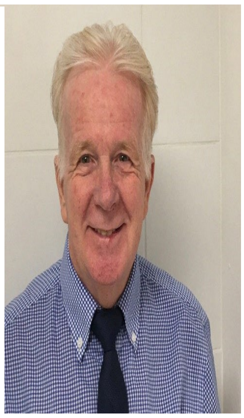
Agenda Item

Cabinet meeting on 27th January 2021

Strategic Plan and Medium Term Financial Strategy 2021-2026

Report Summary from Alan White, Leader of the Council and Mike Sutherland, Cabinet Member for Finance



Council Leader, Alan White said:

” As Staffordshire works to recover from the effects of the pandemic this council is directing all of its resources to help people and business get moving again. In the year ahead we will be listening to Staffordshire people to act on the issues that matter most to them, while continuing to invest time and money in those things in our communities that support people to help themselves and one another.

“The county council continues to invest in physical and electronic infrastructure and promoting Staffordshire, so that our economy can prosper and generate more jobs and opportunities. This investment will also ensure growing communities have everything they need including school places, transport links and superfast broadband connections.

“At the same time, we are determined to keep improving education and training in Staffordshire so that people can flourish at school or later in life, support families so that they can remain together safely and inspire residents to healthy, independent lives.”

Mike Sutherland, Cabinet Member for Finance, said:

“The global pandemic of 2020 has affected the running of this authority in many ways, including reassigning staff to delivering food parcels and PPE, delaying planned savings programmes and reducing the amount of council tax and business rates collected. At the same time, we have spent more than we have received in emergency support from central Government to help residents and businesses through the crisis.

“Nonetheless, we are a stable, well-run authority and delivering value for money to our taxpayers is at the core of everything we do. Accordingly, we are able to carry on looking after residents now, while investing in Staffordshire’s communities, education and infrastructure for the future.

“In saying that, our financial challenges remain. In 2021/22 this authority will be spending more than £315 million, approximately two thirds of its budget, on social care and child protection. The growing demand in this sector is a national challenge rather than a local one and we need central Government to take the lead on finding sustainable long-term solutions.”

1. We are today presenting the results of the Medium Term Financial Strategy and Draft Budget for 2021/22. This aims to balance the ambition of this council as set out in the Strategic Plan with the clear commitment contained in the pledge to deliver value for money for residents and business and live within our means. We need to strike the right balance between ensuring we honour this pledge and ensure we continue to invest in our longer term aims of this council.

2. **Recommendations –** we recommend that in respect of the Strategic Plan and Medium Term Financial Strategy 2021-2026, Cabinet agrees all of the recommendations set out in the attached report:

Cabinet – 27th January 2021

Strategic Plan and Medium Term Financial Strategy 2021-26

Recommendations of the Leader of the Council and the Cabinet Member for Finance

1. We recommend that in respect of the Strategic Plan, Cabinet:

a) Note the progress made regarding the update of the Strategic Plan 2018-2022 and refer it to the County Council for approval on 11th February 2021;

b) Authorise the Leader of the Council and Chief Executive to finalise the details of the Strategic Plan 2021/22 prior to final publication to ensure that it reflects any changes to the management and accountability structures of the County Council as part of the organisation's transformation;

2. That, in respect of the Medium Term Financial Strategy (MTFS) 2021-26 and the 2021/22 revenue budget, Cabinet:

a) Consider the updates to the financial plans as set out in this report;

b) Note the comments of the County Treasurer on the adequacy of reserves and robustness of the budget and that the County Council be asked to take note of these comments when considering the budget and council tax;

c) Consider the comments and recommendations of the Corporate Review Committee;

d) Recommend to the County Council on 11th February 2021 that they consider and approve the following:

i) a net revenue budget of £530.296m for 2021/22;

ii) planning forecasts for 2022/23 to 2025/26 as set out in **Appendix 12**;

iii) a contingency provision of £5.000m for 2021/22;

iv) a net contribution from reserves and general balances of £6.255m for 2021/22;

v) a budget requirement of £529.245m for 2021/22;

vi) a council tax requirement of £388.150m for 2021/22;

vii) a council tax at Band D of £1,360.62 for 2021/22 which is an increase of 4.99% when compared with 2020/21;

viii) This results in council tax for each category of dwelling as set out in the table below:

Category of dwelling	Council Tax rate £
Band A	907.08
Band B	1,058.26
Band C	1,209.44
Band D	**1,360.62**
Band E	1,662.98
Band F	1,965.34
Band G	2,267.70
Band H	2,721.24

ix) that the County Treasurer be authorised to sign precept notices on the billing authorities respectively liable for the total precept payable and that each notice states the total precept payable and the council tax in relation to each category of dwelling as calculated in accordance with statutory requirements;

x) the Financial Health Indicators set out in **Appendix 11**;

e) Recommend to the County Council on 11th February 2021 that they consider and approve the following recommendations which are included within the Capital and Minimum Revenue Provision Strategy 2021/22, the Treasury Management Strategy 2021/22 and the Commercial Investment Strategy 2021/22 (**Appendices 10a to 10c**):

i) Approve the Minimum Revenue Policy for 2021/22 as contained within the Capital and Minimum Revenue Provision Strategy 2021/22 in **Appendix 10a**;

ii) Approve the Prudential Indicators as set out within the Capital and Minimum Revenue Provision Strategy 2021/22 at **Appendix 10a**;

iii) Approve the 2021/22 Treasury Management Strategy, based on the 2017 CIPFA Codes (Prudential Code and Treasury Management Code), and 2018 MHCLG Guidance (on Local Government Investments and on Minimum Revenue Provision);

iv) Adopt the Annual Investment Strategy (AIS) 2021/22 detailed in paragraphs 60 to 107 and Annex A and Annex B of the Treasury Management Strategy 2021/22 (**Appendix 10b**);

v) Approve the policies on reviewing the strategy, the use of external advisors, investment management training and the use of financial derivatives as described in paragraphs 109 to 119 of the Treasury Management Strategy 2020/21 (**Appendix 10b**);

vi) Approve the proposed borrowing strategy for the 2021/22 financial year detailed in paragraphs 38 to 55 of the Treasury Management Strategy 2021/22 (**Appendix 10b**);

vii) The Treasury Management Strategy recommendations will operate within the prudential limits set out in Annex C of the Treasury Management Strategy 2021/22 (**Appendix 10b**) and will be reported to the Cabinet Member for Finance, with respect to decisions made for raising new long-term loans, early loan repayments and loan rescheduling;

viii) Approve the Commercial Investment Strategy for 2021/22 (**Appendix 10c**) and note the circumstances under which commercial investments can be made;

ix) Approve the governance arrangements that are in place for proposing and approving commercial investments;

x) Approve a maximum quantum for commercial investments of a further £20 million in 2021/22;

xi) Approve a maximum limit for an individual service investment loan of £10 million in 2021/22;

xii) Any upwards change in the amounts of the limits specified in recommendations x and xi be delegated to the County Treasurer in consultation with the Cabinet Member for Finance.

f) That the County Treasurer be authorised to adjust the contingency provision to reflect any grant and local taxation changes announced in the final 2021/22 Local Government Finance Settlement;

g) That the Cabinet Member for Finance and the County Treasurer be authorised to challenge Cabinet, the Senior Leadership Team and services to manage and deliver the current five-year plans and to identify further cost reductions and income generation opportunities, as appropriate.

Report of The County Treasurer and the Director of Corporate Services

Strategic Plan 2018-2022

3. The Strategic Plan sets out our ambitions and priorities for the years ahead. It outlines what we want to achieve and how we intend to do it over a four year period, and is the primary document that shapes the financial plans and the Corporate Delivery Plan. Developed and delivered in tandem, they are supported by a range of directorate, service and team plans across the council. At an individual level, all members of the Wider Leadership Team (WLT) sign an annual Accountability Letter and use the plans to support performance and development conversations for staff at all levels.

4. The current Strategic Plan was developed and agreed by full council in February 2018. The plan is reviewed annually, and in early 2020, at the mid-point of delivering this four-year strategy, members and officers reviewed the vision and priorities, and updated the document to reflect emerging local, national and international issues.

5. The Coronavirus Pandemic has had a profound impact on the work of the council throughout 2020. In some areas activity has paused or changed due to national restrictions or the need to redeploy staff to support urgent work, such as buying and supplying personal protective equipment (PPE), and providing food parcels to vulnerable people. In contrast, the pandemic has accelerated our approach, for example, in supporting community action and volunteering, and in the digital transformation of the way council staff work. As we enter 2021, with the roll-out of Covid-19 vaccines taking place, and our withdrawal from the European Union formalised, the priorities and principles in the strategic plan continue to be the right areas to focus on to drive Staffordshire's social and economic recovery from the events of 2020.

6. An increased focus on climate change was a significant addition to the Strategic Plan and our vision during its mid-point review last year. In 2019 the county council declared a climate change emergency, and our work with communities, partners and businesses to move towards a low and ultimately zero carbon future in Staffordshire, will continue to broaden and gather pace.

7. Despite the events of the past year, the county council remains ambitious for Staffordshire and the great potential our county and our people possess. Our people have shown extraordinary community spirit, care and togetherness in the toughest of times, and the challenge now is to maintain and redirect that energy as restrictions are eased, our economy recovers, and normality returns. In particular, we want to keep raising aspirations across the whole of Staffordshire so that even more people get the education, training and support they need to unleash their own full potential.

8. As a county council we will continue to do our bit, working with Government, business and partners to invest in our communities: in new and emerging technologies; in business premises; in transport; in schools and skills programmes; to raise the profile of the county and promote Staffordshire to a national and international audience; and to help create the right conditions for residents and business to strive and succeed.

9. The county council's vision for Staffordshire is to create:

"A county where big ambitions, great connections and greener living give everyone the opportunity to prosper, be healthy and happy."

Alongside the Corporate Delivery Plan, it details how we work with Staffordshire's residents, businesses and our partners to deliver our three priority outcomes, that the people of Staffordshire will:

- **Be able to access more good jobs and share the benefits of economic growth**
- **Be healthier and independent for longer**
- **Feel safer, happier and more supported in their community**

10. In delivering its vision the council is evolving its relationship with citizens, promoting independence while also asking what matters most to them, and thinking about the outcomes we want to achieve rather than the services we should deliver. The following paragraphs include some highlights of achievements since 2009.

