changes.
  - Fees and charges – annual service specific increases have been applied in 2023/24.
  - Salary vacancy efficiencies of 3.5% in 2023/24 and 2% thereafter

Budget Detail

1.20 The proposed budget for 2023/24 currently shows a shortfall of £0.977m before any council tax increase (see 1.40 below). If the council tax increase recommended in the report is approved then the shortfall reduces to £0.784m. The Council continues to face financial challenges over the life of this financial plan, especially in the later years, so it remains important to ensure that ongoing savings are identified and implemented. Table 2 below summarises the forecast position:

**Table 2**

	<b>2023/24 Original Budget £000's</b>	<b>2024/25 Planning Budget £000's</b>	<b>2025/26 Planning Budget £000's</b>	<b>2026/27 Planning Budget £000's</b>
<b>Total General Fund shortfall before Council Tax</b>	<b>977</b>	<b>498</b>	<b>1,923</b>	<b>2,069</b>
<b>Indicative Council Tax Increase (assumed max)</b>	<b>(193)</b>	<b>(386)</b>	<b>(514)</b>	<b>(642)</b>
<b>Total General Fund shortfall after indicative council tax increase</b>	<b>784</b>	<b>112</b>	<b>1,409</b>	<b>1,427</b>

NB - ( ) denote income/surplus

\* Council Tax increases are indicative as the final decision is taken by Council each year.

1.21 The UK's economic and fiscal outlook has deteriorated significantly since March 2022. Higher inflation and interest rates, coupled with slower economic growth, have hit the national public finances. The increase in energy costs and the higher than forecast pay awards have caused significant funding pressures for all public bodies. Further, these

financial pressures were placed on organisations after they had set their budgets and shaped their medium term financial forecasts.

- 1.22 Like many other public bodies, this has led to the Council facing a number of significant and unforeseen external pressures in 2023/24, some of which continue into the medium term. The main pressure relates to pay, with an additional £1m of pay inflation built into the base for 2023/24. A prudent estimate has been calculated for savings from vacancy management and these have been removed from the budget and the financial plan, helping to mitigate the impact. The cost of the district council elections in 2023 creates a one off budget pressure of £0.190m and increased external audit fees an ongoing additional cost of £0.100m.
- 1.23 The impact of energy cost rises remains significant in 2023/24 with an additional £1m built into 2023/24 forecasts. This is reduced slightly from 2023/24 estimates and in future year estimates reduces slightly further but energy cost forecasts remain volatile and substantially higher than those in the original budget set for 2022. This will be kept under close review during the next and subsequent financial years.
- 1.24 The Net Cost of Services detailed in **Appendix 1** is further analysed in Table 3 below:

**Table 3**

	<b>Current Budget 2022/23</b>	<b>Original Budget 2023/24</b>	<b>Planning Budget 2024/25</b>	<b>Planning Budget 2025/26</b>	<b>Planning Budget 2026/27</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Employee related costs	17,836	18,426	19,344	19,854	20,107
Premises related costs	2,282	3,092	2,431	2,266	2,322
Vehicle related costs	717	718	718	718	718
Supplies & services	6,778	6,912	7,007	7,697	7,808
Rent rebates/allowances	224	224	224	224	224
Income	(14,565)	(14,536)	(15,116)	(16,980)	(17,227)
General fund shortfall	0	0	(498)	(1,922)	(2,069)
<b>Net Cost of Services</b>	<b>13,272</b>	<b>14,836</b>	<b>14,110</b>	<b>11,857</b>	<b>11,883</b>

*NB - ( ) denotes income*

**Appendix 2** provides further analysis for each budget area.

- 1.25 The Government in their Local Government Finance Policy Statement encourage local authorities to utilise their reserves to meet immediate inflationary budget pressures (see 1.8 above). The Council has been operating in a challenging financial climate for a number of years and has an excellent track record of good financial management and identifying efficiencies but to face such financial pressures and uncertainty when the annual budget had already been set has undoubtedly been a challenge. It is therefore proposed to utilise the Resilience Reserve in 2023/24 specifically to fund in part the impact of the unforeseen and unprecedented increase in energy costs. The remainder has been funded through the budget review process and efforts will continue, as in previous years, to identify further in year efficiencies to reduce the need to utilise the reserve.

- 1.26 In 2024/25 the forecast position improves with pay inflation forecast to return to a more typical 2% increase (+£0.600m) and energy cost rises beginning to gradually subside. In addition the one off cost for the District elections has been removed from the budget. Increased income forecasts begin to reflect the improved leisure offer at both Killamarsh Active and Clay Cross Active, informed by their individual business plans.
- 1.27 From 2025 the pressure to generate savings begins to increase again with £1.9m required in 2025/26 and £2.1m in 2026/27. Pay inflation and energy cost rises account for some of this but are in part being offset by the additional income forecast from Killamarsh Active and Clay Cross Active. The main variance centres around the assumption in the financial plan that government grants (see Table 1 above) are unlikely to continue following the national funding reforms, due to take effect this year, resulting in a reduction of £1m a year in grants.
- 1.28 Whilst there is little detail available yet on the financial impact of the national funding reforms, it is likely that some form of transitional protection or “damping” will be provided to minimise the initial impact for those councils in a worse financial position. Damping has historically been provided by the Government to allow time to adjust for a worsening financial position, typically with two years of reducing support. Very early forecasts suggest that the Council will be in a worse financial position following the funding reforms and indicative damping payments in the region of £1.4m in 2025/26 and £0.5m in 2026/27 may be made should this prove to be the case.
- 1.29 At this stage the nature and impact of the funding reforms and the potential for damping payments to be made is hugely uncertain so it is prudent in the absence of any assurance to exclude these from the forecasts in the medium term financial plan at this time. Whilst it is good financial management to do so, it is this assumption that largely creates the pressure on the later years in the financial plan. To demonstrate, Table 4 below shows the impact on the MTFP before and after potential damping payments and indicative council tax income, as demonstrated in table 2 above has also been included. The future of local government funding and proposed reforms will be kept under close review and will be addressed through the annual plan refresh as further information becomes available.

**Table 4**

	2025/26 Planning Budget	2026/27 Planning Budget
	£000's	£000's
<b>Total General Fund shortfall before Council Tax</b>	<b>1,923</b>	<b>2,069</b>
<b>Indicative Council Tax Increase (assumed max)</b>	(514)	(642)
<b>Indicative Damping Payments</b>	(1,400)	(500)
<b>Total General Fund shortfall after indicative council tax and damping payments</b>	<b>9</b>	<b>927</b>

- 1.30 In the Government’s local government finance policy statement issued in December 2022, they announce their intention to launch a national efficiency and savings review to provide a blueprint for public bodies on reprioritised spending effectiveness reviews. The Council has been operating in a challenging financial climate for a number of years and already

has an excellent track record of both identifying and delivering service efficiencies. This experience will be used to address future financial challenges through a full review process aligned to the production of the next Council Plan. This will include the establishment of a series of workstreams that will focus on:

- asset rationalisation
- service reviews
- identification of ongoing service savings
- establishment reviews
- workforce planning
- innovative recruitment and retention.

- 1.31 Progress on the identification and embedding of changes in priorities and associated efficiencies from the above process will be reported through the existing budget monitoring process reported to Cabinet and the Audit and Corporate Governance Scrutiny Committee each quarter.

### Reserves

- 1.32 The Council's main uncommitted Financial Reserves are the General Fund Balance, the uncommitted element of the Invest to Save Reserve and the Resilience Reserve. The latter was specifically created to provide financial resilience to the Council in instances where unforeseen expenditure cannot be contained within existing approved budgets.
- 1.33 The level of the General Fund Balance has been maintained at £2m in this budget. This is considered to be at an acceptable level rather than generous. The General Fund balance needs to be considered against the background of ongoing reductions in the level of Government funding together with the range of risks facing the Council. With only a limited level of General Fund reserves it is crucial that the Council continues to maintain robust budgetary control while securing its ongoing savings targets in order to safeguard both its reserves and its financial sustainability.
- 1.34 The Invest to Save Reserve had an opening balance of £2.984m at 1 April 2022. Commitments already made against this reserve for 2022/23 and future years amount to £1.063m leaving £1.921m uncommitted and available for future innovations and spend to save initiatives.
- 1.35 The Resilience Reserve had an opening balance of £2.601m at 1 April 2022, and commitments in 2022/23 are forecast to reduce this to £1.989m by the end of the current financial year. The planned contribution to the 2023/24 budget of £0.977 will reduce this to £0.958m should the full amounts need to be utilised (See 1.25 above). This reserve will continue to be utilised to provide financial resilience to the General Fund in future years as required by Medium Term Financial Plan.
- 1.36 Given the current level of reserves and balances, the Council does have a period of time in which to recover unanticipated budget shortfalls should it be necessary. In a situation in which the Council were operating at a lower level of balances and an overspend or an under achievement of income occurred which took balances to below a minimum level then immediate 'crisis' remedial action would need to be considered, this is not currently the case. A planned response is more conducive to sound financial management and more importantly it limits the detrimental impact upon the Council's ability to deliver the planned and agreed level of services to local residents. Cabinet will recognise that given the current level of balances and reserves, against the savings requirement in the



Medium Term Financial Plan, the need to continue to tackle the underlying forecast budget deficit in a planned and managed manner remains.

## **Council Tax Implications**

### Council Tax Base

- 1.37 In preparation for the budget, the Director of Finance & Resources under delegated powers has determined the Tax Base at Band D for 2023/24 as 32,603.64.

### Council Tax Options

- 1.38 The Council's part of the Council Tax bill in 2022/23 was set at £198.34 for a Band D property. This was an increase of 2.58% (£5).
- 1.39 The Council has a range of options when setting the Council Tax. The Government indicate what upper limit they consider acceptable. For 2023/24, District Councils are permitted to increase their share of the Council Tax by an increased 3% or £5 (2% or £5 in previous years) whichever is the greater, without triggering the need to hold a referendum. The Table below shows increase options and the extra annual revenue this would generate:

Increase %	New Band D £	Annual Increase £	Weekly Increase £	Extra Revenue £
0%	198.34	0	0	0
1.00%	200.32	1.98	0.04	64,666
2.00%	202.31	3.97	0.08	129,331
2.99%	204.27	5.93	0.11	193,350

- 1.40 The level of increase each year affects the base for future years and the proposed increase for 2023/24 is 2.99%, generating additional annual revenue of £193,350.

## **Housing Revenue Account (HRA)**

### **2022/23 Current Budget**

- 1.41 In January 2022, Members agreed a budget for 2022/23 including setting of rent levels in line with Government regulations. HRA fees and charges were also set, effective from the same date.
- 1.42 The Revised Budget was considered by Cabinet at its meeting on the 24 November 2022. There have been no material changes to the budget position since this time.
- 1.43 The estimated surplus in the year will be dependent on the actual financial performance out-turning in line with the revised budgets. The surplus will be utilised to fund additional

homes and/or improved services to tenants' in future financial years so all surpluses will be transferred to reserves.

- 1.44 The HRA balance is being maintained at £3m in line with the level of financial risk facing the HRA. Maintenance of this balance is necessary as it will help ensure the financial and operational stability of the HRA which is essential to maintain the level of services and quality of housing provided to tenants. The Council and Rykneld Homes will continue to work closely together in order to ensure the continued sustainability of the HRA over the life of the 30 year Business Plan.

### **2023/24 Original Budget and 2024/25 to 2026/27 Financial Plan**

- 1.45 The proposed budget for 2023/24 currently shows a balanced position. **(Appendix 3)**. The HRA budget makes the same assumptions as the General Fund budget for staff costs and inflation. There are however, some additional assumptions that are specific to the HRA. The main factors taken into account in developing the Council's financial plans for the HRA are set out within the sections below.

#### Level of Council Dwelling Rents

- 1.46 Government policy on social housing rents seeks to achieve the right balance between the following objectives:
- protecting tenants
  - protecting taxpayers (by limiting the welfare costs associated with social housing rents)
  - supporting the delivery of new social homes and the management and maintenance of existing properties
- 1.47 In April 2020 the Social Housing Rent Standard came into force which is externally regulated by the Housing Regulator applying to all registered providers of social housing.
- 1.48 The Government directed the Social Housing Regulator to apply the rent standard to all registered providers, including local authorities. The Standard confirms that rent increases of up to CPI + 1% for five years will be permitted, commencing April 2020.

#### Rent Increase 2023/24

- 1.49 In response to rising levels of inflation, which would have permitted rent increases in the region of 11%, the Department for Levelling Up, Housing and Communities (DLUHC) issued a consultation in August to seek the sector's views on a new Direction in relation to social housing rent policy. The consultation focussed on the introduction of a rent ceiling from 1 April 2023 to 31 March 2024, which would act as an upper limit on the maximum amount by which Registered Providers of social housing can increase rents in that year.
- 1.50 The consultation identified that in the face of "*these exceptional challenges*" there was a strong case for making a temporary amendment to the CPI+1% policy for 2023/24 in order to provide a backstop of protection for social housing tenants from significant rent increases.

- 1.51 The proposed Direction would require the Regulator to amend its Rent Standard so that the current CPI+1% limit on annual rent increases would be subject to a ceiling from 1 April 2023 to 31 March 2024. Through the consultation, DLUHC were seeking views on where this ceiling should be set and proposed a direction of CPI+1% policy subject to a 5% ceiling from 1 April 2023 to 31 March 2024. This would mean that, for rent periods that begin in the 12 months from 1 April 2023 to 31 March 2024, Registered Providers would be permitted to increase rents by up to CPI+1% or by 5%, whichever is lower. Views were also sought on 3%, 5% and 7% as ceiling options, as well as any other proposals put forward by consultees.
- 1.52 DLUHC recognised in the consultation that imposing a ceiling on rent increases would leave Registered Providers with less money to invest in providing new social housing, improving the quality and energy performance of their existing homes and providing services to tenants. DLHUC also recognised that any decision to restrict rent increases would inevitably involve tough choices. On balance, their view was that imposing a ceiling was the right approach to provide a backstop of protection for tenants.
- 1.53 DLUHC considered the responses from the sector and in the Autumn Statement on 17 November the Chancellor confirmed that a Direction would be issued to the Social Housing Regulator putting a ceiling of 7% on rent increases for the 2023/24 rent year. As in previous years, landlords will continue to be free to apply a lower increase if they wish to do so. Providers should consider the local market context when deciding on the level of rent increase as well as the levels of Housing Benefit or Universal Credit available to claimant households who might occupy their properties.
- 1.54 The decision to increase rents in 2023/24 clearly needs to be taken in the context of the increasing cost pressures on the HRA. There is a statutory requirement that the HRA breaks even each year and rental income is the main source of revenue to meet the costs of management and maintenance of the homes. It also has to be sufficient to cover the cost of servicing debt each year. Inflationary pressures are having a major impact on pay costs, materials, contracts and interest charges on borrowing.
- 1.55 Taking all of the above into consideration a rent increase of 5% is being recommended in the budget for 2023/24. Future year rent increases will be considered as part of the annual refresh of this plan each year .

### Fees and Charges

- 1.56 Although the main source of income for the HRA is property rents, the HRA is also dependent for its financial sustainability on a range of other charges. Heating charges are set on the principle that wherever possible they will reflect the cost of providing those services.