Economic Growth – Highlights:

- Staffordshire’s economy grew from £15.6bn to £18.0bn between 2013 and 2018.
- Currently 79% of residents are in employment, higher than regional (75%) and national (76%) averages.
- COVID-19 has seen an increase in working age adults claiming Jobseeker’s Allowance or work-related Universal Credit benefits, however the current rate of 4.7% remains well below both regional (7.3%) and national (6.4%) averages.
- Wages continue to rise from £28,328 in 2018 to £29,281 in 2019 and are above the West Midlands average. Wages also continue to grow faster than seen nationally in recent years.
- By investing in high quality business sites such as the i54 Western Extension, more than 9,000 jobs have been created and safeguarded through our £365m Growth Programme since 2014, with the potential for another 15,000 jobs.
- Completed business sites now contribute £5.8 million of business rates per year into funding local services.
- Our £34million Superfast Staffordshire partnership has enabled 81,000 properties so far to connect to superfast broadband, reaching 96% coverage across the county.

Infrastructure – Highlights:

- Our Growth Programme is helping to unlock the delivery of 15,000 houses.
- Our investment in infrastructure working with district councils is unlocking significant housing numbers - Stafford Western Access Road, Lichfield Southern Bypass and Branston Locks will deliver 6,200 homes.
- In 2020-21, delivered an initial programme of £6.9m of local highway and transport improvement schemes, including targeted road safety, walking and cycling schemes.
- Invested an additional £2m in locally identified community highway priorities, including additional drain cleansing and repairs, verge maintenance, grass and hedge cutting.
- Through an extra £5m investment last year, we fixed more than 30,000 potholes compared with 20,000 in a typical year.

Education and Skills – Highlights:

- The percentage of good and outstanding schools has significantly increased from 76% in 2014 to 85% in 2020, and is in line with the national average.
- The percentage of children obtaining one of their top three choice of schools increased again – from 93% to 97% for Secondary schools and from 98% to 99% for Primary schools.
- More than £26 million has being allocated to build new schools and upgrade others in Staffordshire this financial year. New projects to keep pace with the growing demand for school places include a Primary school at Anker Valley, Tamworth, and a First school in north west Uttoxeter, with both set expected to open in autumn 2021.
- Strong education performance at Early Years, with 74% of Staffordshire's five-year-olds classed as 'ready for school', up from 54% in 2013 and better than the national average.
- Just 2% of young people aged 16-17 in Staffordshire are not in education, employment or training, better than the national average of 3%.
- Adult skills levels have improved, with 56.4% of residents qualified to NVQ Level 3 and above. The proportion of working age residents with no qualifications also reduced to just 5.7%, well below regional and national averages.
- Our £58million European Social Fund (ESF) Programme has engaged more than 25,000 residents to improve their skills and employability, with 11,000 progressing to employment, further education or Apprenticeships.

Health and Care – Highlights

- 82% of Staffordshire residents are satisfied with their lives, an increase from 77% in 2011/12.
- Healthy life expectancy in Staffordshire women has increased by more than a year in the last five years.
- Teenage pregnancy rates in Staffordshire are falling and now similar to the national average.
- Staffordshire performs better than most of the country for take up of childhood inoculations.
- The Staffordshire Warmer Homes initiative is helping to provide fully funded central heating for up to 1,000 eligible homes across the county.
- The number of people aged 65 and over admitted to long-term residential or nursing homes has fallen between 2014/15 (642 per 100,000) and 2018/19 (538 per 100,000).
- The quality of long-term care and support is improving - 76% of services were rated 'Good' by the CQC in December 2020, an improvement on 52% in January 2016.
- Premature mortality rates from cancer, cardiovascular and respiratory diseases have fallen between 2001-2003 and 2017-19.
- Smoking related deaths are also reducing, with Staffordshire's rate significantly lower than national.

Families and Communities – Highlights

- Staffordshire County Council has joined Shropshire, Stoke-on-Trent and Telford and Wrekin Councils to launch the Together 4 Children partnership to increase the chances of looked after children finding permanent homes.
- Since 2015 our Building Resilient Families and Communities programme has helped 8,569 families, exceeding a target of 5,464. In this latest year, as at October 2020, we have already helped 850 families achieve successful outcomes, and this is set to rise further.
- Our Emotional Wellbeing in Schools programme is supporting children's emotional wellbeing, including training for school staff, and promoting ways in which schools can access support for children and young people.
- Staffordshire is one of just 21 local authorities selected to take part in a national trial, receiving up to £469,000 of Department for Education funding, to place social workers in schools that will offer support to young people and families.
- Over half (27) of Staffordshire's library provision is currently managed and delivered by the communities they serve.
- The 2019/20 People Helping People Fund saw a total of £86,127 awarded to over 60 community projects that helped keep people independent, healthy, and supported within the places they live.

11. In addition, the county council has allocated over £83m since March on tackling the pandemic and supporting our communities through the crisis. This includes £3.2m on personal protective equipment (PPE) for care homes and schools, almost £11m on testing, tracing contacts and general outbreak control, £36m on supporting care homes and providers of domiciliary care to ensure they can continue to care for vulnerable residents safely. A further £2.5m has been spent on additional safety measures to ensure children travelling to school are kept safe. Just under £10m has been spent on a multitude of measures such as business start-up loans, food parcels, payments to nurseries, child minders and foster carers and emergency business payments. The pandemic has had an impact on our planned savings and this has resulted in a cost of £10m in delayed or unachieved savings.

12. Our strategy is ambitious for our county, but also realistic about the challenges that remain ahead as we recover from the pandemic and navigate our exit from the European Union. Support is in place to help those who have lost their jobs back into employment, or to re-skill, and support is available for people to start or sustain a business. Even before the pandemic, not enough people in Staffordshire were earning the salaries and wages they need to lead the lives they want. Health and care challenges are great, with a growing ageing population contributing to enormous financial pressures on the health and care system. The numbers of children coming in to and remaining in the care system is increasing, as are the numbers of children with special educational needs, in line with national trends.

13. The council therefore has agreed five priorities. These priorities are:

- Help Staffordshire's economy to grow and generate more good jobs
- Invest in infrastructure for growing communities
- Improve education and training so that life-long learning offers everyone the opportunity to succeed
- Inspire healthy, independent living
- Support more families and children to look after themselves, stay safe and well

14. In order to be ambitious for Staffordshire and deliver our priorities against a backdrop of reduced Government funding and growing demand for much of the support we provide, the way the county council operates must continue to evolve. We have identified four principles that will underpin delivery of the Strategic Plan. They are: Communities; Workforce; Digital; and Climate Change, as explained in the following diagram:

Encourage residents and **communities** to help themselves and one another

Our **workforce** will be ambitious for Staffordshire, and make a difference for our people

Be **digital**, using technology and data to connect, inform and support our citizens

Think **climate change** in all we do to limit our impact on the planet

15. As a financially stable, well-run county council, we continue to reduce costs and work in more efficient, often digital ways. However, our growing, ageing population, rising costs, and growing demand for services mean that more fundamental changes will be required. We also anticipate a significant economic impact from the coronavirus pandemic across the entire public sector.

16. The county council has changed significantly over the last decade but more recently we have found that we can no longer afford all the things we used to do or would like to do. We need to find different ways of working that help people to help themselves, take greater personal responsibility for their own lives, health and wellbeing, and greater responsibility for improving their own communities. That pace of change must accelerate over the next four years in the changing financial landscape. If we succeed in this and reduce demand on public services, the county council can target the reducing resources we have at the people who really need them. Therefore, the council included the following pledge in its Strategic Plan:

Pledge **Deliver value for money for residents and businesses and live within our means**

17. Therefore, in the coming year:

a. We will work hard to ensure that the economy recovers and returns to growth so that everyone has access to a good job with good prospects;
b. We will help people to help themselves to lead happy and independent lives with less need for services and support;
c. We will continue to support those least able to help themselves through creating new models of care in line with our resources.

Financial Planning - Underlying Principles

18. In February 2020 the Medium Term Financial Strategy for 2020-25 was approved. This included a balanced budget for 2020/21 and 2021/22, with headroom for the later three years of the period. The MTFS included significant cost reductions to be made over the five years, savings of £47.7m in addition to those already approved previously, which were part of the £62 million by 2024.

19. The position in February was a reasonably positive one, with a balanced MTFS for the five years, although large risks were present with the cost reductions required and the increasing demands for social care, both Adults' and Children's.

20. However in March the country was placed under a national lockdown as the coronavirus pandemic hit. The county council has played, and continues to play, a key role in dealing with the pandemic and supporting communities through its impact. The pandemic has had a severe impact on finances across the country, at all levels. For the county council there has been significant additional, unplanned expenditure during the current financial year. Expenditure has been on a range of different items from Personal Protective Equipment (PPE) for care homes, to food parcels to payments to nurseries, childminders and care providers to ensure they stay in business and currently it is not clear when this expenditure will end as there remain costs associated with testing and tracing contacts in our efforts to overcome this virus.

21. During the current financial year, the county council has received a large amount of money in the form of grants from the government which are intended to fund the financial impact of the pandemic. To date more than £80 million has been received and spent on dealing with the pandemic and issues raised by it. Currently the additional expenditure is forecast to be around £2 million more than the amount of grant received.

22. The pandemic has meant we have been keeping government informed more frequently of our financial situation, as have all local authorities. Whilst the county council and the government have been dealing with the short term, immediate financial impact of the pandemic, we have been continuing to lobby Government on the critical need for more money for social care. In addition there is a longer term impact of the pandemic on our finances in 2021/22 and beyond, that needs to be recognised by the government and addressed.

23. Despite the events in 2020, it is imperative that we review the financial plans with aims of understanding the impact of addressing the funding gap produced by the pandemic and underpinning the strategic plan to deliver effective services while living within our means.

24. To do this the council has agreed a set of principles to develop the financial planning in the council. These are:

> The Medium Term Financial Strategy, driven by the new vision and new strategic plan is;
>
> - To be focused on achieving outcomes in the delivery plan;
> - To be evidence-based using a data-driven approach;
> - Part of an ongoing, continuous process led by service leadership teams;
> - About shaping options around a focus on the people of Staffordshire as citizens rather than customers;
> - To assess delivery plan options against the following tests to determine whether they are:
>   - managerially deliverable with an accurate assessment of the risks involved in delivery
>   - politically manageable
>   - deliver outcomes, and
>   - ‘ensure we live within our means’

25. Underpinning the planning framework is the council’s aim of setting a Good and Balanced Budget.

26. Setting a **balanced** budget is a statutory requirement and means that:

    - Income equals expenditure;
    - Cost reduction targets and investment proposals are credible and achievable;
    - Key assumptions are “stress tested”.