1.57 The schedule of proposed charges is set out below:

	<b>Weekly Charge 2022/23</b>	<b>Proposed Weekly Charge 2023/24</b>
	<b>£</b>	<b>£</b>
<b>Heating:</b>		
Marx Court	8.11	8.27
Church Avenue	5.79	5.91
<b>Garages:</b>		
Private	16.00	18.00
Tenants - new	11.00	12.00
Tenants - existing	11.00	12.00
<b>Garage Plots:</b>		
Plots - Annual	260.00	290.00
Plots – Per Week	4.50	5.00

Rykneld Homes Ltd Management Fee (revenue)

- 1.58 The majority of the funding available to Rykneld Homes (RHL) is provided by way of a management fee from the Council for delivery of services in line with the Management Agreement. The Management Agreement sets out the financial framework for the relationship between the Council and RHL and Schedule 3 of the agreement sets out the arrangements for the calculation of the annual fee for services undertaken by RHL.
- 1.59 The calculation of the management fee each year is informed by the annual business planning and budget setting process. No major service improvements are planned for 2023/24, however external pressures driven by the current economic climate are putting considerable pressure on the delivery of housing services, especially housing repairs. RHL have a good track record of absorbing budget pressures through efficiencies, which has meant the management fee has not increased for several years. However, the level of unforeseen budget pressures being experienced in 2023/24 mean that despite identifying a significant level of efficiencies internally, an increase to the fee is required in order to continue to deliver high level housing services.
- 1.60 In addition to cost inflation creating a pressure on current budgets, increased demand is also impacting. Further, the rigorous demands placed on housing providers through the emerging social housing regulations places a further burden on resources. By way of example, in recent weeks DLUHC have written to all landlords of social housing informing them of the expectations in relation to damp and mould. RHL intend to manage cost pressures in relation to additional regulation within their agreed fee at this stage; this will need to be closely monitored during the financial year through the partnership working arrangements in place. Taking into account the pressures outlined in 1.59 and 1.60 above, the proposed management fee for 2023/24 will be £10.612m. This is contained within two budgets – Repairs and Maintenance (£5.006m) and Supervision and Management (£5.606m).
- 1.61 A further issue needs to be brought to the attention of Cabinet which concerns the fact that Rykneld Homes is a company wholly owned by the Council. As such the company's external auditors seek from the Council on an annual basis at the time of the audit of the Company's accounts a Letter of Comfort from the Council as the parent company. That

letter of comfort fundamentally seeks reassurance regarding the fact that the Council will continue to provide financial support to the company over the coming financial year (which in the case of the 2022/23 accounts will be the 2023/24 financial year). On the basis that this report is approved then it is reasonable to provide such a letter of comfort from the Council. In addition it may be the case that specific representations are required in order to support the Auditors view that the Company remains a going concern. The reasonableness of providing such assurances will need to be considered at that point in time when the Company's auditors approach the Council, and it is therefore recommended that delegated powers be granted to the Director of Finance & Resources in consultation with the Portfolio Holder for Housing and Assets to provide a response on behalf of the Council.

### **Financial Reserves – HRA**

- 1.62 The Council's main uncommitted Financial Reserve for the Housing Revenue Account is the working balance of £3m. In addition to the Working Balance there are further reserves for the HRA specifically used to fund the Council's HRA capital programme. These are the Major Repairs Reserve and the Development Reserve. There is also an Insurance Reserve held.

### **Capital Investment Programme**

- 1.63 There will be a separate report to Council on 30 January 2023 concerning the Council's Treasury Strategies. The report will consider capital financing such as borrowing which enables the proposed capital programme budgets to proceed.

### **2022/23 Current Budget**

- 1.64 In January 2022, Members approved a Capital Programme in respect of 2022/23 to 2025/26. Scheme delays and technical problems can often cause expenditure to slip into future years and schemes can be added or extended as a result of securing additional external funding. All slippage from 2021/22 has been accounted for in the 2022/23 revised position.
- 1.65 The Revised Capital Programme was considered by Cabinet at its meeting on the 24 November 2022. There have been no material changes to the budget position since this time.

### **General Fund Capital Programme 2023/24 to 2026/27**

- 1.66 The proposed Capital Programme for the General Fund totals:
- £18.569m for 2023/24;
  - £19.839m for 2024/25,
  - £5.145m for 2025/26
  - £1.709m for 2026/27.

The budget in 2023/24 includes the redevelopment of Sharley Park Leisure Centre and the Clay Cross Town Deal Programmes. It also includes the cyclical Vehicle Replacement Programme along with the annual Asset Management Programme.

## **HRA Capital Programme 2023/24 to 2026/27**

- 1.67 The proposed Capital Programme for the HRA totals:
- £29.864m for 2023/24;
  - £28.094m for 2024/25,
  - £12.252m for 2025/26
  - £12.252m for 2026/27.
- 1.68 The proposed programme for HRA capital works totals £43.85m over the four year programme. The annual fee paid to RHL for delivering the HRA capital works in the programme is £1.1m.
- 1.69 The proposed programme for HRA capital works on the non-traditional stock reflects the latest stock condition survey and includes match funding for a major EWI grant funding scheme over the next two years which will fund improvement works to a further 600 homes in the district. The programme totals £20.49m over the four year programme.
- 1.70 Annual programmes remain for parking solutions and garage demolitions and the North Wingfield New Build Project is also included.
- 1.71 In addition, £1m per annum has been included to fund the ongoing commitment to purchasing affordable houses in the district to replace those lost through right to buy sales.
- 1.72 An analysis of all the schemes and associated funding are attached at **Appendix 4** to this report.

### **Robustness of the Estimates**

- 1.73 Under the provisions of the Local Government Act 2003, the Council's Section 151 Officer is required to comment on the robustness of the estimates made and on the adequacy of the financial reserves.
- 1.74 The Council's Section 151 Officer (The Director of Finance and Resources) is satisfied that the estimates are considered to be robust and prudent, employee costs are based on the approved establishment, investment income is based on the advice of the Council's Treasury Management Advisors and income targets are considered to be achievable.
- 1.75 Likewise, the Section 151 Officer is satisfied that the levels of reserves are considered to be adequate to fund planned expenditure and potential issues and risks that face the Council.

### **Financial Resilience**

- 1.76 Financial Resilience has become a significant issue for local authorities over recent years. CIPFA issued their Financial Management Code in 2019 designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. One of the key areas of focus in the Code is financial performance monitoring and demonstrating that the Council's financial resilience is being assessed on an ongoing basis. Three key areas are analysed to aid this:

- Revenue Health
- Capital Health
- Funding Sensitivities

1.77 Performance against these metrics is monitored and benchmarked on a regular basis and reported to the Audit and Corporate Governance Scrutiny Committee for scrutiny. The latest analysis shows healthy results for both revenue and capital health but that the real risk to financial resilience for the Council comes from uncertainty surrounding future national funding reforms.

## **2 Reasons for Recommendation**

2.1 This report presents a budget for consideration by Cabinet. It seeks to secure approval to recommend budgets to Council in respect of the General Fund, the Housing Revenue Account and the Capital Programme.

## **3 Alternative Options and Reasons for Rejection**

3.1 The Council is required to set a budget each year. There are no alternative options being considered at this time.

## **DOCUMENT INFORMATION**

<b>Appendix No</b>	<b>Title</b>
1	General Fund MTFP - Summary 2022/23 to 2026/27
2	General Fund MTFP - Detail 2022/23 to 2026/27
3	HRA MTFP 2022/23 to 2026/27
4	Capital Programme MTFP 2022/23 to 2026/27
<b>Background Papers</b>	

## GENERAL FUND ACCOUNT - SUMMARY MTFP BUDGET 2022/23 - 2026/27

## APPENDIX 1

	Current Budget 2022/23 £	Original Budget 2023/24 £	Planning Budget 2024/25 £	Planning Budget 2025/26 £	Planning Budget 2026/27 £
Organisation and Place Directorate	6,307,574	7,154,824	7,174,395	7,274,534	7,384,087
Finance and Resources Directorate	4,431,699	4,563,943	4,666,518	4,676,015	4,722,898
Growth and Assets Directorate	3,132,967	3,736,445	3,385,793	2,448,311	2,463,656
Recharges to Capital and HRA	(600,500)	(618,350)	(618,350)	(618,350)	(618,350)
Savings Target	0	0	(498,216)	(1,922,568)	(2,069,032)
<b>Net Cost of Services</b>	<b>13,271,740</b>	<b>14,836,862</b>	<b>14,110,140</b>	<b>11,857,942</b>	<b>11,883,259</b>
Investment Properties	(458,160)	(449,920)	(450,275)	(450,370)	(448,935)
Bad Debt Provision	40,000	40,000	40,000	40,000	40,000
Interest	(397,126)	(479,180)	(432,527)	(331,780)	(301,230)
Debt Repayment Minimum Revenue Provision	56,000	56,000	56,000	56,000	56,000
Parish Precepts	3,467,459	3,467,459	3,467,459	3,467,459	3,467,459
Transfer To Earmarked Reserves	635,956	20,000	20,000	20,000	20,000
Transfer From Earmarked Reserves	(1,401,629)	(232,064)	(223,386)	(226,669)	(219,571)
Transfer Shortfall From Resilience Reserve	(342,758)	(977,011)	0	0	0
<b>Total Spending Requirement</b>	<b>14,871,482</b>	<b>16,282,146</b>	<b>16,587,411</b>	<b>14,432,582</b>	<b>14,496,982</b>
Business Rates	(4,000,000)	(5,297,035)	(5,602,300)	(4,417,400)	(4,481,800)
New Homes Bonus	(720,063)	(602,080)	(602,080)	0	0
Lower Tier Services Grant	(128,180)	0	0	0	0
3% Funding Guarantee	0	(259,008)	(259,008)	0	0
Services Grant	(193,157)	(108,841)	(108,841)	0	0
Collection Fund (Surplus)/Deficit - Council Tax	0	(81,168)	(81,168)	(81,168)	(81,168)
Collection Fund (Surplus)/Deficit - NNDR	0	0	0	0	0
NEDDC Council Tax Requirement	(6,362,623)	(6,466,555)	(6,466,555)	(6,466,555)	(6,466,555)
Parish Council Council Tax Requirement	(3,467,459)	(3,467,459)	(3,467,459)	(3,467,459)	(3,467,459)
<b>Council Tax Requirement</b>	<b>(14,871,482)</b>	<b>(16,282,146)</b>	<b>(16,587,411)</b>	<b>(14,432,582)</b>	<b>(14,496,982)</b>



	Current Budget 2022/23 £	Original Budget 2023/24 £	Planning Budget 2024/25 £	Planning Budget 2025/26 £	Planning Budget 2026/27 £
<b>Organisation and Place Directorate</b>					
<b>Managing Director &amp; Head of Paid Service</b>					
4500	135,194	132,203	136,847	138,194	139,554
5720	134,172	133,957	138,849	140,286	141,736
	<b>269,366</b>	<b>266,160</b>	<b>275,696</b>	<b>278,480</b>	<b>281,290</b>
<b>Assistant Director Environmental Health</b>					
3400	133,883	104,830	113,330	116,903	119,364
3401	118,457	115,496	123,488	127,822	129,844
3402	96,294	112,159	119,358	121,782	124,270
3403	0	(2,423)	(1,414)	(1,428)	(1,443)
3404	(8,050)	9,324	17,157	6,438	8,469
3405	110,827	118,699	126,175	129,471	131,772
3407	36,006	20,527	22,842	23,843	26,316
3408	20,230	21,810	22,760	22,951	23,146
3409	277,797	270,449	284,295	288,337	291,937
3410	73,601	78,016	83,000	85,198	86,732
3419	1,500	1,500	1,500	1,500	1,500
3420	3,000	3,000	3,000	3,000	3,000
3426	61,000	0	0	0	0
3428	3,958	0	0	0	0
	<b>928,503</b>	<b>853,387</b>	<b>915,491</b>	<b>925,817</b>	<b>944,907</b>
<b>Assistant Director Streetscene</b>					
3174	355,691	402,527	397,075	403,808	409,901
3227	308,479	494,185	527,620	541,140	551,062
3244	(360,000)	(360,000)	(360,000)	(360,000)	(360,000)
3282	132,810	186,091	159,678	142,362	143,729
3285	3,495	3,495	3,565	3,635	3,710
3511	(47,915)	(47,655)	(47,725)	(47,775)	(47,710)
3513	(4,385)	(4,385)	(4,380)	(4,370)	(4,365)
3514	(62,185)	(62,185)	(62,185)	(62,185)	(62,185)
3516	(9,100)	(17,015)	(17,000)	(16,985)	(16,965)
3918	(58,451)	(57,760)	(57,760)	(57,760)	(57,760)
3921	548,961	576,104	596,811	603,228	611,056
3943	425,591	548,072	487,724	492,926	498,228
3944	529,522	604,340	622,712	626,106	626,981
3945	1,634,721	1,551,778	1,605,291	1,626,562	1,645,761
3946	(272,514)	(267,412)	(264,687)	(263,529)	(262,345)
	<b>3,124,720</b>	<b>3,550,180</b>	<b>3,586,739</b>	<b>3,627,163</b>	<b>3,679,098</b>
<b>Assistant Director Planning</b>					
4111	(693,000)	(674,000)	(674,000)	(674,000)	(674,000)
4113	37,600	0	0	0	0
4116	282,913	376,090	391,114	396,245	401,227
4311	14,370	14,520	14,520	14,520	14,520
4511	65,134	64,844	67,143	67,813	68,489
4513	712,628	726,432	760,689	773,649	783,590
4515	58,000	58,000	58,000	58,000	58,000
	<b>477,645</b>	<b>565,886</b>	<b>617,466</b>	<b>636,227</b>	<b>651,826</b>
<b>Assistant Director Governance</b>					
1121	464,604	481,277	485,885	490,400	494,955
1123	6,310	6,500	6,500	6,500	6,500
1131	11,325	190,000	0	0	0
1231	41,980	41,980	41,980	41,980	41,980
1259	2,400	6,000	1,000	1,000	1,000
1311	163,186	278,091	290,274	295,876	299,478
1312	53,343	56,429	57,955	58,949	59,961
3121	92,678	92,477	94,065	95,648	97,269
5250	105	0	0	0	0
5273	0	5,000	5,000	5,000	5,000
5313	177,342	179,559	184,169	185,626	187,100
5321	95,006	89,431	92,442	93,314	94,199
5353	171,992	162,912	173,122	178,277	180,902
5354	(5,204)	(5,132)	(3,746)	(3,336)	(2,921)
5392	34,577	35,425	37,426	38,539	38,936
5711	197,696	299,262	312,931	319,074	322,607
	<b>1,507,340</b>	<b>1,919,211</b>	<b>1,779,003</b>	<b>1,806,847</b>	<b>1,826,966</b>
<b>Total for Organisation and Place Directorate</b>					
	<b>6,307,574</b>	<b>7,154,824</b>	<b>7,174,395</b>	<b>7,274,534</b>	<b>7,384,087</b>

Current Budget 2022/23	Original Budget 2023/24	Planning Budget 2024/25	Planning Budget 2025/26	Planning Budget 2026/27
£	£	£	£	£

### Finance and Resources Directorate

#### **Director of Finance & Resources**

3512	CBC Crematorium	(200,000)	(200,000)	(200,000)	(200,000)	(200,000)
5113	Unison Duties	16,537	18,447	19,115	19,312	19,510
5611	External Audit	65,000	153,400	153,400	153,400	153,400
5615	Bank Charges	115,000	115,000	115,000	115,000	115,000
5621	Contribution to/from HRA	(185,450)	(185,450)	(185,450)	(185,450)	(185,450)
5713	Audit	108,903	112,821	115,401	118,398	121,386
5714	Financial Support Services	5,000	3,500	3,500	3,500	3,500
5721	Financial Services	364,052	335,955	366,974	372,104	379,425
5724	Insurance	363,800	363,215	363,215	363,215	363,215
5725	Apprenticeship Levy	45,000	45,000	45,000	45,000	45,000
5727	Cost Of Ex-Employees	829,000	794,000	754,000	714,000	714,000
5728	Covid-19 Response	130,636	0	0	0	0
5729	Additional Restrictions Grant	15,171	0	0	0	0
5745	Covid New Burdens	12,900	0	0	0	0
5776	Discretionary Fund	(28,784)	0	0	0	0
		<b>1,656,765</b>	<b>1,555,888</b>	<b>1,550,155</b>	<b>1,518,479</b>	<b>1,528,986</b>

#### **Assistant Director ICT**

5215	Telephones	41,720	45,720	45,720	45,720	45,720
5216	Mobile Phones and Ipads	27,800	28,300	28,300	28,300	28,300
5701	Joint ICT Service	20,800	(25,877)	(8,613)	(8,970)	(9,279)
5734	NEDDC ICT Service	605,035	691,782	703,746	711,936	718,402
5735	Cyber Security	(2,472)	0	0	0	0
5736	Business Development	110,154	122,549	129,154	124,542	118,858
5737	Corporate Printing Costs	17,525	20,770	20,770	20,770	20,770
		<b>820,562</b>	<b>883,244</b>	<b>919,077</b>	<b>922,298</b>	<b>922,771</b>

#### **Assistant Director Corporate Resources**

1218	Community Safety	42,718	43,699	45,695	46,175	46,659
1315	Design & Print	120,807	118,714	122,120	123,128	124,144
1321	Communications & Marketing	104,182	107,708	112,203	114,039	115,919
1323	NEDDC News	34,300	33,000	33,000	33,000	33,000
1329	Corporate Web Site	1,060	1,115	1,160	1,180	1,205
3165	Housing Options Team	216,909	199,058	208,493	213,277	215,431
3176	Pool Car	250	500	500	500	500
3740	Strategic Housing	108,189	142,743	149,158	150,634	152,127
3747	Homeless Temp Accomodation	(55,092)	6,373	(7,152)	(25,275)	(24,179)
3748	Homelessness Grant	34,847	62,000	62,000	62,000	62,000
3749	Empty Properties	1,500	1,500	1,500	1,500	1,500
3750	Housing Growth	16,936	11,792	0	0	0
3759	Emergency Welfare Assistance Grant	30,000	20,000	20,000	20,000	20,000
5221	Customer Services	355,965	354,483	367,348	373,089	378,378
5223	Franking Machine	47,820	47,900	47,900	47,900	47,900
5715	Procurement	38,654	39,600	39,746	49,914	50,104
5741	Housing Benefit Service	497,667	541,113	570,073	585,328	595,925
5747	Debtors	58,691	57,967	60,106	60,751	61,391
5751	NNDR Collection	4,033	(457)	3,567	5,680	7,315
5759	Council Tax Administration	305,386	346,693	370,759	383,408	392,917
5825	Concessionary Bus Passes	(10,450)	(10,690)	(10,890)	(10,990)	(11,095)
		<b>1,954,372</b>	<b>2,124,811</b>	<b>2,197,286</b>	<b>2,235,238</b>	<b>2,271,141</b>

### **Total for Finance and Resources Directorate**

<b>4,431,699</b>	<b>4,563,943</b>	<b>4,666,518</b>	<b>4,676,015</b>	<b>4,722,898</b>
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### Growth and Assets Directorate

#### **Director of Growth & Assets**

1143	Director of Growth	58,118	0	0	0	0
1283	Emergency Planning	16,000	16,000	16,000	16,000	16,000
4600	Director of Growth & Assets	105,478	108,279	115,237	119,511	120,708
		<b>179,596</b>	<b>124,279</b>	<b>131,237</b>	<b>135,511</b>	<b>136,708</b>

#### **Assistant Director Property, Estates & Assets**

3135	Drainage	21,348	16,011	13,963	12,397	10,792
3172	Engineers	86,944	98,573	102,506	103,372	103,703
3241	Car Parks	46,065	47,460	47,515	47,495	48,215
3247	Street Names/Lights	5,000	5,000	5,000	5,000	5,000
3249	Footpath Orders	(400)	(400)	(400)	(400)	(400)
3265	Dams And Fishing Ponds	(450)	(450)	(450)	(450)	(450)
3281	Clay Cross Depot	650	670	690	710	730

		<b>Current Budget 2022/23</b>	<b>Original Budget 2023/24</b>	<b>Planning Budget 2024/25</b>	<b>Planning Budget 2025/26</b>	<b>Planning Budget 2026/27</b>
		£	£	£	£	£
4412	Midway Business Centre	(76,795)	(76,310)	(80,015)	(81,495)	(81,295)
4425	Coney Green Business Centre	(163,717)	(44,795)	(99,119)	(139,417)	(136,159)
4523	Estates Administration	353,921	359,592	376,470	384,045	388,496
5204	Assistant Director Property, Estates & Assets	115,877	74,417	79,233	82,213	85,244
5205	Mill Lane	305,276	213,133	177,876	140,176	145,367
5209	Facilities Management	52,020	52,910	53,035	53,085	53,135
5210	Pioneer House	(45,870)	85,364	86,195	86,760	87,330
		<b>699,869</b>	<b>831,175</b>	<b>762,499</b>	<b>693,491</b>	<b>709,708</b>
	<b>Assistant Director Regeneration &amp; Programmes</b>					
1255	Strategy and Performance	113,068	116,285	120,696	122,540	124,418
1256	Corporate Consultation	12,099	18,596	19,877	20,431	20,641
1331	Strategic Partnerships	217,992	290,912	305,862	271,422	266,858
1333	Healthy North East Derbyshire	49,423	0	0	0	0
4211	Tourism Promotions	34,982	47,718	49,351	50,094	50,856
4237	KickStarter Project	(1,567)	0	0	0	0
4238	Working Communities Strategy	77,976	77,716	80,461	81,265	82,077
4443	Elderly Peoples Clubs	4,000	4,000	4,000	4,000	4,000
4512	Growth Agenda	16,000	16,000	16,000	16,000	16,000
4517	Economic Development	200,307	224,996	235,787	241,072	244,142
4521	Eckington Masterplan	65,160	0	0	0	0
5750	Assistant Director Regeneration & Programmes	37,859	38,748	41,231	41,650	42,071
5785	Contributions	136,085	136,085	136,085	136,085	136,085
		<b>963,384</b>	<b>971,056</b>	<b>1,009,350</b>	<b>984,559</b>	<b>987,148</b>
	<b>Assistant Director Leisure</b>					
4561	Leisure Centre Management	233,627	171,056	177,410	180,838	182,115
4723	Generation Games	0	(51)	(30)	(30)	(31)
4724	Walking into Communities	11,000	8,670	0	0	0
4727	Five 60	0	(67)	(39)	(40)	(40)
4731	Promotion Of Recreation And Leisure	32,338	32,369	33,550	33,897	34,248
4732	Schools Promotion	0	(294)	(171)	(173)	(175)
4736	Derbyshire Sports Forum	14,450	14,450	14,450	14,450	14,450
4742	Arts Development	2,530	2,530	2,530	2,530	2,530
8441	Eckington Swimming Pool	215,935	390,717	306,516	168,876	181,277
8445	Eckington Pool Cafe	(15,794)	(15,722)	(20,014)	(19,809)	(19,602)
8451	Dronfield Sports Centre	7,776	137,095	67,897	(16,489)	227
8455	Dronfield Café	(1,590)	(4,856)	(2,600)	(1,928)	(1,247)
8461	Sharley Park Sports Centre	476,740	971,180	879,761	529,967	494,776
8465	Sharley Park Sports Centre Outdoor	(2,405)	(2,100)	(51,783)	(155,350)	(155,765)
8466	Sharley Park Café		0	(65,532)	(235,915)	(254,230)
8471	Killamarsh Leisure Centre	289,901	126,114	159,662	152,154	169,106
8475	Killamarsh Outdoors	(6,500)	(17,000)	(17,000)	(17,000)	(17,000)
8476	Killamarsh Café	32,110	(4,156)	(1,900)	(1,228)	(547)
		<b>1,290,118</b>	<b>1,809,935</b>	<b>1,482,707</b>	<b>634,750</b>	<b>630,092</b>
	<b>Total for Growth and Assets Directorate</b>	<b>3,132,967</b>	<b>3,736,445</b>	<b>3,385,793</b>	<b>2,448,311</b>	<b>2,463,656</b>
	<b>Corporate Charges</b>					
5790	Savings Target	0	0	(498,216)	(1,922,568)	(2,069,032)
0001	Recharges to Capital and HRA	(600,500)	(618,350)	(618,350)	(618,350)	(618,350)
	<b>Total for Corporate Charges</b>	<b>(600,500)</b>	<b>(618,350)</b>	<b>(1,116,566)</b>	<b>(2,540,918)</b>	<b>(2,687,382)</b>
	<b>Net Cost of Services</b>	<b>13,271,740</b>	<b>14,836,862</b>	<b>14,110,140</b>	<b>11,857,942</b>	<b>11,883,259</b>
	<b>Investment Properties</b>					
4411	Stonebroom Industrial Estate	(57,540)	(55,400)	(55,310)	(55,215)	(55,140)
4413	Clay Cross Industrial Estate	(84,980)	(83,970)	(83,920)	(83,865)	(83,825)
4415	Norwood Industrial Estate	(229,145)	(226,480)	(226,370)	(226,245)	(226,135)
4417	Eckington Business Park	11,400	(3,600)	(3,600)	(3,600)	(3,600)
4418	Rotherside Court Eckington Business Unit	(26,995)	(15,225)	(16,190)	(17,290)	(16,820)
4423	Pavillion Workshops Holmewood	(89,795)	(86,830)	(86,685)	(86,615)	(86,535)
4432	Miscellaneous Properties	18,895	21,585	21,800	22,460	23,120
	<b>Total for Investment Properties</b>	<b>(458,160)</b>	<b>(449,920)</b>	<b>(450,275)</b>	<b>(450,370)</b>	<b>(448,935)</b>

	Current Budget 2022/23	Original Budget 2023/24	Planning Budget 2024/25	Planning Budget 2025/26	Planning Budget 2026/27
<b>INCOME</b>					
Dwelling Rents	(32,163,410)	(33,521,320)	(33,369,071)	(33,295,784)	(33,222,498)
Non-Dwelling Rents	(510,590)	(456,490)	(457,490)	(458,490)	(459,490)
Charges for Services and Facilities	(112,226)	(89,000)	(89,000)	(89,000)	(89,000)
Contributions Towards Expenditure	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
<b>INCOME TOTAL</b>	<b>(32,836,226)</b>	<b>(34,116,810)</b>	<b>(33,965,561)</b>	<b>(33,893,274)</b>	<b>(33,820,988)</b>
<b>EXPENDITURE</b>					
Repairs & Maintenance	5,168,667	5,146,941	5,155,444	5,159,866	5,164,376
Supervision & Management	7,101,123	7,417,969	7,471,331	7,500,281	7,527,724
Rents, Rates & Taxes	110,000	110,000	110,000	110,000	110,000
Depreciation	7,737,791	7,737,791	7,737,791	7,737,791	7,737,791
Provision for Doubtful Debts	250,000	250,000	250,000	250,000	250,000
Debt Management Expenses	11,500	11,500	11,500	11,500	11,500
<b>EXPENDITURE TOTAL</b>	<b>20,379,081</b>	<b>20,674,201</b>	<b>20,736,066</b>	<b>20,769,438</b>	<b>20,801,391</b>
<b>NET COST OF SERVICES</b>	<b>(12,457,145)</b>	<b>(13,442,609)</b>	<b>(13,229,495)</b>	<b>(13,123,836)</b>	<b>(13,019,597)</b>
Corporate & Democratic Core	185,450	185,450	185,450	185,450	185,450
<b>NET COST OF HRA SERVICES</b>	<b>(12,271,695)</b>	<b>(13,257,159)</b>	<b>(13,044,045)</b>	<b>(12,938,386)</b>	<b>(12,834,147)</b>
<b>HRA Debt, and Reserve charges</b>					
Interest Payable	5,233,480	5,255,692	5,496,896	5,578,876	5,637,939
Interest Receivable	(629,712)	(612,305)	(608,895)	(663,801)	(726,806)
Contribution to Major Repairs Reserve	7,685,709	8,117,309	8,117,309	3,203,209	3,203,209
Contribution to Development Reserve	0	0	0	0	0
Contribution to Insurance/Litigation Reserve	0	50,000	50,000	50,000	50,000
Contribution to/(from) Resilience Reserve	(17,782)	446,463	(11,265)	4,770,102	4,669,805
<b>(Surplus)/Deficit on HRA Services</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Opening HRA Balance</b>	<b>(3,000,000)</b>	<b>(3,000,000)</b>	<b>(3,000,000)</b>	<b>(3,000,000)</b>	<b>(3,000,000)</b>
<b>Transfers (to)/from Balances</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Transfers (to)/from Balances</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Closing HRA Balance</b>	<b>(3,000,000)</b>	<b>(3,000,000)</b>	<b>(3,000,000)</b>	<b>(3,000,000)</b>	<b>(3,000,000)</b>



Capital Expenditure	Current Budget 2022/23	Original Budget 2023/24	Planning Budget 2024/25	Planning Budget 2025/26	Planning Budget 2026/27
	£	£	£	£	£
<b>Housing Revenue Account</b>					
HRA Capital Works	12,272,000	11,485,100	11,485,100	10,441,000	10,441,000
HRA Capital Works - Non Traditional Properties	4,600,000	9,743,000	9,743,000	500,000	500,000
Green Homes EWI - Mickley	333,000	0	0	0	0
Pine View, Danesmoor	832,000	0	0	0	0
Stock Purchase Programme (1-4-1)	2,500,000	1,000,000	1,000,000	1,000,000	1,000,000
Acquisitions and Disposals (RHL)	500,000	0	0	0	0
North Wingfield New Build Project	215,000	7,325,000	5,555,000	0	0
Garage Demolitions	60,000	23,000	23,000	23,000	23,000
Concrete Balconies	111,000	0	0	0	0
Parking Solutions	573,000	288,000	288,000	288,000	288,000
<b>HRA - Capital Expenditure</b>	<b>21,996,000</b>	<b>29,864,100</b>	<b>28,094,100</b>	<b>12,252,000</b>	<b>12,252,000</b>
<b>General Fund</b>					
Private Sector Housing Grants (DFG's)	820,000	820,000	820,000	820,000	820,000
ICT Schemes	460,000	198,500	108,000	100,000	129,000
Clay Cross Football Pitch	9,000	0	0	0	0
Asset Refurbishment - General	609,000	500,000	500,000	500,000	500,000
Asset Refurbishment - Eckington Depot	732,000	0	0	0	0
Roller Shutter Doors	86,000	0	0	0	0
Eckington Pool Carbon Efficiencies Programme	266,000	0	0	0	0
Dronfield Sports Centre Carbon Efficiencies Programme	1,680,000	0	0	0	0
Replacement of Vehicles	2,292,500	2,210,000	1,914,500	484,000	260,000
Wingerworth Lido	150,000	0	0	0	0
Contaminated Land	42,000	0	0	0	0
Killamarsh Leisure Centre	1,060,000	0	0	0	0
Sharley Park 3G pitch	0	0	1,000,000	0	0
CX Town Market Street Regeneration	0	1,999,000	2,000,000	0	0
CX Town Bridge Street Regeneration	0	0	2,500,000	2,500,000	0
CX Town Clay Cross Creative (inc LC Energy Network)	150,000	850,000	0	0	0
CX Town Clay Cross Skills and Enterprise Hub	0	1,500,000	500,000	0	0
CX Town Sharley Park Active Community Hub	7,145,000	8,100,000	8,605,000	0	0
CX Town Clay Cross Connections	0	1,500,000	1,000,000	500,000	0
CX Town Low Carbon Housing Challenge Fund	650,000	650,000	650,000	0	0
CX Town Rail Station Feasibility	150,000	0	0	0	0
CX Town Programme Management	415,000	241,000	241,000	241,000	0
CX Acc Fund Old Constabulary	0	0	0	0	0
CX Acc Fund School Demolition	158,000	0	0	0	0
CX Acc Fund CX Depot Demolition	86,000	0	0	0	0
CX Acc Fund Public Art Work	32,000	0	0	0	0
CX Acc Fund Land Assembly	3,000	0	0	0	0
CX Acc Fund Other	2,000	0	0	0	0
<b>General Fund Capital Expenditure</b>	<b>16,997,500</b>	<b>18,568,500</b>	<b>19,838,500</b>	<b>5,145,000</b>	<b>1,709,000</b>
<b>Total Capital Expenditure</b>	<b>38,993,500</b>	<b>48,432,600</b>	<b>47,932,600</b>	<b>17,397,000</b>	<b>13,961,000</b>
<b>Capital Financing</b>					
	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
<b>Housing Revenue Account</b>					
Major Repairs Reserve	(17,125,000)	(15,855,100)	(15,855,100)	(10,941,000)	(10,941,000)
Prudential Borrowing - HRA	(2,015,000)	(8,973,000)	(7,593,000)	(600,000)	(600,000)
Development Reserve	(1,596,000)	(311,000)	(311,000)	(311,000)	(311,000)
Grants	0	(3,395,000)	(3,005,000)	0	0
1-4-1 Receipts	(1,260,000)	(1,330,000)	(1,330,000)	(400,000)	(400,000)
<b>HRA Capital Financing</b>	<b>(21,996,000)</b>	<b>(29,864,100)</b>	<b>(28,094,100)</b>	<b>(12,252,000)</b>	<b>(12,252,000)</b>
<b>General Fund</b>					
Disabled Facilities Grant	(820,000)	(820,000)	(820,000)	(820,000)	(820,000)
External Grant - Lottery Funded Schemes	(9,000)	0	0	0	0
External Grant - Contaminated Land	(42,000)	0	0	0	0
External Grant - Clay Cross Towns Fund	(8,791,000)	(6,595,000)	(6,891,000)	(3,241,000)	0
External Grant - Sharley Park Rebuild (Sport E)	0	(1,500,000)	0	0	0
External Grant - Dronfield Sports Centre Carbon Efficiencies	(1,347,000)	0	0	0	0
External Grant - Sharley Park 3G pitch	0	0	(750,000)	0	0
Prudential Borrowing - Eckington Depot	(454,000)	0	0	0	0
Prudential Borrowing - Killamarsh Leisure Centre	(1,060,000)	0	0	0	0
Prudential Borrowing - Sharley Park Leisure Centre	0	(6,745,000)	(8,605,000)	0	0
Prudential Borrowing - Sharley Park Leisure Centre 3G pitch	0	0	(250,000)	0	0
RCCO - Roller Shutter Doors	(86,000)	0	0	0	0
Useable Capital Receipts	(4,388,500)	(2,908,500)	(2,522,500)	(1,084,000)	(889,000)
<b>General Fund Capital Financing</b>	<b>(16,997,500)</b>	<b>(18,568,500)</b>	<b>(19,838,500)</b>	<b>(5,145,000)</b>	<b>(1,709,000)</b>
<b>HRA Development Reserve</b>					
Opening Balance	(2,551,185)	(955,185)	(1,197,015)	(1,337,851)	(1,478,686)
Amount due in year	0	(552,830)	(451,836)	(451,835)	(441,780)
Amount used in year	1,596,000	311,000	311,000	311,000	311,000
<b>Closing Balance</b>	<b>(955,185)</b>	<b>(1,197,015)</b>	<b>(1,337,851)</b>	<b>(1,478,686)</b>	<b>(1,609,466)</b>
<b>Major Repairs Reserve</b>					
Opening Balance	(2,238,257)	(536,757)	(536,757)	(536,757)	(536,757)
Amount due in year	(15,423,500)	(15,855,100)	(15,855,100)	(10,941,000)	(10,941,000)
Amount used in year	17,125,000	15,855,100	15,855,100	10,941,000	10,941,000
<b>Closing Balance</b>	<b>(536,757)</b>	<b>(536,757)</b>	<b>(536,757)</b>	<b>(536,757)</b>	<b>(536,757)</b>
<b>Capital Receipts Reserve</b>					
Opening Balance	(2,340,168)	(51,668)	(143,168)	(120,668)	(1,036,668)
Income expected in year	(3,100,000)	(4,000,000)	(3,500,000)	(3,000,000)	(3,000,000)
Allowable Debt/Pooling Expenses	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Amount used in year	4,388,500	2,908,500	2,522,500	1,084,000	889,000
<b>Closing Balance</b>	<b>(51,668)</b>	<b>(143,168)</b>	<b>(120,668)</b>	<b>(1,036,668)</b>	<b>(2,147,668)</b>
<b>Capital Receipts Reserve 1-4-1 receipts</b>					
Opening Balance	(762,969)	(1,322,969)	(1,792,969)	(1,662,969)	(1,662,969)
Income expected in year	(1,820,000)	(1,800,000)	(1,200,000)	(1,200,000)	(1,200,000)
Amount used in year	1,260,000	1,330,000	1,330,000	400,000	400,000
<b>Closing Balance</b>	<b>(1,322,969)</b>	<b>(1,792,969)</b>	<b>(1,662,969)</b>	<b>(2,462,969)</b>	<b>(2,462,969)</b>
<b>Total Capital Financing</b>	<b>(38,993,500)</b>	<b>(48,432,600)</b>	<b>(47,932,600)</b>	<b>(17,397,000)</b>	<b>(13,961,000)</b>