27. The hallmarks of a **good** budget represent best practice. They are designed to ensure financial sustainability and mean that:

    - It has a medium-term focus, supporting the Strategic Plan;
    - Resources are focused on our vision for a Connected Staffordshire and our priority outcomes;
    - It is not driven by short term fixes;
    - It demonstrates how the county council has listened to consultation with local people, staff and our partners;
    - It is transparent and well scrutinised;
    - It is integrated with the capital programme; and
    - It maintains financial stability.

28. We keep innovating and remodelling how we work by making more use of technology and data in this digital age. With less funding, we are looking at communities to take on even more responsibility and supporting people to make the best choices for themselves and their families so that fewer people need our help.

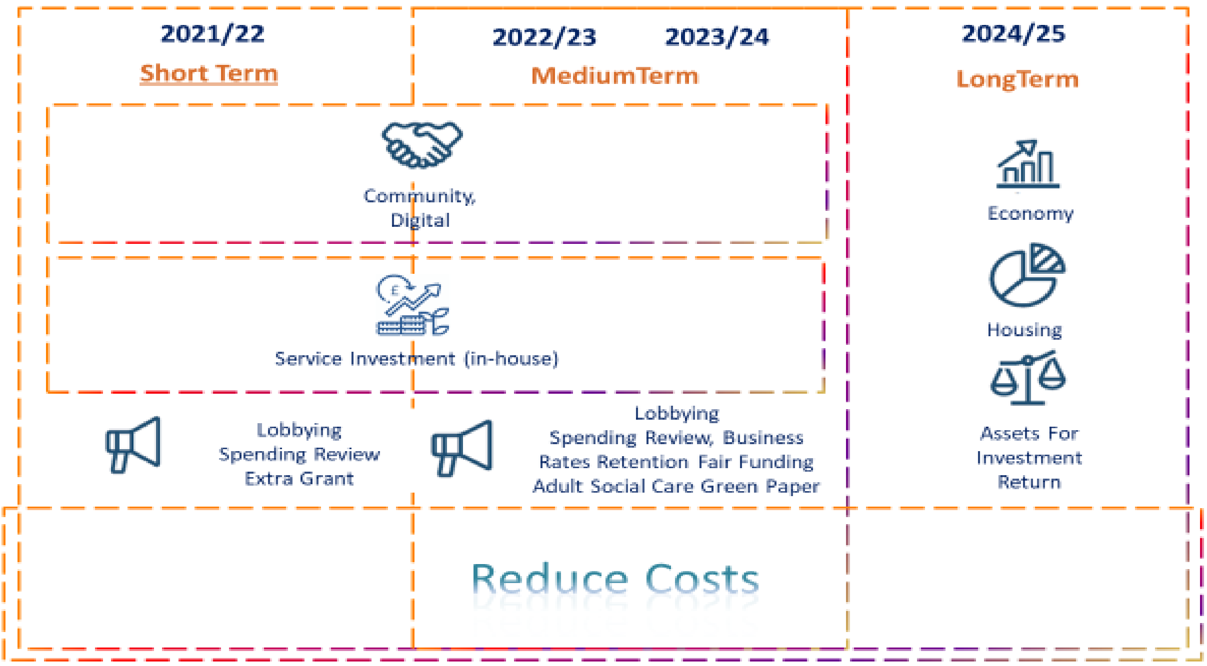
Financial Planning Approach

29. Although there was a balanced position for 2021/22, since then there have been some exceptional events which were completely unexpected. Last year's MTFS also included some large cost reductions which must be achieved in order to continue with the balanced position. As the world moves out of the global pandemic, we will need to adapt to new ways of delivering services and new demands placed on our services.

30. Whilst we begin to understand the post-pandemic world, our medium and longer term planning aims remain the same, however some of our shorter term financial plans will need to change or extend timescales.

31. Regardless of any 'new normal' there will be some strands to our financial planning which remain relevant. We need to continue to lobby Government, particularly for a solution to the issue of funding for social care, we need to continue to reduce costs to ensure we live within our means and we need to continue to work on our community and digital initiatives.

32. The Strategic Plan sets out how these strands impact in the long term, medium term, and short/immediate term as shown in the following diagram:



33. What is clear from the diagram is that the aims of growing the economy and building more homes will take several years to realise any financial benefit to the council. Therefore, the council must continue to deliver the plan to reduce its cost base to balance the budget for the immediate term while the longer-term initiatives are developed. In addition, the short-term plan includes a range of activities aimed at lobbying government to ensure care pressures are met and grant reductions are slowed. This is essential to give the council the time needed to transform in the medium term; it would be counter-productive to be forced to reduce spending in the short terms on those activities which are

essential to the long-term future of Staffordshire e.g. economic development services.

Medium Term Financial Strategy – Update

34. The financial plans set out the financial implications of the council's Strategic and Delivery Plans. The development and refinement of the Strategic Plan is undertaken in conjunction with the financial planning process to ensure that budgets reflect the council's aims and objectives.

35. The planning period is five years, which provides a framework that promotes longer term planning.

36. Identifying efficiency through innovation and new ways of working has featured heavily in previous years' financial strategies and, in the light of the current economic climate will continue to be a fundamental part of the council's plans going forward. The council has a proven track record of delivering cost reductions with £160m being identified and delivered in the past five years (up to and including 2019/20).

37. The council still has significant challenges ahead and the way residents' needs are met must continue to evolve. The delivery of challenging cost reduction targets and the management of current and future pressures is crucial to the delivery of the financial plans and the aspirations set out in the Strategic Plan.

38. In February the MTFS set a balanced budget for 2021/22 but one that included more than £62m of savings to be delivered by 2024. In addition to those already agreed savings, a further £25.8m is included in the current MTFS for delivery by 2026. This balanced budget included new and emerging pressures and investments, particularly in care services, and it is now necessary to update the financial plans for the changes and developments since February. The key elements of the plans discussed in the report are:

    a. The current economic climate
    b. Spending Review 2020
    c. Provisional Settlement
    d. Projected pressures and cost reduction options
    e. Risks
    f. Council Tax and Business Rates
    g. Reserves and Balances
    h. Capital Programme
    i. Summary of the Medium Term Financial Strategy Position
    j. Corporate Review Committee Role
    k. Consultation
    l. Conclusions

Current Economic Climate

39. The Bank of England reduced the base rate to 0.1% in March 2020, just before the country went into a national lockdown. It remains at that rate, which is a historic low rate for the Bank. Markets around the world have been in turmoil due to lockdowns and reduced economic activity across the globe.

40. Inflation is well below the HM Treasury target of 2%; currently the Consumer Price Index is at 0.6%. The forecast is for CPI to increase slowly as consumer spending starts to increase during 2021 with restrictions and lockdowns easing. The Bank of England forecasts inflation to take another two years to reach the target level of 2%.

41. Unemployment has increased during 2020 with redundancies at their highest ever level in September. The Office for Budget Responsibility (OBR) predicts that GDP will reduce by 11.3% during 2020 and the outlook remains very uncertain. However, the OBR is forecasting a steady growth in GDP from 2021 onwards.

Spending Review 2020

42. The Spending Round was announced on 25th November and it was intended to cover a longer period, following the one-year Spending Round in 2019, however the uncertainty caused by the pandemic meant this Review also covers one year only. The intention is for a further Spending Review to happen which will cover a future period beyond next year.

43. The announcement included some additional funding for social care, £300 million nationally plus the Adult Social Care precept can be increased up to 3% in 2021/22, currently the MTFS assumes an increase of 2%. There was an indication that other social care grants allocated in 2020/21 will continue for a further year but clarification is needed from the Settlement for the amounts continuing for the county council. Other positive news is that New Homes Bonus and Troubled Families funding streams will continue in 2021/22.

44. Funding will be available for Covid-related spending pressures in 2021/22 but it was suggested that this will be retained by the Government initially before ascertaining the best method of distribution. In addition, 75% of the lost income from council tax and business rates will be funded, reducing the deficits on collection funds used for budget-setting.

Provisional Settlement

45. The Provisional Settlement was announced on 17th December 2020 and confirmed the additional funding included in the Spending Review. The Settlement is also for one year only which does not aid longer term planning.

46. There is an additional amount of £4.4m allocated for social care, both Adults' and Children's. This is in addition to the £20.8m Social Care Support Grant announced in 2020/21 which will now continue in 2021/22. The Improved Better Care Fund will continue in at the same level as in the current year.

47. Revenue Support Grant will also continue in 2021/22 and has been inflated, this same lower rate of inflation has also been applied to the business rates top-up payment. The allocation for New Homes Bonus is £0.574m more than was assumed. There is a further consultation on the future of this funding stream.

48. The Spending Review included an allocation of Covid funding for local authorities for 2021/22 and this has been allocated as part of the Settlement with Staffordshire receiving £16.2m. This will be kept centrally until the impact of the pandemic in the new financial year becomes clearer.

49. The whole of the Provisional Settlement, including the allocation of social care support grant and the distribution of the Covid funding, is out for consultation. This adds a further element of uncertainty into the amount of funding available for 2021/22, amounts will not be confirmed until the Final Settlement is announced, some time during February.

Projected Pressures and Cost Reduction Options

50. Services have made efforts to mitigate their own spending pressures in order to maintain a balanced budget. The impact on our communities has been carefully considered and is shown at **Appendix 2**. The current list of pressures, investments and savings options are attached as **Appendices 3a-3d** and the key impacts are discussed in the paragraphs that follow.

51. Health and Care is facing cost pressures from a rising demand for services as the population ages, and increasing prices of care due to inflation, in large part as a result of uplifts in the National Living Wage. These costs are budgeted for in the MTFS although there is a risk that demand / and or price increases exceed the budgeted provision. The Covid-19 pandemic has had a profound impact on care providers with a further increase in costs due to requirements for enhanced infection control. These costs have been met in year by non-recurrent funding from Government, however the Government has not confirmed any recurrent funding. These costs are not budgeted for in the MTFS and there is therefore a risk to the MTFS position.

52. Several other pressures have been identified, including an increase in the cost of mental health placements, and pressures on staffing budgets in the Council's directly provided services for people with a learning disability. The directorate has identified alternative savings to offset these pressures.

53. Health and Care continues to make progress towards delivery of the planned savings approved in the MTFS for 2020/21 and future years. Some savings have already been delivered, while other savings have been RAG rated as medium or high confidence of delivery. A number of savings have been delayed during 2020 due to the pandemic. These have been met with planned use of Covid-19 monies. A number of planned savings have been delayed or are unachievable in future years. Again the directorate has identified alternative savings to offset these.

54. Actions are ongoing to manage demand including to expand and make better use of voluntary support in the community, to quality assure new assessments and regularly review people already receiving care to ensure appropriate interpretation of Care Act eligibility criteria.

55. Actions are also ongoing to manage prices including to manage choice of services in line with our powers under the Care Act, to make use of new

technologies to generate efficiencies, as well as to block book nursing home beds and develop new nursing home capacity.

56. The county council continues to lobby central government for a long term funding settlement for public health and adult social care and for non-recurrent funding to be sustained in the interim.

57. The Families and Communities current plans and new options continue to be dominated by the requirement to transform the Children and Families system specifically; against a backdrop of rising costs and constraints on funding; workforce transformation, including a shift to community supported locality models and greater use of volunteers and further cost reductions on Special Educational Needs (SEN) transport.

58. Within the children's social care system the planned transformation has not happened in full this year, due to the pandemic and its impact on other public services such as the Family Courts. This means that planned savings have not been achieved and need to be reprofiled, amounting to an additional pressure of £6.4 million in 2021/22 which reduces over the MTFS period. It is anticipated that, by the end of the revised MTFS (2025/26), the full saving target of £17.072m as originally planned will still be delivered albeit a year later than initially expected.

59. Increasing demand for SEN support, exacerbated by the pandemic, led to a backlog of EHCP assessments which has now been cleared, however a general increase in the number of EHCPs is placing further pressures on SEND services including Home to School Transport.

60. The high needs block is currently projecting a £5.5m overspend this year, and, left unaddressed, could increase further to a £7.5m overspend by 2024 and a significant Dedicated School Grant deficit. It is anticipated that through the transformation and implementation of the revised SEN Operating Model, supported by the new SEN strategy, will provide a more sustainable model, improve relationships with district and school partners, and deliver improved educational and life outcomes for children and young people.

61. Outside the issue of social care, there are pressures in other service portfolios with the main one being repairing the local economy following the pandemic, for this reason £1 million has been put into this service area to support local businesses. In June 2020, Cabinet approved the *Staffordshire Means Back to Business* strategy to support and grow businesses in the county. The investment in the MTFS supports that strategy and reflects the medium and longer term support for the local economy. Another effect of the pandemic has been felt in lost income from on-street parking and additional money has been put into budgets to reflect that.

62. Across support services significant savings are being made which produces challenges in providing the required level of support to frontline services. We are also making significant savings from a programme of property rationalisation across the County as we invest in more digital technology and move to more agile working.

63. Following the announcement in the Spending Review that certain parts of the public sector would have a pay freeze in 2021/22, the county council has not allocated any inflation to pay which has saved around £3m, in addition inflation on non-pay costs has been assumed at 1% due to the fact CPI is currently below that level.

64. The total pressures and cost reductions impacting on services, including the increasing pressures and savings from previous years, are shown in the table below. A summary by Directorate is attached at **Appendix 4**.

	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**
	£m	**£m**	**£m**	**£m**	**£m**
Pressures	28.727	40.386	51.523	63.492	75.429
Inflation	6.191	15.699	25.144	34.395	43.853
Savings	(1.244)	(10.543)	(18.345)	(23.525)	(25.778)
Investments	(0.625)	(1.147)	(1.965)	(1.980)	(1.980)
Net movement	33.049	44.395	56.357	72.382	91.524

Risks

65. There are a range of significant risks which need to be carefully monitored and managed. In some cases, the risks may not materialise or may be managed to mitigate their impact on the budget.

66. There is a huge level of uncertainty in the MTFS due to a number of factors. The full impact of the pandemic on the local and national economy is not yet clear and this could have wide reaching consequences for the income the county council can raise from council tax and business rates. Depending on the impact, the government funding may not cover all additional costs faced by the county council.

67. The Spending Review 2020 covered one year only and therefore no information is available on levels of government funding from 2022/23 onwards. It is hoped that a multi-year Spending Review is announced during 2021. In addition, there are a number of reviews of schemes, such as the Fair Funding Review and review of the business rates system, which have been postponed and these need to be resolved urgently to provide certainty for local authorities. In addition to this uncertainty, Brexit means that there is a risk of increased costs for the county council.

68. The biggest risks are in social care. This includes our ability to continue to control demand as the population continues to age, and the success of ongoing actions to control prices. These also need to be seen against a backdrop of ongoing pressures in the local NHS, which tend to drive up both demand for and the price of care.

69. In relation to social care, the current MTFS assumes that the county council will continue to have the ability to increase the Adult Social Care precept by 2% each year, across the period. This is a significant risk and would reduce the income available if this option is removed by the Government.

70. Risks are inherent in the whole system change around Children's and Families' including new ways of working not being fully embedded to support delivery of children and families system transformation. The numbers and costs associated with Looked After Children and children with EHCPs have increased markedly over the last couple of years. Whilst this is a national trend there is risk to the financial plans that this trend continues.

71. In relation to the council's capacity to deliver, there is an increasing risk that restructures are not completed in time to realise savings. The reduction in resources, particularly corporate support resources, would also impact on the capacity to support and deliver key strategic aims such as people helping people, digital, and economic growth to deliver additional council tax and business rate receipts etc. Prioritisation of scarce resources is key to managing the impact of this risk.

72. The level of waste tonnages being disposed of in recent years has increased and this represents a risk that current budgets will not be enough in future years. In addition, there are significant risks attached to the renewal of major waste disposal contracts in future years.

73. Given the levels of savings expected from property rationalisation, a very active and focussed approach will be required to avoid the risk that this does not proceed as fast as required.

74. Loss of specific grants and hence income to the authority is a risk.

75. The impact of the MTFS proposals on the wider Staffordshire economy may hamper the council's economic growth ambitions.

76. There is a high risk of increasing liabilities (including insurance claims) and growing maintenance costs if we reduce highways revenue spend further. In addition, the Highways Tree Maintenance programme represents a risk if not carried out effectively.

77. There is an increased risk of spending exceeding budgets and/or income falling short of budgets. The council has a proven track record of delivering significant cost reductions. However, the scale, complexity and pace of the changes still required enhances the risk that not all the cost reductions identified will be delivered within the required timescales. There is a heightened risk associated with plans not being delivered and outcomes not achieved. In previous years and for a variety of reasons, some transformation programmes have not fully achieved the targets set and therefore appropriate contingency arrangements need to be in place. To respond to these increased risks, the Contingency budget is planned to be £5 million each year, in line with that provided in the last two years.

78. Delivery Plans now need to be revised in the light of the financial situation facing the council. Services need to continue to closely monitor the council's transformation programme including, where appropriate, options to severely restrict or even stop providing some services. The governance arrangements for this significant programme include regular reports to Informal Cabinet, Select

Committees, Senior Leadership Team, Delivery Board, Service and Project Boards.

79. With regard to the risk of overspending against budget, thorough budget preparation and detailed monitoring during the year, coupled with personal financial accountability, minimises this risk. Furthermore, Finance Business Partners can identify any concerns at an early stage, advise management teams and recommend measures to mitigate the impact. Budget monitoring reports are regularly considered by management teams and by Select Committees, Portfolio Holders, SLT and Cabinet on a quarterly basis.

80. As the county council continues to transform, we recognise this also presents a potential significant impact for some of our communities, individuals and staff. Community Impact Assessments (CIAs) are therefore a critical component of the council's decision making processes. Each of the options outlined in this paper is likely to have a very different impact and affect different groups of people, therefore where appropriate these will require a specific CIA tailored for that service.

81. As such, services will undertake full and detailed Community Impact Assessments (CIAs) where there is a change to service, commissioning or policy, in line with its CIA framework. This includes identifying those potential negative impacts where changes could affect different groups of people and seek to identify those key actions we will take to reduce any negative impact, protecting Staffordshire's most vulnerable where possible.

82. There will be corporate support and guidance offered in assisting services in the development of their CIAs, ensuring they are developed at the earliest stage, inform thinking and are continually reviewed as part of implementing changes.

Sensitivity Analysis

83. In terms of assessing the impact of changes under various scenarios the following table sets out a guide to the effect of changes to the major cost elements/funding streams:

Impact of (+ or -)	Equates to (+ or –)
1% Council Tax	£ 3.7 million
1% Business Rates growth (SCC receives 9% of the total collected rates across Staffordshire)	£2.8m across Staffordshire, of which SCC receives £256k (9%)
1% Pay award (excludes staff funded from specific grant (e.g. Dedicated Schools Grant)	£ 1.5 million
1% Non-pay budget	£ 0.3 million
1% Interest (on balances)	£0.7 million

84. Details regarding the assumptions used in the financial planning exercise for the major cost elements and funding streams are attached as **Appendix 5.**

Council Tax and Business Rates

Council Tax

85. Staffordshire County Council currently has the third lowest council tax level amongst counties in England. This position demonstrates the careful consideration that the council has taken regarding the level of tax demand placed on residents. However, this does restrict the level of funding available to pay for essential services. Clearly a careful balance needs to be struck between these two factors.

86. The current assumption in the financial plans contained in this report is that the general council tax increase (i.e. in line with the principle of taking the tax increase allowed by government up to the referendum limit) is 1.99% for 2021/22 and thereafter. In addition, the Spending Review announced that the government would again permit social care authorities to raise council tax by a further 3% to help with funding pressures in social care. This additional increase is also included in the financial plans in this report and is assumed for future years at an increase of 2%.

87. The council has not exceeded the referendum limit. However, it is legally permissible to set a council tax increase in excess of the limit, subject to taking the increase to a public referendum. This is not a decision that would be taken lightly, while it remains an option, significant sums of money would be required to hold a referendum and, by its very nature, the outcome of the referendum is

uncertain. To date no referendum in the UK has ever supported an increase in Council Tax.

88. The Government has announced a scheme to reimburse local authorities for 75% of the income lost from both council and business rates. The Provisional Settlement included further details on the mechanism for this scheme which is reliant on returns produced by the district and borough councils. Without the relevant information from the lower tier authorities, it is not possible to forecast the level of funding that will be received. In addition, the Government has suggested that payments will not be made until all information is known which would be late in 2021 or even January 2022. As it is not possible to forecast the amounts to be received, it is prudent to adopt a strategy that one-off resources arising from the final settlement are earmarked to deal with the risk that less grant is allocated to the county council than anticipated.

89. The County Council must notify District and Borough Councils of its council tax rate for each property band before 1st March each year. The council's proposed council tax at Band D is £1,360.62 which is an increase of just over £1 per week for the average taxpayer. As there are no special expenses for the council, the same rate applies across all District and Borough Councils. The table below sets out the council tax proposals for each category of dwelling. The Band D rate produces a Council Tax Requirement of £388.150m for 2021/22. Details of the precepts due from each District and Borough Council are shown in **Appendix 6**.