## North East Derbyshire District Council

### Audit and Corporate Governance Scrutiny Committee

18 January 2023

<b>Treasury Strategy Reports 2023/24 - 2026/27</b>
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### Report of the Director of Finance and Resources (S151 Officer)

Classification: This report is public

Report By: Jayne Dethick, Director of Finance and Resources (S151 Officer)

Contact Officer: Jayne Dethick

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### PURPOSE/SUMMARY

To enable the Audit and Corporate Governance Scrutiny Committee to consider the attached treasury strategies prior to them being taken to Council for approval.

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### RECOMMENDATIONS

1. That the Audit and Corporate Governance Scrutiny Committee note this report and the attached strategies and make any comments that they believe to be appropriate with regards to them.

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### IMPLICATIONS

#### Finance and Risk

Yes ✓

No

These are considered throughout the report.

On Behalf of the Section 151 Officer

#### Legal including Data Protection

Yes ✓

No

As part of the requirements of the CIPFA Treasury Management Code of Practice the Council is required to produce every year a Treasury Management Strategy and Capital Strategy which requires approval by full Council prior to the commencement of each financial year. This report is prepared in order to comply with these obligations.

There are no Data Protection issues arising directly from this report.

On Behalf of the Solicitor to the Council

#### Staffing

Yes

No ✓

There are no staffing issues arising directly from this report.

On Behalf of the Head of Paid Service

### **DECISION INFORMATION**

<p><b>Is the decision a Key Decision?</b>  A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds:</p> <p><b>NEDDC:</b>  <b>Revenue - £100,000</b> <input type="checkbox"/> <b>Capital - £250,000</b> <input type="checkbox"/>  <input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i></p>	<p>No</p>
<p><b>Is the decision subject to Call-In?</b>  (Only Key Decisions are subject to Call-In)</p>	<p>No</p>
<p><b>District Wards Significantly Affected</b></p>	<p>None</p>
<p><b>Consultation:</b>  <b>Leader / Deputy Leader</b> <input type="checkbox"/> <b>Cabinet</b> <input type="checkbox"/>  <b>SMT</b> <input type="checkbox"/> <b>Relevant Service Manager</b> <input type="checkbox"/>  <b>Members</b> <input type="checkbox"/> <b>Public</b> <input type="checkbox"/> <b>Other</b> <input type="checkbox"/></p>	<p>No</p> <p>Details:</p>

<p><b>Links to Council Plan priorities, including Climate Change, Equalities, and Economics and Health implications.</b></p>
<p>All</p>

### **REPORT DETAILS**

- 1.1 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.
- 1.2 The CIPFA Code requires that a Capital Strategy be produced alongside the Treasury Management Strategy. In addition, the 2018 Investment Guidance issued by the Department for Levelling Up, Housing and Communities requires local authorities to produce an investment Strategy. So there is now a requirement to produce three distinct strategies which are detailed below.
- 1.3 The Treasury Management Strategy provides the framework for managing the Council's cash flows, borrowing and investments, and the associated risks for the years 2023/24 to

2026/27. The Treasury Management Strategy sets out the parameters for all borrowing and lending as well as listing all approved borrowing and investment sources. Prudential indicators aimed at monitoring risk are also included.

- 1.4 The Capital Strategy is intended to be a high level, concise overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of the Council's services. The report also provides an overview of the associated risk, its management and the implications for future financial sustainability. The Capital Strategy also sets out the capital expenditure plans for the period and how they will be financed. It provides information of the minimum revenue provision, capital financing requirement and prudential indicators aimed at monitoring risk.
- 1.5 The Investment Strategy focuses on investments made for service purposes and commercial reasons, rather than those made for treasury management. Investments covered by this strategy include earning income through commercial investments or by supporting local services by lending to or buying shares in other organisations.
- 1.6 The Flexible Use of Capital Receipts Strategy focuses on the Council's plans to utilise capital receipts for service reform in strict adherence of S15 (1) of the Local Government Act 2003.

## **2 Reasons for Recommendation**

- 2.1 This report outlines the Council's proposed suite of Treasury Strategies for the period 2023/24 to 2026/27 for consideration and approval by Council on 30 January 2023. It contains:
  - The Treasury Management Strategy which provides the framework for managing the Council's cash flows, borrowing and investments for the period.
  - The Capital Strategy which is intended to provide a high level, concise overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of the Council's services.
  - The Investment Strategy which focuses on investments made for service purposes and commercial reasons, rather than those made for treasury management.
  - The Flexible Use of Capital Receipts Strategy which details plans to utilise capital receipts for service reform in strict adherence with S15 (1) of the Local Government Act 2003.

The above strategies are required to provide an approved framework within which the officers undertake the day to day capital and treasury activities.

## **3 Alternative Options and Reasons for Rejection**

- 3.1 Alternative options are considered throughout the report.

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## **DOCUMENT INFORMATION**



Appendix No	Title
1	Treasury Strategy Reports 2023/24 – 2026/27 and Appendices 1-4.
<b>Background Papers</b>	

**North East Derbyshire District Council**

**Council**

**30 January 2023**

**Treasury Strategy Reports 2023/24 - 2026/27**

**Report of the Portfolio Holder for Economy, Transformation and Climate Change**

Classification: This report is public

Report By: Jayne Dethick, Director of Finance and Resources (S151 Officer)

Contact Officer: Jayne Dethick

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**PURPOSE/SUMMARY**

The purpose of this report is to provide Council with the necessary information to approve the Council's suite of Treasury Strategies for 2023/24 to 2026/27.

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**RECOMMENDATIONS**

1. That Council approve the Treasury Management Strategy at **Appendix 1** and in particular:
  - a) Approve the Borrowing Strategy
  - b) Approve the Investment Strategy
  - c) Approve the use of the external treasury management advisors Counterparty Weekly List (or similar) to determine the latest assessment of the counterparties that meet the Council's Criteria before any investment is undertaken.
  - d) Approve the Prudential Indicators
2. That Council approve the Capital Strategy as set out in **Appendix 2** and in particular:
  - a) Approve the Capital Financing Requirement
  - b) Approve the Minimum Revenue Provision Statement for 2023/24
  - c) Approve the Prudential Indicators for 2023/24, in particular:

Authorised Borrowing Limit            £217.5m

Operational Boundary                    £212.5m

3. That Council approve the Investment Strategy as set out in **Appendix 3**.
4. That Council approve the Flexible Use of Capital Receipts Strategy at **Appendix 4**

Approved by the Portfolio Holder

**IMPLICATIONS**

**Finance and Risk**

**Yes ✓ No**

These are considered throughout the report.

On Behalf of the Section 151 Officer

**Legal including Data Protection**

**Yes ✓ No**

As part of the requirements of the CIPFA Treasury Management Code of Practice the Council is required to produce every year a Treasury Management Strategy and Capital Strategy which requires approval by full Council prior to the commencement of each financial year. This report is prepared in order to comply with these obligations.

There are no Data Protection issues arising directly from this report.

On Behalf of the Solicitor to the Council

**Staffing**

**Yes No ✓**

There are no staffing issues arising directly from this report.

On Behalf of the Head of Paid Service

**DECISION INFORMATION**

<p><b>Is the decision a Key Decision?</b>                  A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds:   <b>NEDDC:</b>  <b>Revenue - £100,000 <input checked="" type="checkbox"/> Capital - £250,000 <input checked="" type="checkbox"/></b>  <input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i></p>	<p>No</p>
<p><b>Is the decision subject to Call-In?</b>                  (Only Key Decisions are subject to Call-In)</p>	<p>No</p>
<p><b>District Wards Significantly Affected</b></p>	<p>None</p>
<p><b>Consultation:</b></p>	<p>Yes</p>

<b>Leader / Deputy Leader</b> <input type="checkbox"/> <b>Cabinet</b> <input type="checkbox"/> <b>SMT</b> <input checked="" type="checkbox"/> <b>Relevant Service Manager</b> <input checked="" type="checkbox"/> <b>Members</b> <input checked="" type="checkbox"/> <b>Public</b> <input type="checkbox"/> <b>Other</b> <input type="checkbox"/>	Details: Audit and Corporate Governance Scrutiny Committee 18 January 2023
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<b>Links to Council Plan priorities, including Climate Change, Equalities, and Economics and Health implications.</b>
All

## **REPORT DETAILS**

- 1.1 Treasury risk management at the Council is conducted in compliance with the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.
- 1.2 The CIPFA Code requires that a Capital Strategy be produced alongside the Treasury Management Strategy along with a Flexible Use of Capital Receipts Strategy. In addition, the 2018 Investment Guidance issued by the Department for Levelling Up, Housing and Communities also requires local authorities to produce an investment Strategy. So there is now a requirement to produce four separate treasury strategies for Council to approve.
- 1.3 The Council's Treasury Management Strategy provides the framework for managing the Council's cash flows, borrowing and investments, and the associated risks for the years 2023/24 to 2026/27. The Strategy also sets out the parameters for all borrowing and lending as well as listing all approved borrowing and investment sources. Prudential indicators aimed at monitoring risk are also included. **(Appendix 1)**.
- 1.4 The Capital Strategy is intended to provide a high level, concise overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of the Council's services. The report provides an overview of the associated risk, its management and the implications for future financial sustainability. The Capital Strategy also sets out the capital expenditure plans for the period and how they will be financed. It includes information of the minimum revenue provision, capital financing requirement and prudential indicators aimed at monitoring risk **(Appendix 2)**.
- 1.5 The Investment Strategy focuses on investments made for service purposes and commercial reasons, rather than those made for treasury management. Investments covered by this strategy include earning income through commercial investments or by supporting local services by lending to or buying shares in other organisations **(Appendix 3)**.
- 1.6 The Flexible Use of Capital Receipts Strategy focuses on the Council's plans to utilise capital receipts for service reform in strict adherence of S15 (1) of the Local Government Act 2003 **(Appendix 4)**.

## **2 Reasons for Recommendation**

2.1 This report outlines the Council's proposed suite of Treasury Strategies for the period 2023/24 to 2026/27 for consideration and approval by Council. It contains:

- The Treasury Management Strategy which provides the framework for managing the Council's cash flows, borrowing and investments for the period.
- The Capital Strategy which is intended to provide a high level, concise overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of the Council's services.
- The Investment Strategy which focuses on investments made for service purposes and commercial reasons, rather than those made for treasury management.
- The Flexible Use of Capital Receipts Strategy which details plans to utilise capital receipts for service reform in strict adherence with S15 (1) of the Local Government Act 2003.

The above strategies provide an approved framework within which the officers undertake the day to day capital and treasury activities.

### **3 Alternative Options and Reasons for Rejection**

3.1 Alternative options are considered throughout the report.

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#### **DOCUMENT INFORMATION**

<b>Appendix No</b>	<b>Title</b>
1	Treasury Management Strategy 2023/24 – 2026/27
2	Capital Strategy 2023/24 – 2026/27
3	Investment Strategy 2023/24 – 2026/27
4	Flexible Use of Capital Receipts Strategy 2023/24 – 2024/25
<b>Background Papers</b>	



## North East Derbyshire District Council

### Treasury Management Strategy 2023/24 – 2026/27

#### Introduction

- 1.1 Treasury Management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.
- 1.2 Treasury risk management at the Council is conducted within the framework of the *Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA code.
- 1.3 Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

#### External Context

- 1.4 **Economic background:** The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates and a deteriorating economic outlook, will be major influences on the Council's treasury management strategy for 2023/24.
- 1.5 The Bank of England (BoE) increased Bank Rate by 0.5% to 3.5% in December 2022. This followed a 0.75% rise in November which was the largest single rate hike since 1989 and the ninth successive rise since December 2021. The December decision was voted for by a 6-3 majority of the Monetary Policy Committee (MPC), with two dissenters voting for a no-change at 3% and one for a larger rise of 0.75%.
- 1.6 The November quarterly Monetary Policy Report (MPR) forecast a shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While

the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

- 1.7 The UK economy grew by 0.3% between July and September 2022 according to the Office for National Statistics, and the BoE forecasts Gross Domestic Product (GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.
- 1.8 CPI inflation is expected to peak at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets at the time of the November MPR (a peak of 5.25%). However the BoE stated it considered this path to be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target. Market rates have fallen since the time of the November MPR.
- 1.9 The labour market remains tight for now, with the most recent statistics showing the unemployment rate was 3.7%. Earnings were up strongly in nominal terms by 6.1% for both total pay and for regular pay but factoring in inflation means real pay for both measures was -2.7%. Looking forward, the November MPR shows the labour market weakening in response to the deteriorating outlook for growth, leading to the unemployment rate rising to around 6.5% in 2025.
- 1.10 Interest rates have also been rising sharply in the US, with the Federal Reserve increasing the range on its key interest rate by 0.5% in December 2022 to 4.25%-4.5%. This rise follows four successive 0.75% rises in a pace of tightening that has seen rates increase from 0.25%-0.50% in March 2022. Annual inflation has been slowing in the US but remains above 7%. GDP grew at an annualised rate of 3.2% (revised up from 2.9%) between July and September 2022, but with official interest rates expected to rise even further in the coming months, a recession in the region is widely expected at some point during 2023.
- 1.11 Inflation rose consistently in the Euro Zone since the start of the year, hitting a peak annual rate of 10.6% in October 2022, before declining to 10.1% in November. Economic growth has been weakening with an upwardly revised expansion of 0.3% (from 0.2%) in the three months to September 2022. As with the UK and US, the European Central Bank has been on an interest rate tightening cycle, pushing up its three key interest rates by 0.50% in December, following two consecutive 0.75% rises, taking its main refinancing rate to 2.5% and deposit facility rate to 2.0%.
- 1.12 **Credit outlook:** Credit default swap (CDS) prices have generally followed an upward trend throughout 2022, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global

and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic.

- 1.13 CDS price volatility was higher in 2022 compared to 2021 and the divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities has emerged once again.
- 1.14 The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them from to negative from stable.
- 1.15 There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability.
- 1.16 However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.
- 1.17 **Interest rate forecast:** The Council's treasury management adviser Arlingclose forecasts that Bank Rate will continue to rise in 2022 and 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.
- 1.18 While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher.
- 1.19 Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.6%, 3.7%, and 3.9% respectively over the 3-year period to September 2025. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.
- 1.20 A more detailed economic and interest rate forecast provided by Arlingclose is attached at **Appendix A**.
- 1.21 For the purpose of setting the budget, it has been assumed that new treasury management investments will be made at an average rate of around 2.42%, and that new long-term loans will be borrowed at an average rate of 4.33%.