Category of dwelling	Council Tax rate £
Band A	907.08
Band B	1,058.26
Band C	1,209.44
Band D	**1,360.62**
Band E	1,662.98
Band F	1,965.34
Band G	2,267.70
Band H	2,721.24

<u>Business Rates</u>

90. Businesses across the globe have been hit by the pandemic and local and national lockdowns meaning they have been unable to operate as usual. For this reason, we are adding to our economic regeneration budget to help local businesses in Staffordshire. However, this also means that the income we receive from business rates has reduced from the assumptions included in the MTFS originally. Further detail on the scale of the reduction is expected at the very end of January when we receive copies of the returns sent by the Districts and Boroughs to government.

91. The government had already announced that there would be no further business rates pilots in 2020/21 and there will not be any in 2021/22 either. In the current year, the county council is part of the Staffordshire and Stoke on

Trent Business Rates Pool which means we can maximise the amount of business rates income retained in the County and City.

Review of Reserves and Balances

92. Section 25 of the Local Government Act 2003 requires the Chief Finance Officer to report to the Council on the adequacy of proposed reserves and the robustness of the budget.

93. We have reviewed the earmarked reserves and provisions we hold to make sure they are still required and that they are adequate. As part of producing the formal accounts of the council for 2019/20 earmarked reserves were reviewed. Excluding those reserves earmarked for schools, there is a total of £89.0m of earmarked reserves which were deemed to be fit for purpose for matters such as insurance claims and capital investment. This review of reserves can be seen at **Appendix 7.**

94. At the end of 2019/20, general balances were £35.5m. As part of last year's MTFS, a contribution into balances of £10 million was made during the current year, making a level of £45 million at the beginning of 2021/22. This means general balances are at the minimum level required for the county council, as informed by last year's risk assessment. The events of this year have proved the importance of holding balances against uncertainties, a global pandemic did not feature as a risk in last year's MTFS but it is evidence that we need to hold money to cushion the financial impact of such events. The risk assessment considers the uncertain future economic and funding outlook and the risks surrounding the financial plans which are set out in this report. It is quite clear that in several areas, e.g. adult social care and looked after children, that the level of risk facing the council has increased substantially. In addition, the lack of clarity around future funding levels has been taken into consideration. The assessment, attached as **Appendix 8**, has concluded that in excess of £50m is deemed to be the minimum required for the council.

Capital Programme and Investment Strategy

95. The county council invests a significant sum (around £120m each year) in a wide range of capital projects including the road network, schools and economic development schemes. At this stage the Capital Programme can only be estimated as the levels of grant and other funding sources are not yet announced, either for 2021/22 or future years therefore the Programme will be updated annually as further allocations are published.

96. The Government's Capitalisation Direction remains in place and this allows local authorities to fund revenue expenditure from capital receipts, providing that expenditure is transformational in nature and can be shown to generate ongoing, revenue savings.

97. Further details of the Capital Programme 2021 – 2026 can be seen at **Appendix 9** together with funding information. The Programme assumes the continuation of the 5% top slice of general capital allocations to help fund corporate priority projects.

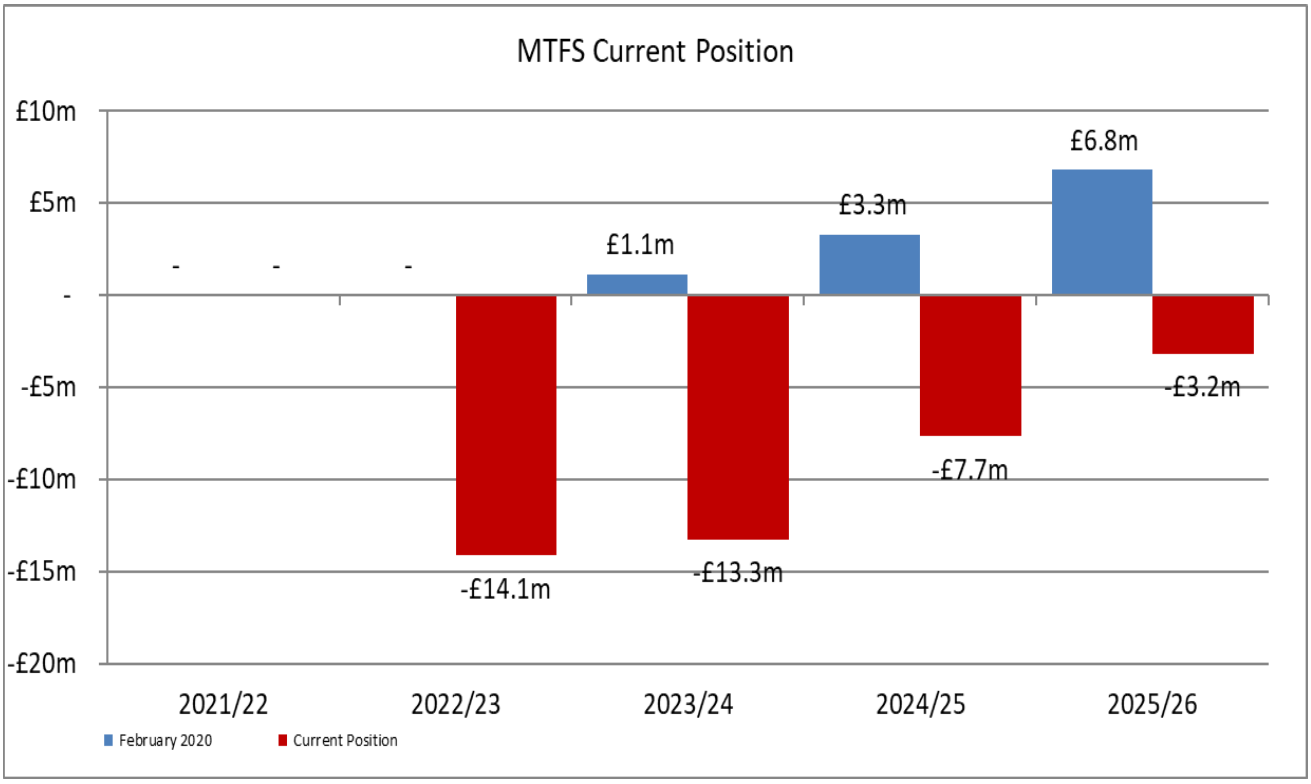
98. The Capital Strategy is attached to this report as **Appendix 10a** and it explains how the capital programme will be funded and the implications for that funding on the revenue budget. The Capital Strategy is interconnected with the Treasury Management Strategy (**Appendix 10b**) and the Commercial Investment Strategy (**Appendix 10c**). All three strategies show how the County Council's investments, whether in its services or in a commercial venture, can be funded and what the implications are for that funding.

99. In addition, the County Council produces Financial Health Indicators to assure Members that the Council is on track to deliver its financial strategy. These Indicators are attached at **Appendix 11** and performance against these will be monitored and reported throughout the year

Summary of Medium Term Financial Strategy

100. In February 2020, a balanced budget was reported for 2021/22 with headroom in the future years. Since then, the pandemic has had an impact across all services and its impact will continue to be felt for a number of years to come.

101. Assuming the spending pressures and savings options identified in **Appendices 3a-3d** are approved, the current position, compared to the position in February, is shown in the graph below:



102. The graph shows that the position for 2021/22 is a balanced one but the headroom which was part of the period in February 2020 has now been used to part fund cost pressures and there remain significant budget gaps in year two and three of the period. These gaps reflect the level of financial uncertainty in the future and also reflect the longer term impact of the pandemic.

103. The Spending Review expected in 2021 will hopefully cover a longer period of time and will therefore provide some financial certainty for the MTFS and it is hoped will help to close the gaps in future years. It is proposed that further cost reductions and one-off resources are used to balance the budget in 2022/23 and 2023/24, until the government provides more clarification on future funding levels. This would result in a balanced MTFS across the period but would mean that one-off funding sources were fully utilised and could not therefore be used for any other initiative. In addition, the use of any one-off resources would need to be repaid over a period of time.

104. The 2021/22 draft revenue budget for each service area together with planning forecasts for future years is attached as **Appendix 12**.

Corporate Review Committee Role

105. Scrutiny has been undertaken on the results of the MTFS exercise by the Corporate Review Committee. As in previous years this committee has established a working group specifically to scrutinise the financial plans.

106. The recommendations of the Committee will be tabled at the Cabinet meeting, along with a response to them.

Consultation

107. Attached at **Appendix 2** is the Community Impact Assessment which sets out the approach to assessing the impact of the savings options on communities and provides an analysis of the potential cumulative impact of the options. This assessment will be revisited throughout 2020/21 as the savings options are implemented to ensure mitigations are developed to minimise any potential negative impacts.

108. As in previous years, consultation on the overall budget will be required with trades unions and business ratepayers at an appropriate time. In addition, savings options will require specific consultation as necessary to deliver the changes proposed.

Conclusions

109. Members have committed to delivering value for money for residents and businesses and living within the means available to the council. It is evident from the analysis contained in this report that this is becoming increasingly difficult to do. Balanced budgets for future years will not be possible without tough decisions being made on services that affect the lives of many. To deliver on its pledge this does mean that if nothing else changes, in terms of increased funding from government, then what is set out in this report is what this council will need to do.

110. That means thinking differently about what more we can all do for ourselves and what we expect to be paid for from the public purse.

111. The council remains ambitious for Staffordshire, exploring new options and areas to make our county better. Take housing for example. We believe we have a key role to play in creating the right conditions for housing development. This will help deliver much-needed homes for Staffordshire families and bring in more council tax to pay for public services. The council remains committed to supporting the local economy to recover from the effects of the pandemic.

112. The longer-term vision for the council is set out clearly in the Strategic Plan. Members of Cabinet are not prepared to do things which undermine the medium/long term view which is essential to ensure sustainability as an authority. The financial gap facing the council is caused by circumstances beyond its control; including the economic impact of the pandemic, significant reductions in funding over time and increased demands for services.

113. In the next year our priorities remain to:

- Create the conditions for the economy to grow and create more better paid jobs
- Support the construction of more homes for Staffordshire families
- Improve education and skills provision in our schools, colleges and universities
- Focus on a joined up approach to health, care and wellbeing
- Ensure children and families have a network of support to help manage their own problems and remain safe and well

114. We await the Government's response to the financial challenge facing good and well-run councils across the country, and the consequences if extra additional funding is not forthcoming.

115. However, we are being open with everyone now about our finances, the action we are taking and the reality we all may potentially face.

Rob Salmon	**John Tradewell**
County Treasurer	**Director of Corporate Services**

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2. Community Impact Assessment

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Appendix 1

Equalities implications:

The overarching equalities implications are at the heart of political deliberations with interconnecting links. This interconnectivity is key to delivering within Staffordshire, the best value for money for all. Specific equalities implications arising from the issues covered by this report will be incorporated into outcome and service plans. Equality Impact Assessments will therefore be undertaken for each specific issue, where appropriate.

Legal implications:

At this stage in the development of the financial plans there are no specific legal implications presented by this report.

Some of the decisions required in the report carry a risk of legal challenge. The Council's response to any challenges will be considered if and when they arise on the basis of whether they are likely to be successful.

Resource and Value for money implications:

The Resource and Value for Money implications are set out in the report.

Risk implications:

As outlined in paragraphs 65-82 of the report.

Climate Change implications:

We have considered the impacts on climate change whilst developing the financial plans and have, in line with the county council's key priority concentrated on reducing our carbon footprint in future service delivery plans. As an organisation, over the medium term we are encouraging greater flexible working which aims to reduce emissions even further.

Health Impact Assessment

The impact on public health has been considered whilst developing the financial plans. Innovation and Efficiency options proposed aim to improve and promote the health of citizens through closer working with the NHS. Further implications will be incorporated in the outcome plan for Staffordshire as a place where people live longer, healthier and more fulfilling lives.

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Annual MTFS Community Impact Assessment (CIA) - 2021/22

1. Background / Overview of MTFS CIA Process

1.1. Staffordshire County Council's Community Impact Assessment (CIA) policy forms a critical component of our decision-making processes. It sets out a clear and consistent organisational approach to how we assess the impact of service changes, commissioning and strategy for communities.

1.2. In November 2018, Staffordshire County Council established an annual Community Impact Assessment (CIA) of its Medium-Term Financial Strategy (MTFS). The purpose of this is to provide a high level, strategic assessment of MTFS impact each year, considering the cumulative impacts of key MTFS savings proposals and examining what these may mean for Staffordshire's communities, places and most vulnerable residents.

1.3. The MTFS has recently undergone its annual review, for approval by Cabinet in January 2021. To accompany this report, the MTFS CIA has also been updated below to consider any additional savings proposals, alongside key Covid-19 impacts. This paper also provides a progress report against the previously identified seven CIA priorities identified in the 2020/21 CIA, and refreshes the list of CIA priorities for the upcoming year.

2. MTFS CIA Priorities (2020/21) – Progress Update

2.1. The MTFS CIA presented to Cabinet in January 2020 reported the following seven proposed savings options with the highest potential impact on our communities and the places they live:

- Removal of non-statutory Community Transport
- Review of non-statutory activities regarding appointeeships
- Review policy on winter grit bins from winter 2019
- Rural review and reorganisation
- Children, young people and families transformation phase 2 (including SEND)
- Community offer for learning disabilities
- Savings to mental health recovery service

2.2. The assessment also identified some cohorts as being at greater risk of potential cumulative impacts as a result of the MTFS savings proposals, these were:

- Staff
- Age (older people)
- Disabilities
- Children and young people
- Localities

2.3 Annex A provides a progress update against each of the MTFS CIA priorities listed above in paragraph 2.1, as well as an overview of the known impacts on communities and the priority cohorts also listed above in paragraph 2.2.

2.4 The main finding of this work is that through working together with key stakeholders and the community, the service impact on some of our key vulnerable groups has been mitigated. This includes changes to non-statutory community transport, winter grit bins, urban grass cutting and non-statutory activities regarding appointeeships. Where changes have gone ahead, full individual service CIAs have been developed and conversations have taken place both internally and with stakeholders to ensure potential impacts are minimised.

2.5 In addition, the MTFS CIA Task and Finish Group met in November 2020 to review and discuss each of the seven MTFS CIA priorities. The group identified a number of cross-cutting themes which have helped to mitigate the impact of current changes on individuals and our communities.

- **Doing things differently** – responding to Covid-19 has required Council services to work in a very different way, resulting in both positive and negative impacts. This learning has helped in the development of mitigations, such as an increase in demand for country parks has led to a delay to the Rural Review and Reorganisation programme as part of reshaping future service delivery. The delivery of Mental Health Recovery Services during Covid-19 required providers to work differently, with contracts now extended for further review. Appointeeship changes, such as the introduction of pre-paid cards, also had a positive impact for many during lockdown.

- **Partnerships** – Working closely with partners continues to enable the effective implementation of some key MTFS changes, minimising the impact for local communities. Changes to non statutory community transport, Children, Young People and Families transformation and the policy on winter grit bins has required us to work closely with providers, District, Borough and Parish Councils and the VCSE sector to minimise any potential negative impact.

- **Communities** – Similarly working with individuals, communities and the VCSE sector to improve localities and minimise the impact of change has proved successful in a number of areas, such as growing alternative community transport options and stocking of winter grit bins.

3. Impacts of Covid-19

3.1. It is important to recognise within this MTFS CIA, the significant impact that the Coronavirus pandemic has had on the work of the Council and some of our most vulnerable groups.

3.2. In June 2020 as lockdown restrictions eased, Cabinet endorsed the Council's approach to recovery and a Community Impact Assessment was undertaken to understand the impact of Covid-19 on Staffordshire. In addition to this wider learning, a Staffordshire Covid-19 Residents Survey was also carried out between August and September 2020 to further inform how the pandemic has affected residents and actions needed to be taken to help Staffordshire's communities and businesses recover. You can view the survey findings here.

3.3. Overall, a number of key groups have been identified as negatively impacted more than others:

- **Elderly** and individuals with a **disability/limiting illness** – who are not only at greater risk of Covid-19 but also suffer the wider implications of lockdown such as digital exclusion, access to healthcare, and wellbeing impacts such loneliness and isolation.

- **Younger people** – who not only experienced a disruption to their education, but also reported personal impacts associated with limited social interaction and impact on their emotional wellbeing.
- Those **furloughed** – who reported an overall worst experience during the pandemic, driven by the impact on household finances and concerns regarding their employment situation.

3.4. It is vital these Covid-19 impacts, and wider learning are considered alongside the Council's MTFS decision making process.

4. MTFS CIA (2021/22) – Summary of Key Findings

4.1. A refresh of the MTFS CIA has been undertaken, in line with the production of the MTFS 2021-26. This is to ensure we identify any additional saving options proposed by the MTFS and consider the cumulative impacts of any changes. **This analysis can be seen at Annex B to this report.**

4.2. The table at Annex B provides an assessment of the potential impacts on communities, based on proposals set out in the refreshed MTFS for 2021-26, as well as an overall community impact rating for the respective Council business area.

4.3. As this year's MTFS is largely a refresh, along with service delays experienced due to Covid-19, many of the current MTFS CIA priorities remain relevant for the upcoming year. The assessment identified only one additional savings proposal as having a potential high impact on our communities and the places they live:

- Home care policy on high cost packages

4.4. Each of these areas of work will have full and detailed individual service CIAs as part of the Council's CIA process. Where a CIA has already been undertaken, regular updates and monitoring will be completed and recorded in the assessment as changes progress to ensure they remain up to date and relevant.

4.5. The assessment also identified cumulative impacts for key groups / areas potentially most impacted by the above CIA priorities:

- **Disability –** There are several savings proposals in the MTFS that result in changes to people with learning disabilities across both Families and Communities and Health and Care. These include the Community Offer for Learning Disabilities, the

Learning Disability Review programme, and the Children, Young People and Families Transformation Phase 2 (which includes the SEND review). Wider impacts of Covid-19 on this cohort also need to be considered in individual service CIAs to identify any risks of a change to service and mitigations to minimise the impact.

- **Children and Young People/Families** – The Children, Young People and Families Transformation Phase 2 is a long-term programme which will continue to implement a whole system approach for children and families.. The programme will change how services are delivered and received; and will impact upon several different cohorts, particularly children and young people, their families and carers, and children and young people with disabilities. Continuing to monitor and mitigate any impacts as change is implemented will be vital in the coming year. Wider Covid-19 impacts also reinforce young people's emotional wellbeing been a key negative impact and will need to factor into wider service developments for these communities.

- **Localities** – Several of the proposed savings options identified in the refreshed MTFS 2021-26 will involve working with local communities and our partners in District, Borough and Parish Councils, as well as with the VCSE sector and Providers. These include the Children, Young People and Families Transformation Phase 2, Community Offer for Learning Disabilities, Review of Countryside Estates and Rights of Way and minimising any potential impact from the Reduction in Stock of Winter Grit Bins for winter 2020.

5. Revised MTFS Community Impact Assessment Priorities for 2021/22

5.1. Following ongoing work to review the existing CIA priorities from last year's MTFS CIA, and the above assessment of the latest proposals set out in the MTFS 2021-26, a refreshed list of **five CIA priorities** is set out below.

5.2. This list is a combination of existing priorities from 2020/21 that are still to be implemented and/or impact monitored, along with new options proposed in the revised MTFS for 2021/22 that has the highest potential impact on communities:

- Children, Young People and Families transformation phase 2 (including SEND).
- Community Offer for Learning Disabilities.
- Savings to Mental Health Recovery Service.
- Home Care Policy on High Cost Packages.
- Rural Review and Reorganisation (including countryside estates and rights of way).

- Also, ongoing review and monitoring of Policy on Winter Grit Bins (and any potential service change to Winter Service if appropriate).

5.3. The MTFS CIA governance process will ensure an ongoing dialogue and analysis with partners on the implementation of these CIA priorities, to ensure any potential impacts on communities are mitigated where possible.

5.4. The work of the MTFS CIA Task and Finish Group will also bring together CIA service leads for the work listed above to share progress, discuss emerging cumulative impacts, develop cross-cutting mitigations and act as a mechanism for the ongoing monitoring and review of these at a corporate level.

5.5. This will accompany individual service CIAs in line with our corporate CIA policy. The individual CIAs will consider in greater depth the specific impacts for each of these workstreams on our communities, and how we can work with local partners, members, the VCSE sector and communities to mitigate any potentially negative impacts.

5.6. In addition to identified MTFS CIA priorities, consideration will need to be given to potential social and equality impacts of Brexit on both the general population and our more vulnerable groups. The extent of the impacts will depend upon the type of Brexit that occurs, but it is likely that any long term, systemic change could have specific impacts for equalities groups. These will need to be addressed as part of service change and in line with our CIA Policy.