**Local Context**

1.22 On 30<sup>th</sup> November 2022, the Council held £147.0m of borrowing and £33.5m of investments. This is set out in further detail at **Appendix B**. Forecast changes in these sums are shown in the balance sheet analysis in **Table 1** below.

**Table 1: Balance sheet summary and forecast**

	<b>31/3/22 Actual £m</b>	<b>31/3/23 Estimate £m</b>	<b>31/3/24 Forecast £m</b>	<b>31/3/25 Forecast £m</b>	<b>31/3/26 Forecast £m</b>	<b>31/3/27 Forecast £m</b>
General Fund CFR	16.7	21.3	25.8	32.0	28.2	26.2
HRA CFR	170.7	172.7	181.7	189.3	189.9	190.5
<b>Total CFR</b>	<b>187.4</b>	<b>194.0</b>	<b>207.5</b>	<b>221.3</b>	<b>218.1</b>	<b>216.7</b>
Less: Other debt liabilities *	(0)	(0.3)	(0.2)	(0.7)	(0.5)	(0.3)
<b>Loans CFR</b>	<b>187.4</b>	<b>193.7</b>	<b>207.3</b>	<b>220.6</b>	<b>217.6</b>	<b>216.4</b>
Less: External borrowing **	(147.0)	(146.9)	(150.8)	(157.0)	(156.0)	(155.0)
Internal borrowing	40.4	46.8	56.5	63.6	61.6	61.4
Less: Balance sheet reserves	(77.4)	(67.3)	(68.2)	(73.6)	(71.6)	(71.4)
<b>Investments</b>	<b>37.0</b>	<b>20.5</b>	<b>11.7</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>

\* Leases that form part of the Council's total debt.

\*\* shows only loans to which the Council is committed and excludes optional refinancing

1.23 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

1.24 The Council has an increasing CFR due to commitments within the capital programme and also loans for Northwood Group Ltd and Rykneld Homes Ltd. The forecast level of reserves means that the majority of borrowing throughout this period is likely to be from internal resources.

1.25 CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2023/24.

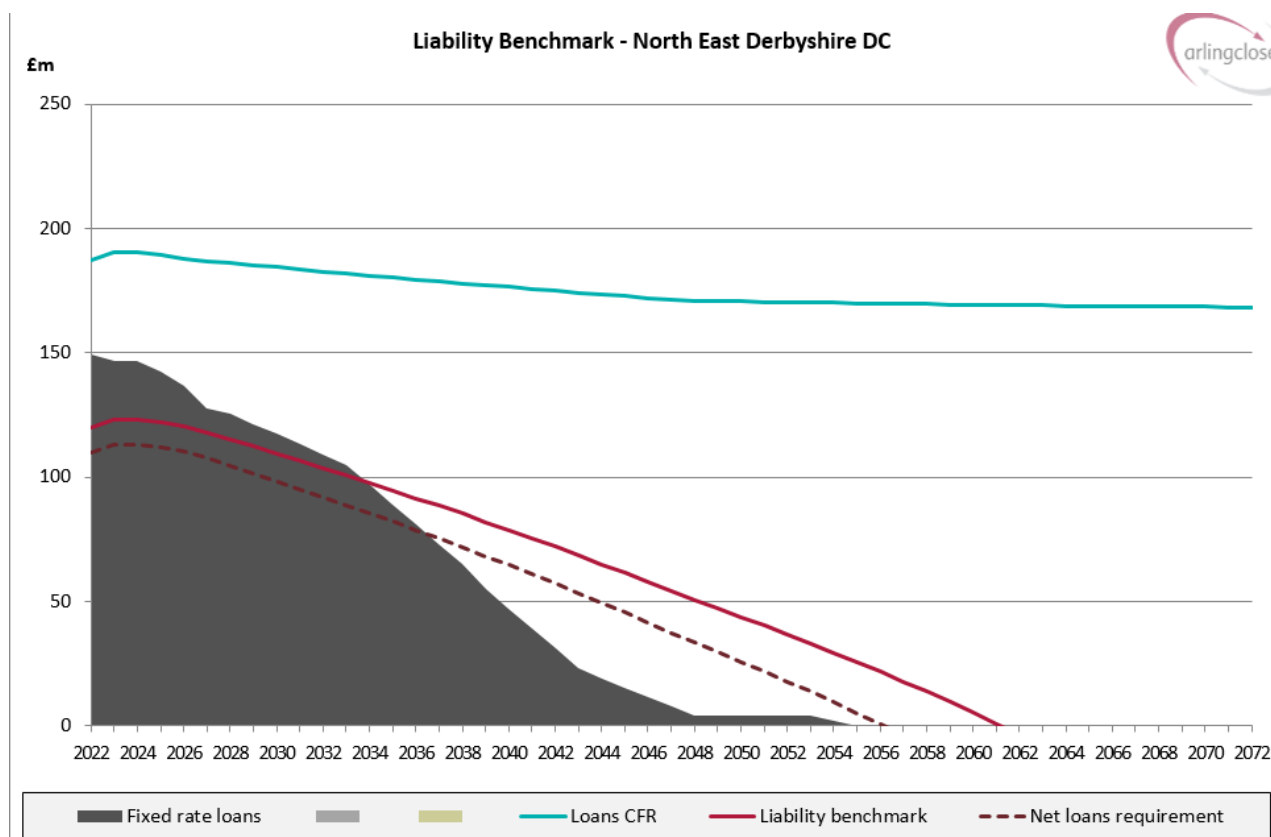
1.26 **Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as **Table 1** above, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

1.27 The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day to day cash flow.

**Table 2: Prudential Indicator: Liability benchmark**

	<b>31/3/22</b>	<b>31/3/23</b>	<b>31/3/24</b>	<b>31/3/25</b>	<b>31/3/26</b>	<b>31/3/27</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>CFR</b>	<b>187.4</b>	<b>194.0</b>	<b>207.5</b>	<b>221.3</b>	<b>218.1</b>	<b>216.7</b>
Less: Balance sheet reserves	(77.4)	(67.3)	(68.2)	(73.6)	(71.6)	(71.4)
<b>Net loans requirement</b>	<b>110.0</b>	<b>126.7</b>	<b>139.3</b>	<b>147.7</b>	<b>146.5</b>	<b>145.3</b>
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0	10.0
<b>Liability Benchmark</b>	<b>120.0</b>	<b>136.7</b>	<b>149.3</b>	<b>157.7</b>	<b>156.5</b>	<b>155.3</b>

1.28 Following on from the medium-term forecasts in table 2 above, the long-term liability benchmark assumes capital expenditure funded by borrowing of £36.895m over the term of the report, minimum revenue provision on new capital expenditure based on a 50 year asset life and income, expenditure and reserves all decreasing slightly over the period of the report. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing:



- 1.29 The minimum requirement is to show forecasts for loans CFR, net loans requirement and liability benchmark against actual borrowing for ten years. CIPFA recommends a longer period covering the current debt maturity profile with borrowing split into fixed rate, variable rate and LOBO.
- 1.30 The liability benchmark is a projection of the amount of loan debt outstanding that the Council needs each year into the future to fund its existing debt liabilities, planned prudential borrowing and other cash flows. The liability benchmark identifies the maturities needed for new borrowing in order to match future liabilities. It therefore avoids borrowing for too long or too short. The liability benchmark acts as a mechanism for preventing future over-borrowing. Once the benchmark has been established, new borrowing decisions that take the level of borrowing over the benchmark, or increase any existing over-benchmark positions, should be considered very carefully.
- 1.31 The graph provided above shows how the CFR remains constant at a level of approximately £160m but the fixed rate loans are reducing once they meet their maturity dates. The graph, however, doesn't take account of any potential reborrowing of the current fixed rate loans as they mature.

### **Borrowing Strategy**

- 1.32 The Council currently holds £147.0m of loans, a decrease of £2.2m on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in **Table 1** shows that the Council does not expect to need to borrow in 2023/24. The Council may however, borrow to pre-fund future years'

requirements, providing this does not exceed the authorised limit for borrowing of £217.5m.

- 1.33 **Objectives:** The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.
- 1.34 **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective currently to borrow short-term loans or use internal resources.
- 1.35 By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2023/24 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.
- 1.36 The Council has previously raised all of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council intends to avoid this activity in order to retain its access to PWLB loans.
- 1.37 Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.
- 1.38 In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages.
- 1.39 **Sources of borrowing:** The approved sources of long-term and short-term borrowing are:
- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
  - any institution approved for investments (see below)

- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Derbyshire County Council Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

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

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

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

1.42 **LOBOs:** The Council doesn't hold or intend to hold any LOBO (Lender's Option Borrower's Option) loans.

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

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

### **Treasury Investment Strategy**

- 1.45 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's treasury investment balance has ranged between £27.0m and £44.0m, however these levels are predicted to decrease due to the works on the replacement of Sharley Park Leisure Centre.
- 1.46 **Objectives:** The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 1.47 Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.
- 1.48 **Strategy:** As demonstrated by the liability benchmark above, the Council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.
- 1.49 The CIPFA Code does not permit local authorities to both borrow and invest long-term for cash flow management. But the Council may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by adding diversification to the strategic pooled fund portfolio.
- 1.50 **ESG policy:** Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's strategy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

- 1.51 **Business models:** Under the new IFRS 9 standard, the accounting for certain investments depends on the Council’s “business model” for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.
- 1.52 **Approved counterparties:** The Council may invest its surplus funds with any of the counterparty types in **Table 3** below, subject to the cash limits (per counterparty) and the time limits shown.

**Table 3: Approved investment counterparties and limits**

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£5m	Unlimited
Secured investments *	25 years	£5m	Unlimited
Banks (unsecured) *	13 months	£5m	Unlimited
Building societies (unsecured) *	13 months	£5m	£20m
Registered providers (unsecured) *	5 years	£5m	£20m
Money market funds *	n/a	£5m	Unlimited
Strategic pooled funds	n/a	£5m	£20m
Real estate investment trusts	n/a	£5m	£20m
Other investments *	5 years	£5m	£20m

- 1.53 \* **Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.
- 1.54 For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £5m per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

- 1.55 **Government:** Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.
- 1.56 **Secured Investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.
- 1.57 **Banks and building societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.
- 1.58 **Registered providers (unsecured):** Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.
- 1.59 **Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.
- 1.60 **Strategic pooled funds:** Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.



- 1.61 **Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.
- 1.62 **Other investments:** This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Council's investment at risk.
- 1.63 **Operational bank accounts:** The Council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept at £5m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.
- 1.64 **Risk assessment and credit ratings:** Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
- no new investments will be made,
  - any existing investments that can be recalled or sold at no cost will be, and
  - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.
- 1.65 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.
- 1.66 **Other information on the security of investments:** The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

- 1.67 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This may cause investment returns to fall, but will protect the principal sum invested.
- 1.68 **Investment limits:** The Council's revenue reserves available to cover investment losses are forecast to be £25.2 million on 31st March 2023 and £23.6 million on 31<sup>st</sup> March 2024. In order that no more than 19.8% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes.
- 1.69 Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £5 million in operational bank accounts count against the relevant investment limits.
- 1.70 Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

**Table 4: Additional Investment limits**

	<b>Cash limit</b>
Any group of pooled funds under the same management	£5m per manager
Negotiable instruments held in a broker's nominee account	£5m per broker
Foreign countries	£5m per country

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

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

### **Treasury Management Prudential Indicators**

- 1.73 The Council measures and manages its exposures to treasury management risks using the following indicators:
- 1.74 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

<b>Credit risk indicator</b>	
Portfolio average credit rating	<b>Target &lt;3.0</b>
Current portfolio average credit rating on investments	<b>Actual 1.36</b>

- 1.75 **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

<b>Liquidity risk indicator</b>	<b>Amount available</b>
Total cash available within 3 months	£29.5m

- 1.76 **Interest rate exposures:** This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

<b>Interest rate risk indicator</b>	<b>Limit each year</b>
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£1.5m
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	(£1.5m)

- 1.77 The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.
- 1.78 **Maturity structure of borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

<b>Refinancing rate risk indicator</b>	<b>Upper limit</b>	<b>Lower limit</b>
Under 12 months	20%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	40%	0%
10 years and above	90%	0%

1.79 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

1.80 **Long-term treasury management investments:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management investments will be:

<b>Price risk indicator</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>No fixed date</b>
Limit on principal invested beyond year end	£20m	£20m	£20m	£20m

### **Related Matters**

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

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

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

1.84 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for

derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

- 1.85 In line with the CIPFA code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.
- 1.86 **Markets in Financial Instruments Directive:** The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.
- 1.87 **Financial Implications:** The General Fund budget for investment income in 2023/24 is £0.120m with the HRA budget for investment income in 2023/24 being £0.220m, based on an average investment portfolio of £22.8m at an average interest rate of 1.49%. The General Fund budget for debt interest paid in 2023/24 is £0.366m with the HRA budget for debt interest paid in 2023/24 being £4.864m, based on an average debt portfolio of £147.0m at an average interest rate of 3.60%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

### **Other Options Considered**

- 1.88 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted the Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

<b>Alternative</b>	<b>Impact on income and expenditure</b>	<b>Impact on risk management</b>
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller

Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

## **Appendix A**

### **Arlingclose Economic & Interest Rate Forecast (November 2022)**

#### **Underlying assumptions:**

- The influence of the mini-budget on rates and yields continues to wane following the more responsible approach shown by the new incumbents of Downing Street.
- Volatility in global markets continues, however, as investors seek the extent to which central banks are willing to tighten policy, as evidence of recessionary conditions builds. Investors have been more willing to price in the downturn in growth, easing financial conditions, to the displeasure of policymakers. This raises the risk that central banks will incur a policy error by tightening too much.
- The UK economy is already experiencing recessionary conditions and recent GDP and PMI data suggests the economy entered a technical recession in Q3 2022. The resilience shown by the economy has been surprising, despite the downturn in business activity and household spending. Lower demand should bear down on business pricing power – recent data suggests the UK has passed peak inflation.
- The lagged effect of the sharp tightening of monetary policy, and the lingering effects of the mini-budget on the housing market, widespread strike action, alongside high inflation, will continue to put pressure on household disposable income and wealth. The short- to medium-term outlook for the UK economy remains bleak.
- Demand for labour appears to be ebbing, but not quickly enough in the official data for most MPC policymakers. The labour market remains the bright spot in the economy and persisting employment strength may support activity, although there is a feeling of borrowed time. The MPC focus is on nominal wage growth, despite the huge real term pay cuts being experienced by the vast majority. Bank Rate will remain relatively high(er) until both inflation and wage growth declines.
- Global bond yields remain volatile as investors price in recessions even as central bankers push back on expectations for rate cuts in 2023. The US labour market remains tight and the Fed wants to see persistently higher policy rates, but the lagged effects of past hikes will depress activity more significantly to test the Fed's resolve.
- While the BoE appears to be somewhat more dovish given the weak outlook for the UK economy, the ECB seems to harbour (worryingly) few doubts about the short term direction of policy. Gilt yields will be broadly supported by both significant new bond supply and global rates expectations due to hawkish central bankers, offsetting the effects of declining inflation and growth.

**Forecast:**

- The MPC raised Bank Rate by 50bps to 3.5% in December as expected, with signs that some members believe that 3% is restrictive enough. However, a majority of members think further increases in Bank Rate might be required. Arlingclose continues to expect Bank Rate to peak at 4.25%, with further 25bps rises February, March and May 2023.
- The MPC will cut rates in the medium term to stimulate a stuttering UK economy, but will be reluctant to do so until wage growth eases. We see rate cuts in the first half of 2024.
- Arlingclose expects gilt yields to remain broadly steady over the medium term, although with continued volatility across shorter time periods.
- Gilt yields face pressures to both sides from hawkish US/EZ central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales and high government borrowing will provide further underlying support for yields.