5.7. It is therefore more important than ever, that community impact is considered alongside the Council's MTFS decision making processes.

6. Next Steps

The MTFS CIA Task and Finish Group membership will be refreshed, and continue to meet regularly to monitor progress and discuss cross-cutting impacts.

Annex A - Current MTFS CIA Priorities - 2020/21 - Progress Update

MTFS Proposal	CIA Implementation Update	Community Impact & Mitigations
Removal of non-statutory Community Transport	• Changes approved as part of a Member delegated decision, with a full CIA • Funding for Community Transport ceased in April 2019 • Ongoing monitoring of impacts has been in place	• Funding for community transport was withdrawn, not the transport itself. The majority of community transport operators able to continue by increasing fares or finding alternative funding. One transport scheme has been withdrawn since implementation (minibus scheme in Tamworth), however the number of voluntary car schemes in operation has increased. • SCC have continued to monitor the impact on affected transport groups, whilst also working with the voluntary sector providers and partners to ensure there are transport options in each district to mitigate negative impacts. • Recommended that this no longer remains a MTFS CIA priority.
Review of non-statutory activities regarding appointeeships	• The transfer to pre-paid cash cards for all appointees irrespective of disability or impairment took place successfully on 1st Oct 2019 • CIA was refreshed to reflect changes and known impacts • Ongoing monitoring of impacts has been in place	• Small group of residents potentially affected by the work (circa 400), mainly people with disabilities and their carers. • Majority of community feedback on the changes was positive. • Mitigations put in place to ensure all affected by the changes supported. • Fully operational for more than 12 months, no more unforeseen impacts likely. Positive changes, particularly in light of Covid-19, in terms of people being able to receive funds without having to go to offices to collect cash. • Recommended that this no longer remains a MTFS CIA priority.
Review policy on winter grit bins from winter 2019	• Engagement with key stakeholders took place during October 2019 • Changes went live during the winter season of 2019/20 • Full CIA developed	• Older people, people with disabilities and people in rural communities were identified as potentially most impacted by the changes. • Only communities with a 'low priority' grit bin were affected by one pre-season re-stock, minimising the impact. • All existing grit bins and registered Ice Buster assets were fully stocked at the start of the 2019 winter season, and will be for each subsequent year. • Forms a key part of the Council's #DoingOurBit workstream, aimed at encouraging people to look after their family's wellbeing and to help keep local areas safe. • Grit bins at higher risk sites are re-stocked during each winter season as required.

MTFS Proposal	CIA Implementation Update	Community Impact & Mitigations
		• A campaign was undertaken during the 2019/20 winter season offering communities guidance on how to use salt efficiently and how to make local arrangements to replenish supplies as necessary and this is available on the Council's website. • No impacts following the 2019/20 winter season have been identified, however important to note this may be as a result of a mild winter. • Recommended that this remains a MTFS priority for review following the 2020 winter season.
Rural review and reorganisation	• Presented to Cabinet, with a full CIA in March 2019. • Review of wider staffing structures commenced in January 2020, however placed on hold due to Covid-19. • The staffing reorganisation is now being reviewed following consultation with staff/trade unions feedback and learning from Covid-19. • The next phase of the Countryside Estates work is under review and will be considered early in 2021, with an updated CIA to reflect any changes as/when work recommences.	• The biggest impact will be on the rural communities where the Country Parks are situated. Transfer of some countryside sites to partners will aim to mitigate impacts, however concerns regarding feasibility of transfer following the impact that Covid-19 has had on the environmental and charity sector. • Staff will be impacted, and in line with HR process will be consulted along with Trade Unions. • Concerns regarding capacity and resilience of the service in the face of significantly increasing demand due to Covid-19 have been highlighted. • It is recommended this remains a MTFS CIA priority and revisited following the outcome of the review and upcoming discussions.
Children, Young People and Families transformation phase 2	• A full CIA produced alongside Cabinet report Nov 2020 • Changes expected to be positive any risks of programme to be monitored and mitigations in place to reduce potential negative impacts.	• This is a long term **Children, Young People and Families Transformation** programme aimed at implementing a whole system approach for children and families and to provide a financially sustainable model that ensures children with social care needs remain or return to their family (or extended family network) where it is safe and appropriate to do so, and children with SEND receive the right support at the right time.

MTFS Proposal	CIA Implementation Update	Community Impact & Mitigations
	• Will run until 2023/24.	• Progress on the second phase was initially paused due to Covid-19 but has now restarted, specifically the development of a proposed district model and pathways and processes for support. • The SEND transformation has been considered a priority and therefore continued throughout the pandemic, including SEND public engagement. Findings will inform the development of a Staffordshire SEND strategy and help to identify any potential impacts and mitigations. • Changes are expected to be positive for communities, with any risks continuing to be monitored and reviewed as part of the existing MTFS CIA in place. • It is recommended that this remains a MTFS CIA priority to ensure the ongoing review of impacts.
Community Offer for Learning Disabilities	• Work was agreed by Cabinet in October 2019, however Covid-19 had an impact upon commencement and completion of some service changes. • Further update report and CIA was considered by Cabinet in November 2020. • Subsequent CIAs will be undertaken alongside service reviews	• **Community Offer for Learning Disabilities** will see changes to the way we provide services to some adults with learning disabilities and/or autism, who are in receipt of services across the county. The purpose of these changes is to ensure there are appropriate and sustainable services across the county to meet support needs. • Changes will include reviewing and refreshing respite care, residential care, and day services. Provider Services will be creating an integrated model of care which encompasses community-based support in addition to building-based services. • Progress since August 2020 includes: o The tenders of Greenfield House and Horninglow Bungalows re-commenced in October and that is progressing. o We will be undertaking a service review of day opportunities and respite, commencing February 2021. o We are currently reviewing building options for residential care, respite and day opportunities services. • Given further service change it is recommended that this remains a MTFS CIA priority with ongoing review of impacts.
Savings to Mental Health Recovery Service	• Due to the Covid-19 pandemic and the increased need for support the decision was made to extend the contract rather than recommission	• **Savings to Mental Health Recovery services** involves recommissioning the services to focus on promoting independence and mental well-being through a community-based model. This may result in some people seeing a change to their service although assessed eligible needs will continue to be met.

MTFS Proposal	CIA Implementation Update	Community Impact & Mitigations
	• A full CIA will be undertaken as part of the decision-making process	• Contracts with the three current providers, jointly funded with the CCG, have now been extended and will end on the 31 March 2022. • Discussions will be held with the CCG in the early part of 2021 to understand and confirm their commissioning intentions from 1 April 2022 onwards, where a new service will need to be commissioned. • Recommended that this is reviewed as part of the development of the MTFS CIA 2022/23.

Annex B – MTFS Community Impact Assessment for 2021/22

The table below is an assessment of **potential medium and high community impact** for each key Council business area, with a summary of the service option as proposed in the MTFS, and an associated impact rating. As many of these are in still in development and subject to consultation or engagement, the outcome and potential impact for communities may not yet be known. We will therefore continue to record and monitor the cumulative impact of these, and where there is significant change proposed ensure individual service CIAs are conducted, reviewed as appropriate.

Area	Programme	Group/Protected characteristics potentially affected	Overall Potential impact rating	Commentary / rationale
Health and Care		Age (older people) Disabilities (particularly learning disabilities and mental health) Staff	High	**Community Offer for Learning Disabilities** will see changes to the way we provide services to some adults with learning disabilities and/or autism, who are in receipt of services across the county. The purpose of these changes is to ensure there are appropriate and sustainable services across the county to meet support needs. Changes will include reviewing and refreshing respite care, residential care, and day services. Provider Services will be creating an integrated model of care which encompasses community-based support in addition to building-based services. CIAs will be undertaken alongside service reviews. **Savings to Mental Health Recovery services** involves recommissioning the services to focus on promoting independence and mental well-being through a community-based model. This may result in some people seeing a change to their service, although assessed eligible needs will continue to be met. A new service will need to be commissioned from 1 April 2022 onwards. The **Learning Disability Review programme** and **Mental Health Market savings** will involve reviewing currently provided care to ensure it meets assessed eligible needs in the most cost effective way. This may result in some people seeing a change to their service although assessed eligible needs will continue to be met. **Accommodation Based Care** - review of high cost placements to reflect people's care needs whilst ensuring cost effectiveness could result in

Area	Programme	Group/Protected characteristics potentially affected	Overall Potential impact rating	Commentary / rationale
				potential changes to some services users' care, although assessed eligible needs will continue to be met. This would be undertaken as part the Council's routine process for annual reviews and any change would involve a robust risk assessment to ensure the individual needs and family circumstances are taken into account in line with current policy. **Home Care Policy on High Cost Packages** – changes to high cost packages may result in some people being moved into residential care or changes to home care provision where the assessed need considers this to be the safest option for the individual. A robust assessment would be undertaken and assessed eligible needs will continue to be met. A full CIA is either in place, or will be undertaken as part of any service review or change, with ongoing monitoring of impact and mitigations.
Families and Communities	Children's services	Age (young people) Disability (SEND) Carers Sex (female) Pregnancy Staff	High	This is a long term **Children, Young People and Families** transformation programme, with the aim of implementing a whole system approach for children and families and a financially sustainable model which ensures that children with social care needs remain or return to their family (or extended family network) where it is safe and appropriate to do so, and children with SEND receive the right support at the right time. The programme will change how services are delivered and received; and will impact upon several different cohorts, particularly children and young people, their families and carers, and children and young people with disabilities. These changes are expected to be positive for communities, to ensure the ongoing monitoring and review of any potential impacts and mitigations, this will remain an MTFS CIA priority for 2021/22. The existing CIA will remain in place and updated as appropriate in line with any service change.

Area	Programme	Group/Protected characteristics potentially affected	Overall Potential impact rating	Commentary / rationale
	Rural	All Localities Staff	Medium	The next phase of the **Review of Countryside Estates and Rights of Way** is being reviewed and will be discussed early in 2021, as a result of delays due to Covid-19**.** We will continue to work with partners and community re potential site transfers. In terms of the **Rural Review and Reorganisation** that is being carried over from last year's MTFS CIA, the staffing reorganisation is being reviewed following consultation with staff/trade unions feedback and learning from Covid-19. Concerns regarding capacity and resilience of the service in the face of significantly increasing demand are currently being explored. Transfer of some countryside sites to partners aims to mitigate impacts, however concerns regarding feasibility of transfer following the impact that Covid-19 has had on the environmental and charity sector will need to be taken into account. The biggest impact will be on the rural communities where the Country Parks are situated. Dependent on the outcome of the review, an updated Community Impact Assessment will be carried out as part of any further service change.
	Infrastructure and Highways	Elderly Disabled	Medium	Pressures on **Winter Service** (gritting of road network) have been identified from 2021/22 and needs consideration. Options are yet to be explored, but may involve considering a change to service. In addition, the implementation of last year's **Policy on Winter Grit Bins** from winter 2019 continues to be monitored, where communities with 'low priority' grit bins receive only one pre-season re-stock. Higher risk sites are however restocked when required. People with disabilities and people in rural communities were identified as potentially most impacted by the changes with wide ranging mitigations implemented. Positively no impacts have been reported to date, however it will be important to regularly review mitigations set out in the CIA as we head into the 2020 winter season.