	Current	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
<b>Official Bank Rate</b>													
Upside risk	0.00	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25	1.25
Arlingclose Central Case	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.25	3.25	3.25	3.25
Downside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00
<b>3-month money market rate</b>													
Upside risk	0.00	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25	1.25
Arlingclose Central Case	3.00	4.40	4.40	4.40	4.35	4.30	4.25	4.00	3.75	3.50	3.40	3.40	3.40
Downside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00
<b>5yr gilt yield</b>													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.43	3.60	3.80	3.80	3.80	3.70	3.60	3.50	3.40	3.30	3.30	3.30	3.30
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
<b>10yr gilt yield</b>													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.47	3.50	3.60	3.60	3.60	3.60	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
<b>20yr gilt yield</b>													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.86	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
<b>50yr gilt yield</b>													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.46	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

UKIB Rate (Maturity Loans) = Gilt yield + 0.60%



**Appendix B****Existing Investment & Debt Portfolio Position**

	<b>30/11/22 Actual Portfolio £m</b>	<b>30/11/22 Average Rate %</b>
<b>External borrowing:</b>		
Public Works Loan Board	147.0	3.53
<b>Total external borrowing</b>	<b>147.0</b>	<b>3.53</b>
<b>Total other long-term liabilities:</b>	<b>0</b>	<b>0</b>
<b>Total gross external debt</b>	<b>147.0</b>	<b>3.53</b>
<b>Treasury investments:</b>		
The UK Government	0.0	0.00
Local authorities	10.0	1.13
Banks (unsecured)	0.0	0.00
Money Market Funds	23.5	3.11
<b>Total treasury investments</b>	<b>33.5</b>	<b>4.24</b>
<b>Net debt</b>	<b>113.5</b>	



## **North East Derbyshire District Council**

### **Capital Strategy 2023/24 – 2026/27**

#### **Introduction**

- 1.1 This capital strategy report, gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.
- 1.2 Decisions made this year on capital and treasury management will have financial consequences for the Council for many years into the future. They are therefore subject to both a national regulatory framework and to a local policy framework, summarised in this report.

#### **Capital Expenditure and Financing**

- 1.3 Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year.

In 2023/24, the Council is planning capital expenditure of £48.4m as summarised below:

**Table 1: Prudential Indicator: Estimates of Capital Expenditure**

	<b>2021/22 Actual £m</b>	<b>2022/23 Forecast £m</b>	<b>2023/24 Budget £m</b>	<b>2024/25 Budget £m</b>	<b>2025/26 Budget £m</b>	<b>2026/27 Budget £m</b>
General Fund Services	5.4	17.0	18.5	19.8	5.1	1.7
Council Housing (HRA)	20.7	22.0	29.9	28.1	12.3	12.3
<b>TOTAL</b>	<b>26.1</b>	<b>39.0</b>	<b>48.4</b>	<b>47.9</b>	<b>17.4</b>	<b>14.0</b>

- 1.4 The main General Fund capital projects include replacement vehicles, asset refurbishment, ICT replacement, disabled facilities grant funded adaptations, Clay Cross Towns Fund programme and rebuilding of Sharley Park Leisure Centre. Following a change in the Prudential Code, the Council no longer incurs capital expenditure on investments.
- 1.5 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately. The main HRA capital projects involve refurbishment of dwellings, North Wingfield new build project, stock purchase programme and improvement works to the energy efficiency of the Council's non-traditional housing stock.
- 1.7 **Governance:** Projects are included in the capital programme as part of the annual budget review or through ad hoc approval during the year. The capital programme is refreshed each year and the new requirements are presented to Cabinet and Council annually. Full details of the Council's Capital Programme can be seen at **Appendix A** to this report.
- 1.8 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing and leasing). The planned financing of the above expenditure is as follows:

**Table 2: Financing of Capital Programme (Appendix A)**

	<b>2021/22 Actual £m</b>	<b>2022/23 Forecast £m</b>	<b>2023/24 Budget £m</b>	<b>2024/25 Budget £m</b>	<b>2025/26 Budget £m</b>	<b>2026/27 Budget £m</b>
External Sources	4.9	11.0	12.3	11.4	4.0	0.8
Capital Receipts	1.2	5.7	4.2	3.9	1.5	1.3
Own Resources	17.4	18.8	16.2	16.2	11.3	11.3
Debt	2.6	3.5	15.7	16.4	0.6	0.6
<b>TOTAL</b>	<b>26.1</b>	<b>39.0</b>	<b>48.4</b>	<b>47.9</b>	<b>17.4</b>	<b>14.0</b>

- 1.9 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to repay and/or replace debt finance. Planned MRP and use of capital receipts are as follows:

**Table 3: Replacement of debt finance**

	<b>2021/22 Actual £m</b>	<b>2022/23 Forecast £m</b>	<b>2023/24 Budget £m</b>	<b>2024/25 Budget £m</b>	<b>2025/26 Budget £m</b>	<b>2026/27 Budget £m</b>
Capital Resources	1.3	0	0	0	0	0
Minimum Revenue Provision (MRP)	0.6	0.1	0.2	0.3	0.7	0.7
<b>Total</b>	<b>1.9</b>	<b>0.1</b>	<b>0.2</b>	<b>0.3</b>	<b>0.7</b>	<b>0.7</b>

The Council's full minimum revenue provision statement is **Appendix B** to this report.

- 1.10 The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £13.5m during 2023/24. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

**Table 4: Prudential Indicator: Estimates of Capital Financing Requirement**

	<b>31/3/2022 Actual £m</b>	<b>31/3/2023 Forecast £m</b>	<b>31/3/2024 Budget £m</b>	<b>31/3/2025* Budget £m</b>	<b>31/3/2026 Budget £m</b>	<b>31/3/2027 Budget £m</b>
General Fund Services	16.7	21.3	25.8	32.0	28.2	26.2
Council Housing (HRA)	170.7	172.7	181.7	189.3	189.9	190.5
<b>TOTAL CFR</b>	<b>187.4</b>	<b>194.0</b>	<b>207.5</b>	<b>221.3</b>	<b>218.1</b>	<b>216.7</b>

\*£0.7m of the CFR increase in 2024/25 arises from a change in the accounting for leases.

- 1.11 **Asset management:** The Council's assets require regular maintenance to ensure they remain safe and fit for purpose. It is also important for income generation that assets remain in a good condition and so remain lettable. A planned approach yields savings in running costs and energy efficiency benefits over time as works are completed and asset conditions improve.
- 1.12 **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt.

The Council is currently also permitted to spend capital receipts “flexibly” on approved service reform projects until 2023/24 under the flexible use of capital receipts strategy. Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive £5.8m of capital receipts in the coming financial year as follows:

**Table 5: Capital receipts receivable**

	<b>2021/22 Actual £m</b>	<b>2022/23 Forecast £m</b>	<b>2023/24 Budget £m</b>	<b>2024/25 Budget £m</b>	<b>2025/26 Budget £m</b>	<b>2026/27 Budget £m</b>
Asset Sales	5.18	4.92	5.80	4.70	4.20	4.20
Loans Repaid	0	0	0	0	0	0
<b>TOTAL</b>	<b>5.18</b>	<b>4.92</b>	<b>5.80</b>	<b>4.70</b>	<b>4.20</b>	<b>4.20</b>

### **Treasury Management**

- 1.13 Treasury Management is concerned with keeping sufficient but not excessive cash available to meet the Council’s spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.
- 1.14 Due to decisions taken in the past, the Council currently has £147.0m borrowing at an average interest rate of 3.53% and £33.5m treasury investments at an average rate of 2.42%.
- 1.15 **Borrowing strategy:** The Council’s main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 3.5%) and long-term fixed rate loans where the future cost is known but higher (currently 4.09%-4.57%).
- 1.16 The Council does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board.
- 1.17 Projected levels of the Council’s total outstanding debt (which comprises borrowing and leases) are shown below, compared with the capital financing requirement (see above):

**Table 6:** Prudential Indicator: Gross Debt and the Capital Financing Requirement

	31/3/2022 Actual £m	31/3/2023 Forecast £m	31/3/2024 Budget £m	31/3/2025 Budget £m	31/3/2026 Budget £m	31/3/2027 Budget £m
Debt (incl. leases)	147.0	147.2	151.0	157.7	156.5	155.3
Capital Financing Requirement	187.4	194.0	207.5	221.3	218.1	216.7

1.18 Statutory guidance states that debt should remain below the capital financing requirement, except in the short-term. As can be seen from **Table 6**, the Council expects to comply with this in the medium term.

1.19 **Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing:

**Table 7:** Borrowing and the Liability Benchmark

	31/3/2022 Actual £m	31/3/2023 Forecast £m	31/3/2024 Budget £m	31/3/2025 Budget £m	31/3/2026 Budget £m	31/3/2027 Budget £m
Outstanding Borrowing	147.0	146.9	150.8	157.0	156.0	155.0
Liability Benchmark	120.0	136.7	149.3	157.7	156.5	155.3

1.20 The table above shows that the Council expects to remain borrowed above its liability benchmark in the short term but slightly below in the longer term. This is because a deliberate decision has been made to borrow additional sums for the rebuilding of Sharley Park Leisure Centre.

1.21 **Affordable borrowing limit:** The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

**Table 8:** Prudential Indicators: Authorised limit and operational boundary for external debt

	<b>2022/23 limit £m</b>	<b>2023/24 limit £m</b>	<b>2024/25 limit £m</b>	<b>2025/26 limit £m</b>	<b>2026/27 limit £m</b>
Authorised Limit – Borrowing	203.7	217.3	230.6	227.6	226.4
Authorised Limit – Leases	0.3	0.2	0.7	0.5	0.3
<b>Authorised Limit – Total External Debt</b>	<b>204.0</b>	<b>217.5</b>	<b>231.3</b>	<b>228.1</b>	<b>226.7</b>
Operational Boundary – Borrowing	198.7	212.3	225.6	222.6	221.4
Operational Boundary – Leases	0.3	0.2	0.7	0.5	0.3
<b>Operational Boundary – Total External Debt</b>	<b>199.0</b>	<b>212.5</b>	<b>226.3</b>	<b>223.1</b>	<b>221.7</b>

1.22 **Treasury Investment strategy:** Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

1.23 The Council's policy on treasury investments is to prioritise security and liquidity over yield, which is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

**Table 9:** Treasury Management investments

	<b>31/3/2022 Actual £m</b>	<b>31/3/2023 Forecast £m</b>	<b>31/3/2024 Budget £m</b>	<b>31/3/2025 Budget £m</b>	<b>31/3/2026 Budget £m</b>	<b>31/3/2027 Budget £m</b>
Near-Term Investments	37.0	20.5	11.7	10.0	10.0	10.0
Longer-Term Investments	0	0	0	0	0	0
<b>TOTAL</b>	<b>37.0</b>	<b>20.5</b>	<b>11.7</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>

1.24 **Risk management:** The effective management and control of risk are prime objectives of the Council's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the

risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

- 1.25 **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Chief Finance Officer and staff, who must act in line with the treasury management strategy approved by Council. Quarterly reports on treasury management activity are presented to the Audit and Corporate Governance Scrutiny Committee who are responsible for scrutinising treasury management decisions. Six monthly updates are provided for Council.

### **Investments for Service Purposes**

- 1.26 The Council can make investments to assist local public services, including making loans to local service providers and businesses to promote economic growth.
- 1.27 **Risk Management:** In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to at least break even after all costs. The risk of incurring unexpected losses is managed by the use of estimated credit losses. Provisions for expected credit losses are made to ensure that the Council can finance any sums due to the Council which are deemed to be irrecoverable after all recovery measures have been exhausted. A limit of £14.5m is placed on total investments for service purposes to ensure that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services. This includes loans to the Rykneld Homes Ltd to allow development of social housing. Rykneld Homes Ltd is a wholly owned subsidiary of the Council, limited by guarantee.
- 1.28 **Governance:** Decisions on service investments are made by the relevant service manager and submitted to Cabinet then Council in consultation with the Chief Finance Officer and must meet the criteria and limits laid down in the Investment Strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme. The relevant service director is responsible for ensuring that adequate due diligence is carried out before investment is made.

### **Commercial Activities**

- 1.29 With central government financial support for local public services declining, the Council has invested in developing residential property through Northwood Group Ltd. Currently, an investment of £7.813m has been made into Northwood Group Ltd and further future investment of £0.850m is approved to provide a total investment of £8.663m.
- 1.30 The Council has investment properties generating between £0.449m and £0.474m in net income a year after all costs, before exposing it to normal commercial risks. These



risks are managed by maintaining the properties in good order and advertising vacant properties as soon as possible over a wide area to generate interest in letting the vacant properties.

- 1.31 **Risk Management:** With financial return being the main objective, the Council accepts higher risk on commercial investment than with treasury investments. The principal risk exposures include build cost estimates, sales values estimates and demand. These risks are mitigated by working with experienced builders and professionals who have knowledge of the local market. In order that commercial investments remain proportionate to the size of the Council, and to ensure that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services. Contingency plans are in place should expected yields not materialise.
- 1.32 **Governance:** Decisions on commercial investments are made by Council in line with the criteria and limits approved in the Investment Strategy. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme. The Chief Financial Officer is responsible for ensuring that adequate due diligence is carried out before investment is made.

**Table 10 – Prudential Indicator: Net income from commercials & service investments to net revenue scheme.**

	<b>2021/22 Actual £m</b>	<b>2022/23 Forecast £m</b>	<b>2023/24 Budget £m</b>	<b>2024/25 Budget £m</b>	<b>2025/26 Budget £m</b>	<b>2026/27 Budget £m</b>
Net income from commercial investments	0.474	0.458	0.450	0.451	0.450	0.449
Net income from service investments	0.440	0.624	0.614	0.493	0.343	0.259
<b>Total net income from service and commercial investments</b>	0.914	1.082	1.064	0.944	0.793	0.708
Proportion of net revenue stream	5.85%	6.79%	6.30%	5.86%	5.67%	5.04%
Proportion of usable revenue reserves	<b>3.49%</b>	<b>4.30%</b>	<b>4.50%</b>	<b>4.09%</b>	<b>3.85%</b>	<b>3.93%</b>

**Liabilities**

- 1.33 In addition to debt of £147.0m detailed above, the Council is committed to making future payments to cover its net pension fund deficit (valued at £42.8m). It has also set aside £1.0m to cover risks of business rates appeals and £1.1m to cover risks of water claims.
- 1.34 **Governance:** Decisions on incurring new discretionary liabilities are taken to Council for approval. The risk of liabilities occurring and requiring payment are monitored as part of the year-end process.

**Revenue Budget Implications**

- 1.35 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to

the net revenue stream i.e. the amount funded from Council Tax, Business Rates and general government grants.

**Table 11: Prudential Indicator: Proportion of financing costs to net revenue stream**

	<b>2021/22 Actual £m</b>	<b>2022/23 Forecast £m</b>	<b>2023/24 Budget £m</b>	<b>2024/25 Budget £m</b>	<b>2025/26 Budget £m</b>	<b>2026/27 Budget £m</b>
Financing Costs	0.5	(0.3)	(0.2)	(0.1)	0.4	0.5
Proportion of Net Revenue Stream	3.30%	(1.58%)	(1.33%)	(0.52%)	2.75%	3.37%

- 1.36 **Sustainability:** Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Chief Finance Officer is satisfied that the proposed capital programme is prudent, affordable and sustainable.

### **Knowledge and Skills**

- 1.37 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. Suitably qualified and experienced officers are employed throughout the Council to perform such functions.
- 1.38 Where Council officers do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.
- 1.39 Members receive individual training and development through the Member Development Programme and are periodically required to attend seminars held by the external treasury management advisors.

### **Treasury Management Operations**

- 1.40 As mentioned above the Council uses external treasury management advisors. The company provides a range of services which include:
- Technical support on treasury matters, capital finance issues and the drafting of Member reports;
  - Economic and interest rate analysis;
  - Debt services which includes advice on the timing of borrowing;
  - Debt rescheduling advice surrounding the existing portfolio;
  - Generic investment advice on interest rates, timing and investment instruments;

- A number of places at training events offered on a regular basis.
  - Credit ratings/market information service comprising the three main credit rating agencies;
  -
- 1.41 Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the Council. This service is subject to regular review. It should be noted that the Council has Arlingclose Ltd as external treasury management advisors, for a period of up to 3 years commencing October 2022.

#### Banking Contract

- 1.42 The contract with the Councils banking provider Lloyds Bank was extended on the 10<sup>th</sup> February 2022 for a period of up to 7 years.

#### Business Continuity Arrangements

- 1.43 As part of the Councils business continuity arrangements officers have sought to set up and provide alternative banking arrangements for the Council should they be required at short notice. These arrangements effectively mean a separate bank account is in place with the required security controls and appropriate officer access to undertake transactions. This account is with Barclays Bank and will only be utilised should a business continuity need or similar issue arise. Officers will continue to review this arrangement.

## Appendix A

**Capital Programme 2022-2027**

Capital Expenditure	Revised Budget 2022/23 £	Original Budget 2023/24 £	Original Budget 2024/25 £	Original Budget 2025/26 £	Original Budget 2026/27 £
<b>Housing Revenue Account</b>					
HRA Capital Works	12,272,000	11,485,100	11,485,100	10,441,000	10,441,000
HRA Capital Works - Non Traditional Properties	4,600,000	9,743,000	9,743,000	500,000	500,000
Green Homes EWI - Mickley	333,000	0	0	0	0
Pine View, Danesmoor	832,000	0	0	0	0
Stock Purchase Programme (1-4-1)	2,500,000	1,000,000	1,000,000	1,000,000	1,000,000
Acquisitions and Disposals (RHL)	500,000	0	0	0	0
North Wingfield New Build Project	215,000	7,325,000	5,555,000	0	0
Garage Demolitions	60,000	23,000	23,000	23,000	23,000
Concrete Balconies	111,000	0	0	0	0
Parking Solutions	573,000	288,000	288,000	288,000	288,000
<b>HRA - Capital Expenditure</b>	<b>21,996,000</b>	<b>29,864,100</b>	<b>28,094,100</b>	<b>12,252,000</b>	<b>12,252,000</b>
<b>General Fund</b>					
Private Sector Housing Grants (DFG's)	820,000	820,000	820,000	820,000	820,000
ICT Schemes	460,000	198,500	108,000	100,000	129,000
Clay Cross Football Pitch	9,000	0	0	0	0
Asset Refurbishment - General	609,000	500,000	500,000	500,000	500,000
Asset Refurbishment - Eckington Depot	732,000	0	0	0	0
Roller Shutter Doors	86,000	0	0	0	0
Eckington Pool Carbon Efficiencies Programme	266,000	0	0	0	0
Dronfield Sports Centre Carbon Efficiencies Programme	1,680,000	0	0	0	0
Replacement of Vehicles	2,292,500	2,210,000	1,914,500	484,000	260,000
Wingerworth Lido	150,000	0	0	0	0
Contaminated Land	42,000	0	0	0	0
Killamarsh Leisure Centre	1,060,000	0	0	0	0
Sharley Park 3G pitch	0	0	1,000,000	0	0
CX Town Market Street Regeneration	0	1,999,000	2,000,000	0	0
CX Town Bridge Street Regeneration	0	0	2,500,000	2,500,000	0
CX Town Clay Cross Creative (inc LC Energy Network)	150,000	850,000	0	0	0
CX Town Clay Cross Skills and Enterprise Hub	0	1,500,000	500,000	0	0
CX Town Sharley Park Active Community Hub	7,145,000	8,100,000	8,605,000	0	0
CX Town Clay Cross Connections	0	1,500,000	1,000,000	500,000	0
CX Town Low Carbon Housing Challenge Fund	650,000	650,000	650,000	0	0
CX Town Rail Station Feasibility	150,000	0	0	0	0
CX Town Programme Management	415,000	241,000	241,000	241,000	0
CX Acc Fund Old Constabulary	0	0	0	0	0
CX Acc Fund School Demolition	158,000	0	0	0	0
CX Acc Fund CX Depot Demolition	86,000	0	0	0	0
CX Acc Fund Public Art Work	32,000	0	0	0	0
CX Acc Fund Land Assembly	3,000	0	0	0	0
CX Acc Fund Other	2,000	0	0	0	0
<b>General Fund Capital Expenditure</b>	<b>16,997,500</b>	<b>18,568,500</b>	<b>19,838,500</b>	<b>5,145,000</b>	<b>1,709,000</b>
<b>Total Capital Expenditure</b>	<b>38,993,500</b>	<b>48,432,600</b>	<b>47,932,600</b>	<b>17,397,000</b>	<b>13,961,000</b>

Capital Financing	2022/23	2023/24	2024/25	2025/26	2026/27
<b>Housing Revenue Account</b>					
Major Repairs Reserve	(17,125,000)	(15,855,100)	(15,855,100)	(10,941,000)	(10,941,000)
Prudential Borrowing - HRA	(2,015,000)	(8,973,000)	(7,593,000)	(600,000)	(600,000)
Development Reserve	(1,596,000)	(311,000)	(311,000)	(311,000)	(311,000)
Grants	0	(3,395,000)	(3,005,000)	0	0
1-4-1 Receipts	(1,260,000)	(1,330,000)	(1,330,000)	(400,000)	(400,000)
<b>HRA Capital Financing</b>	<b>(21,996,000)</b>	<b>(29,864,100)</b>	<b>(28,094,100)</b>	<b>(12,252,000)</b>	<b>(12,252,000)</b>
<b>General Fund</b>					
Disabled Facilities Grant	(820,000)	(820,000)	(820,000)	(820,000)	(820,000)
External Grant - Lottery Funded Schemes	(9,000)	0	0	0	0
External Grant - Contaminated Land	(42,000)	0	0	0	0
External Grant - Clay Cross Towns Fund	(8,791,000)	(6,595,000)	(6,891,000)	(3,241,000)	0
External Grant - Sharley Park Rebuild (Sport E)	0	(1,500,000)	0	0	0
External Grant - Dronfield Sports Centre Carbon Efficiencies	(1,347,000)	0	0	0	0
External Grant - Sharley Park 3G pitch	0	0	(750,000)	0	0
Prudential Borrowing - Eckington Depot	(454,000)	0	0	0	0
Prudential Borrowing - Killamarsh Leisure Centre	(1,060,000)	0	0	0	0
Prudential Borrowing - Sharley Park Leisure Centre	0	(6,745,000)	(8,605,000)	0	0
Prudential Borrowing - Sharley Park Leisure Centre 3G pitch	0	0	(250,000)	0	0
RCCO - Roller Shutter Doors	(86,000)	0	0	0	0
Useable Capital Receipts	(4,388,500)	(2,908,500)	(2,522,500)	(1,084,000)	(889,000)
<b>General Fund Capital Financing</b>	<b>(16,997,500)</b>	<b>(18,568,500)</b>	<b>(19,838,500)</b>	<b>(5,145,000)</b>	<b>(1,709,000)</b>
<b>HRA Development Reserve</b>					
Opening Balance	(2,551,185)	(955,185)	(1,197,015)	(1,337,851)	(1,478,686)
Amount due in year	0	(552,830)	(451,836)	(451,835)	(441,780)
Amount used in year	1,596,000	311,000	311,000	311,000	311,000
<b>Closing Balance</b>	<b>(955,185)</b>	<b>(1,197,015)</b>	<b>(1,337,851)</b>	<b>(1,478,686)</b>	<b>(1,609,466)</b>
<b>Major Repairs Reserve</b>					
Opening Balance	(2,238,257)	(536,757)	(536,757)	(536,757)	(536,757)
Amount due in year	(15,423,500)	(15,855,100)	(15,855,100)	(10,941,000)	(10,941,000)
Amount used in year	17,125,000	15,855,100	15,855,100	10,941,000	10,941,000
<b>Closing Balance</b>	<b>(536,757)</b>	<b>(536,757)</b>	<b>(536,757)</b>	<b>(536,757)</b>	<b>(536,757)</b>
<b>Capital Receipts Reserve</b>					
Opening Balance	(2,340,168)	(51,668)	(143,168)	(120,668)	(1,036,668)
Income expected in year	(3,100,000)	(4,000,000)	(3,500,000)	(3,000,000)	(3,000,000)
Allowable Debt/Pooling Expenses	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Amount used in year	4,388,500	2,908,500	2,522,500	1,084,000	889,000
<b>Closing Balance</b>	<b>(51,668)</b>	<b>(143,168)</b>	<b>(120,668)</b>	<b>(1,036,668)</b>	<b>(2,147,668)</b>
<b>Capital Receipts Reserve 1-4-1 receipts</b>					
Opening Balance	(762,969)	(1,322,969)	(1,792,969)	(1,662,969)	(1,662,969)
Income expected in year	(1,820,000)	(1,800,000)	(1,200,000)	(1,200,000)	(1,200,000)
Amount used in year	1,260,000	1,330,000	1,330,000	400,000	400,000
<b>Closing Balance</b>	<b>(1,322,969)</b>	<b>(1,792,969)</b>	<b>(1,662,969)</b>	<b>(2,462,969)</b>	<b>(2,462,969)</b>
<b>Total Capital Financing</b>	<b>(38,993,500)</b>	<b>(48,432,600)</b>	<b>(47,932,600)</b>	<b>(17,397,000)</b>	<b>(13,961,000)</b>

## **Appendix B**

### **Annual Minimum Revenue Provision Statement 2023/24**

Where the Council finances General Fund capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the former Ministry of Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in 2018.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government, Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The MHCLG Guidance requires the Council, to approve an Annual MRP Statement each year, and includes recommendations for calculating a prudent amount of MRP. In line with this guidance the Council has adopted the following approach:

- For capital expenditure incurred after 31<sup>st</sup> March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.
- For assets acquired by leases, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.
- Where former operating leases have been brought onto the balance sheet due to the adoption of the *IFRS 16 Leases* accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.
- For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the MHCLG Guidance, it is thought

to be a prudent approach since it ensures that the capital expenditure incurred in the loan is fully funded over the life of the assets.

- No MRP will be charged in respect of assets held within the Housing Revenue Account.

Capital expenditure incurred during 2023/24 will not be subject to a MRP charge until 2024/25 or later.

Based on the Council's latest estimate of its Capital Financing Requirement on 31<sup>st</sup> March 2023, the budget for MRP has been set as follows:

	<b>31/03/23 Estimated CFR £m</b>	<b>2023/24 Estimated MRP £m</b>
Supported Capital Expenditure after 31.03.2008	0	0
Unsupported Capital Expenditure after 31.03.2008	21.0	0.16
Leases	0.3	0.07
<b>Total General Fund</b>	<b>21.3</b>	<b>0.23</b>
Assets in the Housing Revenue Account	45.6	0
HRA Subsidy Reform Payment	127.1	0
<b>Total Housing Revenue Account</b>	<b>172.7</b>	<b>0</b>
<b>Total</b>	<b>194.0</b>	<b>0.23</b>

#### Revenue Account (HRA)

Following the budget on 30 October 2018, the legislation that capped the amount of HRA debt a local housing authority could hold was revoked with immediate effect. The capital financing requirements relating to the HRA will remain the same so there will still be no requirement for an MRP and levels of debt will be managed through prudential borrowing limits controlled by the Treasury Management Strategy.

Removing the debt cap and not having a statutory requirement to make a provision to repay debt presents a significant risk to the HRA. Very careful treasury management is needed to ensure that the Council's HRA borrowing remains affordable, prudent and reasonable and that the HRA remains sustainable over the long term.





## **North East Derbyshire District Council**

### **Investment Strategy 2023/24 – 2026/27**

#### **Introduction**

- 1.1 The Council invests its money for three broad purposes:
- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
  - to support local public services by lending to or buying shares in other organisations (**service investments**), and
  - to earn investment income (known as **commercial investments** where this is the main purpose).
- 1.2 This investment strategy meets the requirements of the statutory guidance issued by the Government in January 2018, and focuses on the second and third of these categories.

#### **Treasury Management Investments**

- 1.3 The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £11.7m and £30.0m during the 2023/24 financial year.
- 1.4 **Contribution:** The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

- 1.5 **Further details:** Full details of the Council's policies and its plan for 2023/24 for treasury management investments are covered in the Treasury Management Strategy.

### **Service Investments: Loans**

- 1.6 **Contribution:** The Council lends money to assist local public services, including making loans to local service providers and businesses to stimulate local economic growth. This includes loans to Rykneld Homes Ltd to allow development of social housing. Rykneld Homes Ltd is a wholly owned subsidiary of the Council, limited by guarantee. It also includes a loan to Northwood Group Ltd for a mixed tenure housing development scheme in the district.
- 1.7 **Security:** The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Council, upper limits on the outstanding loans to each category of borrower have been set as follows:

**Table 1: Loans for service purposes**

Category of borrower	31/3/2022 actual			2023/24
	Balance owing £m	Loss allowance £m	Net figure in accounts £m	Approved limit £m
Rykneld Homes Ltd	7.029	0	7.029	13.500
Northwood Group Ltd	4.929	0	4.929	8.663
<b>Total</b>	<b>11.958</b>	<b>0</b>	<b>11.958</b>	<b>22.163</b>

- 1.8 Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts are shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.
- 1.9 **Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding service loans by requiring a fully costed business case in all instances that includes any investment/loan requirements and financial/risk implications. A significant amount of due diligence work is undertaken in each case to ensure the business case is robust. The strength of the partnership between Rykneld Homes company and the Council and Northwood group Ltd and the Council helps to mitigate any risk associated with non-payment.

**Service Investments: Shares**

- 1.10 **Contribution:** The Council has invested £0.150m to date in the shares of Northwood Group Ltd to support local public services and stimulate local economic growth by delivering housing developments whilst generating income for the Council.
- 1.11 **Security:** One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

**Table 2:** Shares held for service purposes

Category of company	31/3/2022 actual			2023/24
	Amounts invested £m	Gains or (losses) £m	Value in accounts £m	Approved Limit £m
Northwood Group Ltd	0.150	(0.016)	0.134	0.150
<b>TOTAL</b>	<b>0.150</b>	<b>(0.016)</b>	<b>0.134</b>	<b>0.150</b>

- 1.12 **Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding shares by working with experienced professionals who have extensive knowledge of the projects and the local markets. In order that commercial investments remain proportionate to the size of the Council, these are subject to overall maximum investment limits and contingency plans are in place should expected yields not materialise.
- 1.13 **Liquidity:** the viability models for each project the Council considers take account of the maximum periods for which funds may prudently be committed and states what those maximum periods are within approved contracts. This will assist the Council to stay within its stated investment limits.
- 1.14 **Non-specified Investments:** Shares are the only investment type that the Council has identified that meets the definition of a non-specified investment in the government guidance. The Council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

**Commercial Investments: Property**

- 1.15 MHCLG defines property to be an investment if it is held primarily or partially to generate a profit.
- 1.16 **Contribution:** The Council invests in local, commercial and residential property with the intention of making a profit that will be spent on local public services. These are mainly industrial units owned across the district.

**Table 3:** Property held for investment purposes

Property	Actual	31/3/2022 actual		31/3/2023 expected	
	Purchase cost £m	Gains or (losses) £m	Value in accounts £m	Gains or (losses) £m	Value in accounts £m
Industrial Units	4.1	5.7	9.8	0	9.8
Land	1.7	7.3	9.0	0	9.0
Commercial Properties	1.1	0.1	1.2	0	1.2
Shared Ownership Properties	1.0	0.4	1.4	0	1.4
<b>TOTAL</b>	<b>7.9</b>	<b>13.5</b>	<b>21.4</b>	<b>0</b>	<b>21.4</b>

- 1.17 **Security:** In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.
- 1.18 A fair value assessment of the Council's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2022/23 year end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to full council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.
- 1.19 Where value in the accounts is below purchase cost, the fair value of the Council's investment property portfolio would no longer be sufficient to provide security against loss, and the Council would therefore need to take mitigating actions to protect the capital invested. These actions could include maintaining the investment properties to a required standard and once vacant, advertising any empty investment properties quickly and with professional advertising agencies.
- 1.20 **Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding property investments by working with experienced professionals who have extensive knowledge of the projects, properties and local markets. In order that commercial investments remain proportionate to the size of the Council, these are subject to overall maximum investment limits and contingency plans are in place should expected yields not materialise.
- 1.21 **Liquidity:** Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions. The Council's Treasury Management Strategy provides assurances through limits on long-term investments to ensure that the invested funds

or suitable alternatives can be accessed when they are needed, for example to repay capital borrowed.

### **Loan Commitments and Financial Guarantees**

- 1.22 Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness.
- 1.23 The Council has contractually committed to make up to £8.663m of loans to Northwood Group Ltd should it request it.

### **Proportionality**

- 1.24 The Council is to some extent dependent on income generating investment activity to achieve a balanced revenue budget. Table 4 below shows the extent to which the expenditure planned to meet the service delivery objectives is dependent on achieving the expected net profit from investments over the lifecycle of the Medium Term Financial Plan. Should it fail to achieve the expected net profit, the Council's contingency plans for continuing to provide these services are to meet the shortfalls from other efficiencies generated within the general fund revenue budget or utilise reserves set aside for this purpose.

**Table 4: Proportionality of investments**

	<b>2021/22 Actual £m</b>	<b>2022/23 Forecast £m</b>	<b>2023/24 Budget £m</b>	<b>2024/25 Budget £m</b>	<b>2025/26 Budget £m</b>	<b>2026/27 Budget £m</b>
Net Service Expenditure	10.431	13.272	14.805	13.978	13.646	13.815
Net Investment Income	0.474	0.458	0.450	0.451	0.450	0.449
<b>Proportion</b>	<b>4.5%</b>	<b>3.5%</b>	<b>3.0%</b>	<b>3.2%</b>	<b>3.3%</b>	<b>3.3%</b>

### **Borrowing in Advance of Need**

- 1.25 Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed.

### **Capacity, Skills and Culture**

- 1.26 **Elected members and statutory officers:** The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. Suitably qualified and experienced officers are employed throughout the Council to perform such functions.
- 1.27 Where Council officers do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.
- 1.28 Members receive individual training and development through the Member Development Programme and are periodically required to attend seminars held by the external treasury management advisors.
- 1.29 **Commercial deals:** All Officers involved in negotiating such arrangements are aware of the core principles of the prudential framework and of the regulatory regime within which local authorities operate and considerable due diligence is undertaken in all instances.
- 1.30 **Corporate governance:** All decisions regards new loans or investments of this nature are considered by the Council's Cabinet before being recommended for approval at Council. Any presentation to members will have been through a fully costed business case that includes any investment/loan requirements and financial/risk implications. A significant amount of due diligence work is undertaken in each case to ensure the business case is robust before reporting to Cabinet.

### **Investment Indicators**

- 1.31 The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.
- 1.32 **Total risk exposure:** The first indicator shows the Council's total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn down and guarantees the Council has issued over third party loans.

### **Table 5: Total investment exposure**

<b>Total investment exposure</b>	<b>31/03/2022 Actual £m</b>	<b>31/03/2023 Forecast £m</b>	<b>31/03/2024 Forecast £m</b>
Treasury management investments	37.00	20.50	11.70
Service investments: Loans – Rykneld Homes Ltd	7.03	6.77	6.50
Service investments: Loans – Northwood Group Ltd	4.93	8.11	6.41
Service investments: Shares – Northwood Group Ltd	0.15	0.15	0.15
Commercial investments: Property	21.40	21.40	21.40
<b>TOTAL INVESTMENTS</b>	<b>70.51</b>	<b>56.93</b>	<b>46.16</b>
Commitments to lend	10.20	7.28	9.25
<b>TOTAL EXPOSURE</b>	<b>80.71</b>	<b>64.21</b>	<b>55.41</b>

- 1.33 **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. To date these investments have been funded by usable reserves and income received in advance of expenditure.

**Table 6:** Investments funded by borrowing

<b>Investments funded by borrowing</b>	<b>31/03/2022 Actual £m</b>	<b>31/03/2023 Forecast £m</b>	<b>31/03/2024 Forecast £m</b>
Treasury management investments	0	0	0
Service investments: Loans – Rykneld Homes Ltd	7.03	6.77	6.50
Service investments: Loans – Northwood Group Ltd	4.93	8.11	6.41
Service investments: Shares – Northwood Group Ltd	0	0	0
Commercial investments: Property	0	0	0
<b>TOTAL FUNDED BY BORROWING</b>	<b>11.96</b>	<b>14.88</b>	<b>12.91</b>

- 1.34 **Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government

accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

**Table 7: Investment rate of return (net of all costs)**

<b>Investments net rate of return</b>	<b>2021/22 Actual £m</b>	<b>2022/23 Forecast £m</b>	<b>2023/24 Forecast £m</b>
Treasury management investments	0.08%	1.06%	1.49%
Service investments: Loans – Rykneld Homes Ltd	3.50%	3.53%	3.52%
Service investments: Loans – Northwood Group Ltd	5.09%	5.09%	5.09%
Service investments: Shares – Northwood Group Ltd	0.00%	0.00%	0.00%
Commercial investments: Property	2.22%	2.15%	2.11%

- 1.35 The indicators used to report on the risks and opportunities associated with investment decisions will be kept under review as the Council's Investment Strategy and activities evolve over time.





## **North East Derbyshire District Council**

### **Flexible Use of Capital Receipts Strategy 2023/24 – 2024/25**

#### **Introduction**

- 1.1 As part of the November 2015 Spending Review, the Government announced that it would introduce flexibility for the period of the Spending Review for local authorities to use capital receipts from the sale of assets to fund the revenue costs of service reform and transformation.

#### **The Guidance**

- 1.2 The guidance issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003 specified that:
- Local authorities will only be able to use capital receipts from the sale of property, plant and equipment received in the years in which this flexibility is offered. They may not use their existing stock of capital receipts to finance the revenue costs of reform.
  - Local authorities cannot borrow to finance the revenue costs of the service reforms.
  - The expenditure for which the flexibility can be applied should be the up-front (set up or implementation) costs that will generate future ongoing savings and/or transform service delivery to reduce costs or to improve the quality of service delivery in future years. The ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure.
  - The key determining criteria to use when deciding whether expenditure can be funded by the new capital receipts flexibility is that it is forecast to generate ongoing savings to an authority's net service expenditure.
  - In using the flexibility, the Council will have due regard to the requirements of the Prudential Code, the CIPFA Local Authority Accounting Code of Practice and the current edition of the Treasury Management in Public Services Code of Practice.

- 1.3 The Council is also required to prepare a “Flexible use of capital receipts strategy” before the start of the year to be approved by Council which can be part of the budget report to Council. This Strategy therefore applies to the financial years 2023/24 to 2024/25.

#### **Examples of qualifying expenditure**

- 1.4 There are a wide range of projects that could generate qualifying expenditure and the list below is not prescriptive. Examples of projects include:

- Sharing back-office and administrative services with one or more other council or public sector bodies;
- Investment in service reform feasibility work, e.g. setting up pilot schemes;
- Collaboration between local authorities and central government departments to free up land for economic use;
- Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation;
- Sharing Chief Executives, management teams or staffing structures;
- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible;
- Aggregating procurement on common goods and services where possible, either as part of local arrangements or using Crown Commercial Services or regional procurement hubs or Professional Buying Organisations;
- Improving systems and processes to tackle fraud and corruption in line with the Local Government Fraud and Corruption Strategy – this could include an element of staff training;
- Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue (e.g. through selling services to others);
- Integrating public facing services across two or more public sector bodies (e.g. children’s social care, trading standards) to generate savings or to transform service delivery.

### **The Council's Proposals**

- 1.5 Government has provided a definition of expenditure which qualifies to be funded from capital receipts. This is: "Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any public sector delivery partners. Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility."
- 1.6 The Government's use of flexible capital receipts directive has been extended until 31<sup>st</sup> March 2025.
- 1.7 The Council currently has no plans to utilise the use of flexible capital receipts during the period of the Medium Term Financial Plan 2023/24 to 2026/27.

### **Impact on Prudential Indicators**

- 1.8 The guidance requires that the impact on the Council's Prudential Indicators should be considered when preparing a Flexible Use of Capital Receipts Strategy. The Council's current capital programme does not utilise the capital receipts that will be generated to fund the above proposal. Therefore, there will be no change to the Council's Prudential Indicators that are contained in the Treasury Management Strategy Statement.
- 1.9 This strategy has been produced to fulfil the requirements of the DELTA return for the flexible use of capital receipts. As the Council is not utilising the flexible use of capital receipts within its current medium term financial plan this strategy was not needed and not taken through the usual Council committee, it will, in future be added to the normal Treasury Management Strategy Statement approval process

**North East Derbyshire District Council**

**Audit and Corporate Governance Scrutiny Committee**

**18 January 2023**

**Committee Work Programme 2022/2023**

**Report of the Assistant Director of Governance and Monitoring Officer**

**Classification:** This report is public

**Report By:** Tom Scott – Governance and Scrutiny Officer

**Contact Officer:** Tom Scott [thomas.scott@ne-derbyshire.gov.uk](mailto:thomas.scott@ne-derbyshire.gov.uk) 01246 217045

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## **PURPOSE / SUMMARY**

To enable the Audit and Corporate Governance Scrutiny Committee to review the Work Programme for the remainder of the municipal year 2022/2023.

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## **RECOMMENDATIONS**

1. That the Committee notes and approves the Audit and Corporate Governance Scrutiny Work Programme for the remainder of the 2022/2023 municipal year as set out in the attached **Appendix 1**.

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## **IMPLICATIONS**

**Finance and Risk:** Yes  No

**Details:**

Risk - the development of a Work Programme for the Audit and Corporate Governance Scrutiny Committee will provide an appropriate structure to assist and support the Committee's work. This will help to ensure that the Committee continues to operate effectively and that the Council's governance/scrutiny and accountability arrangements remain robust. The Programme is designed to allow the Audit and Corporate Governance Scrutiny Committee to continue its flexible approach to its and consider work the range of matters which are within its remit. There are no financial issues arising from the report.

On Behalf of the Section 151 Officer

**Legal (including Data Protection):** Yes  No

**Details:**

There are no legal issues or Data Protection matters arising directly from this report.

On Behalf of the Solicitor to the Council

**Staffing:** Yes  No

**Details:**

There are no staffing issues arising from the report.

On behalf of the Head of Paid Service

## DECISION INFORMATION

Decision Information	
<b>Is the decision a Key Decision?</b> A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds:  <b>NEDDC:</b> <b>Revenue - £100,000</b> <input type="checkbox"/> <b>Capital - £250,000</b> <input type="checkbox"/> <input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i>	No
<b>Is the decision subject to Call-In?</b> (Only Key Decisions are subject to Call-In)	No
<b>District Wards Significantly Affected</b>	None
<b>Consultation:</b> <b>Leader / Deputy Leader</b> <input type="checkbox"/> <b>Cabinet</b> <input type="checkbox"/> <b>SAMT</b> <input type="checkbox"/> <b>Relevant Service Manager</b> <input type="checkbox"/> <b>Members</b> <input checked="" type="checkbox"/> <b>Public</b> <input type="checkbox"/> <b>Other</b> <input type="checkbox"/>	Yes  Details: Members of the Audit and Corporate Governance Scrutiny Committee

**Links to Council Ambition (NED) priorities or Policy Framework including Climate Change, Equalities, and Economics and Health implications.**

None.

## REPORT DETAILS

### 1 Background

- 1.1 The Audit and Corporate Governance Scrutiny Committee considers a range of financial and governance issues on a regular basis. Given the number of matters that are examined by the Committee it is appropriate that an Annual Work Programme continues to be in place.
- 1.2 The Work Programme is set out in the attached **Appendix 1**. It should be recognised that the work plan is a live document to which matters may be added or removed as appropriate and approved by the Committee, including standing items.
- 1.3 The Work Programme enables Members to give structured consideration as to whether the proposed agenda items are appropriate and serve to meet the objectives of the Committee. That question needs to be considered in the light of the Council's Constitution, Chartered Institute of Public Finance and Accountancy (CIPFA) Guidance on the role of an Audit Committee and established good practice.

### 2. Details of Proposal or Information

- 2.1 To enable the Audit and Corporate Governance Scrutiny Committee to review the Work Programme for the remainder of the municipal year 2022/23.

### 3 Reasons for Recommendation

- 3.1 To enable the Committee to consider the Work Programme for the remainder of the 2022/23 municipal year.

### 4 Alternative Options and Reasons for Rejection

- 4.1 There are no other options proposed.

## DOCUMENT INFORMATION

Appendix No	Title
1	Committee Work Programme 2022/23
<b>Background Papers</b> (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) you must provide copies of the background papers)	

**AUDIT AND CORPORATE GOVERNANCE SCRUTINY COMMITTEE: PROPOSED  
WORK PROGRAMME**

<b><u>DATE OF MEETING</u></b>	<b><u>ITEM</u></b>
29 June 2022	<ul style="list-style-type: none"> <li>• Car Parking on Council owned housing estates</li> <li>• Internal Audit Annual Report</li> <li>• Internal Audit Progress Report</li> <li>• CIPFA – Internal Audit Untapped Potential (for information)</li> <li>• External Audit Strategy Memorandum</li> <li>• Risk Management update</li> <li>• Medium Term Financial Plan – Outturn</li> <li>• Review of Work Programme</li> </ul>
27 July 2022	<ul style="list-style-type: none"> <li>• S106 Update</li> <li>• External Audit Strategy Memorandum</li> <li>• Performance Management</li> <li>• Corporate Debt</li> <li>• Financial Monitoring</li> </ul>
28 September 2022	<ul style="list-style-type: none"> <li>• Internal Audit Progress Update</li> <li>• Monitoring the Implementation of Internal Audit Recommendations</li> <li>• Review of the Internal Audit Charter</li> <li>• Annual Governance Statement and Code of Corporate Governance 2020/21</li> <li>• Car Parking on Council owned housing estates</li> <li>• Review of Work Programme</li> </ul>
09 November 2022	<ul style="list-style-type: none"> <li>• Internal Audit Progress Update</li> <li>• Performance Management</li> <li>• Risk Management</li> <li>• Corporate Debt</li> <li>• Revised Budgets</li> <li>• Annual Statement of Accounts and Going Concern Report 2020-21</li> <li>• Audit Completion Report 2020/21</li> <li>• Letter of Representation 2020/21</li> <li>• Report of the External Auditor – Progress report and Technical Update</li> <li>• Review of Work Programme</li> </ul>
18 January 2023	<ul style="list-style-type: none"> <li>• Medium Term Financial Plan 2022/23 - 2025/26</li> <li>• Treasury Management Strategies 2022/23 – 2025/26</li> </ul>

	<ul style="list-style-type: none"> <li>• Review of Work Programme</li> <li>• Car Parking Strategy Briefing</li> <li>• Verbal Update of the External Auditor</li> </ul>
15 February 2023	<ul style="list-style-type: none"> <li>• Internal Audit Progress Update</li> <li>• Monitoring the Implementation of Internal Audit Recommendations</li> <li>• Report of the External Auditor – Progress report and Technical Update</li> <li>• Performance Management</li> <li>• Financial Monitoring</li> <li>• Corporate Debt</li> <li>• Proposed Accounting Policies 2022/23</li> <li>• Review of Work Programme</li> <li>• Risk Management</li> <li>• Report of the External Auditor – Progress report and Technical Update</li> <li>• Evaluate the Effectiveness of the Audit and Corporate Governance Committee</li> </ul>
10 May 2023	<ul style="list-style-type: none"> <li>• Annual Review of Effectiveness of Internal Audit</li> <li>• Internal Audit Progress Update</li> <li>• Report of the External Auditor – Audit Plan 2022/23</li> <li>• Report of the External Auditor – Progress report and Technical Update</li> <li>• Internal Audit Plan 2023/24</li> <li>• Work Programme</li> </ul>





North East Derbyshire  
District Council

## Forward Plan of Executive Decisions for the period 15 December 2022 – 15 January 2023

This Forward Plan sets out all of the decisions that are expected to be taken over the next four months by either: (i) The Cabinet, or (ii) an officer on an Executive function of the Council.

Some of the decisions listed in this plan are 'Key Decisions'. A Key Decision is one that is likely to:

- (a) Result in the Council spending or receiving income of over £100,000 revenue or £250,000 capital, or
- (b) Have a significant impact on two or more wards in the Council's area.

At least 28 calendar days' notice must be given before they are due to be taken by the Cabinet or an officer under delegated powers.

The Cabinet can make urgent decisions which do not appear in the Forward Plan. A notice will be published at the District Council Offices and on the Council's website explaining the reasons for the urgent decisions. Please note that the decision dates are indicative and are subject to change.

The Forward Plan also lists those 'Exempt' Decisions which are going to be taken over the next four months. Exempt Decisions are those decisions which have to be taken in private. This is because they involve confidential or exempt information which cannot be shared with the public.

The contact details for the officers or senior employees responsible for producing the reports and reports for these decisions are included in the plan. Please contact them if you would like more information. If you have any queries about why something is a Key Decision or is going to be taken in private then please contact the Governance Team on 01246 217391 or email: alan.maher@ne-derbyshire.gov.uk.

Published under the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012

Sarah Sternberg  
Assistant Director of Governance & Monitoring Officer

**Published on: 15.12.22**

### **Cabinet members and their responsibilities**

#### **Member**

#### **Portfolio of responsibilities**

Councillor A Dale	Leader and Portfolio Holder for Overall Strategic Leadership
Councillor C Cupit	Deputy Leader and Portfolio Holder for Environmental Services
Councillor M Foster	Portfolio Holder for Council Services
Councillor J Kenyon	Portfolio Holder for Economy, Transformation & Climate Change
Councillor A Powell	Portfolio Holder for Leisure, Communities and Communications
Councillor C Renwick	Portfolio Holder for Housing & Community Safety

DECISION TO BE TAKEN	DECISION-MAKER	DATE OF DECISION	KEY DECISION	EXEMPT DECISION (INCLUDING GROUNDS FOR EXEMPTION)	RESPONSIBLE PORTFOLIO HOLDER	RESPONSIBLE OFFICER
NEDDC Climate Change Strategy Refresh	Cabinet	22 Dec 2022	Non-Key	Open	Councillor Jeremy Kenyon	Director of Growth and Assets
Sharley Park Development	Cabinet	22 Dec 2022	Key	Fully exempt  Information relating to the financial or business affairs of any particular person (including the authority holding that information)	Councillor Alan Powell	Director of Growth and Assets