Area	Programme	Group/Protected characteristics potentially affected	Overall Potential impact rating	Commentary / rationale
	Transport Policy	Young People and Families	Low / Medium	**Review of discretionary school travel policy** Whilst this MTFS savings proposal is scheduled for 2022, should this be progressed consideration of both policy and possible consultation with key groups may need to commence during 2021. Therefore, the MTFS Task and Finish Group will support and maintain oversight of this option during the coming year.
Corporate	Assets	Localities	Low / medium	It is unlikely that the **Property Rationalisation** work taking place across the county, as part of the move to smart working, will impact on community and partner used buildings / premises. However, plans are currently being developed on a district by district basis, and if any community or partner used assets are considered for rationalisation, engagement with the relevant affected parties will take place first, and the community impact will be considered as part of the decision making process.

HEALTH AND CARE
Projected Pressures, Cost Reduction Options and Investments

Description	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m

Care Commissioning

Community Impact Assessment Rating - Medium

Original Service Spending Pressures					
Total Service Spending Pressures Approved in February 2020	**10.345**	**21.334**	**32.476**	**43.886**	**55.296**

Projected Changes to Original Service Spending Pressures					
The Learning Disability Service continues to face increasing costs because of the costs of younger adults who need our care and support. This cost pressure is being managed through our new Preparing For Adulthood care pathway.	(0.250)	(0.250)	(0.250)	(0.250)	(0.250)
Total Projected Changes to Service Spending Pressures Approved in February 2020	**(0.250)**	**(0.250)**	**(0.250)**	**(0.250)**	**(0.250)**

New Service Projected Pressures					
Following a legal challenge it has been decided that Care providers must pay the National Living Wage to Care workers who are required to be available to provide care if required throughout the night.	0.500	0.500	0.500	0.500	0.500
Commissioner staffing	0.050	0.050	0.050	0.050	0.050
The council is working in partnership with local NHS partners to help people with Learning Disabilities and Autism to move from being NHS inpatients into the community so that they can live as normal a life as possible. This is creating a financial pressure for the council.	0.000	1.000	1.000	1.000	1.000
The council has experienced an increase in Mental Health placement costs which has led to a shortfall in the budget in this area. It is expected that the Covid-19 pandemic will also lead to increased referrals for Mental Health support. The council is working with its NHS partners to look to find better and more cost effective ways of supporting people with Mental Health difficulties to reduce the need for them to be placed into residential care.	0.375	0.375	0.375	0.375	0.375
2020/21 onwards impact of rising cost of new older people residential and nursing placements	5.000	5.100	5.200	5.300	5.400
Demographic change is recognised widely as a key risk facing national and local government. The efficiency savings are intended to manage this pressure and prepare for an anticipated escalation over the next 25 years.	2.000	2.000	2.000	2.000	2.000
New Service Projected Pressures Total	**7.925**	**9.025**	**9.125**	**9.225**	**9.325**

Total Service Cost Reductions Approved in February 2020	**(3.036)**	**(5.180)**	**(6.857)**	**(8.553)**	**(8.553)**

KEY: 1.000 = £1m of pressure or loss of income
(1.000) = £1m cost reduction or additional income

HEALTH AND CARE

Projected Pressures, Cost Reduction Options and Investments

Appendix 3a

Description	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Projected Changes to Original Service Cost Reductions					
Use of adult placement services for people with physical disabilities as well as people with learning disabilities rather than residential care, if in their interest.	0.018	0.037	0.037	0.037	0.037
Review the top 10% of high cost placements with a view to ensuring cost of placements reflect peoples needs and generating additional contributions from Health partners.	(0.018)	(0.037)	(0.037)	(0.037)	(0.037)
Commissioner staffing & care Market Staffing - saving will not be achieved due to staffing requirements as the Council responds to the Covid pandemic	0.155	0.155	0.155	0.155	0.155
Unachievable efficiencies on equipment contract	0.100	0.100	0.100	0.100	0.100
Moving home care provision from non-contracted to contracted providers who can offer the service at a lower cost.	(0.500)	(0.500)	(0.500)	(0.500)	(0.500)
A review of In-House services provided by the council has been carried out and there will be changes to some of our own in-house services to ensure they effectively meet need. The project has also stimulated the market to ensure services are provided in the most cost effective manor to meet eligible need.	0.541	0.000	0.000	0.000	0.000
Improving how we communicate with eligible adult social care users about the amount available within their indicative personal budget. Offering a range of mechanisms for people to exercise their choice and control including increasing the numbers taking direct payment.	1.200	0.700	0.000	0.000	0.000
Working with Midlands Partnership NHS Foundation Trust (MPFT) to reduce the costs of care packages and placements for people with mental health conditions, whilst ensuring that their assessed eligible needs continue to be met.	0.125	0.125	0.125	0.125	0.125
Reduce nursing care placement costs by developing and using additional capacity at the Hillfield site.	0.395	0.195	0.000	0.000	0.000
Reduce nursing care placement costs by developing two new nursing care homes.	0.135	0.500	0.028	0.018	0.000
Review the top 10% of high cost nursing and residential care placements with a view to ensuring that they continue to meet people's assessed eligible needs at lower cost or with greater income.	0.250	0.000	0.000	0.000	0.000
Total Projected Changes to Service Cost Reductions Approved in February 2020	**2.401**	**1.275**	**(0.092)**	**(0.102)**	**(0.120)**

New Service Cost Reduction Options					
Following a review of our contracting arrangement for our Advocacy Service an opportunity for realising a reduction in cost has been identified.	(0.150)	(0.150)	(0.150)	(0.150)	(0.150)
Following a review of our Mental Health contracts an opportunity for realising a reduction in cost has been identified.	(0.200)	(0.200)	(0.200)	(0.200)	(0.200)
Following engagement with local providers of Supported Living schemes, the council has agreed to stop paying voids to providers when units become vacant for periods during the year. This will reduce the cost of providing Supported Living accommodation across the county.	(0.500)	(0.500)	(0.500)	(0.500)	(0.500)
Single management team	(0.050)	(0.100)	(0.100)	(0.100)	(0.100)
Commissioner staffing	(0.030)	(0.070)	(0.070)	(0.070)	(0.070)

HEALTH AND CARE

Projected Pressures, Cost Reduction Options and Investments

Description	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Older people direct payments: identify and remove excess costs	(0.050)	(0.100)	(0.100)	(0.100)	(0.100)
Trusted assessor	(0.050)	(0.100)	(0.100)	(0.100)	(0.100)
Home care: policy on high cost packages - above a certain level to go to residential care or pay top up	(0.050)	(0.100)	(0.100)	(0.100)	(0.100)
Redundancy budget reduction due to lower costs from loans being paid off	(0.200)	(0.200)	(0.200)	(0.200)	(0.200)
Reduce nursing care placement costs through the use block booked beds rather than spot purchasing from the market.	0.000	(0.760)	(0.760)	(0.760)	(0.760)
New Service Cost Reduction Options Total	**(1.280)**	**(2.280)**	**(2.280)**	**(2.280)**	**(2.280)**

Total Pressures	18.020	30.109	41.351	52.861	64.371
Total Cost Reductions	(1.915)	(6.185)	(9.229)	(10.935)	(10.953)
Service Total	**16.105**	**23.924**	**32.122**	**41.926**	**53.418**

Adult Social Care and Safeguarding

Community Impact Assessment Rating - Medium

New Service Projected Pressures					
The staffing and running costs of the council's Directly Provided Services for people with a Learning Disability have increased due to the Covid-19 pandemic and the staff vacancy factors built into the budgets are not being met. This covers the residential homes and the day centres run by the council.	0.650	0.650	0.650	0.650	0.650
Increase in social care resource capacity to manage referrals from home first and continue arrangements for support planning.	0.154	0.154	0.154	0.154	0.154
Increase in social care resource capacity to manage referrals from home first and continue arrangements for support planning. To replace non-recurrent funding in order to continue delivery of improved outcomes.	0.200	0.200	0.200	0.200	0.200
New Service Projected Pressures Total	**1.004**	**1.004**	**1.004**	**1.004**	**1.004**

Total Service Cost Reductions Approved in February 2020	**(0.332)**	**(0.418)**	**(0.873)**	**(0.873)**	**(0.873)**

New Service Cost Reduction Options					
Implementation of Mental Health One offer will provide additional resilience for the Mental Health North team and remove cost of hiring agency Social Workers.	(0.154)	(0.154)	(0.154)	(0.154)	(0.154)
New Service Cost Reduction Options Total	**(0.154)**	**(0.154)**	**(0.154)**	**(0.154)**	**(0.154)**

Appendix 3a

HEALTH AND CARE

Projected Pressures, Cost Reduction Options and Investments

Description	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Total Pressures	1.004	1.004	1.004	1.004	1.004
Total Cost Reductions	(0.486)	(0.572)	(1.027)	(1.027)	(1.027)
Service Total	**0.518**	**0.432**	**(0.023)**	**(0.023)**	**(0.023)**
Total Health & Care Pressures and Cost Reductions	**16.623**	**24.356**	**32.099**	**41.903**	**53.395**
Inflation	**1.014**	**2.379**	**3.876**	**5.407**	**6.975**
Health & Care Grand Total	**17.637**	**26.735**	**35.975**	**47.310**	**60.370**

FAMILIES AND COMMUNITIES

Appendix 3b

Projected Pressures, Cost Reduction Options and Investments

Description	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Children's Services	**Community Impact Assessment Rating - Medium**				
Total Service Spending Pressures Approved in February 2020	**0.016**	**0.032**	**0.032**	**0.032**	**0.032**
New Service Projected Pressures					
Reduced income from Residential Disability respite places	0.050	0.000	0.000	0.000	0.000
New Service Projected Pressures Total	**0.050**	**0.000**	**0.000**	**0.000**	**0.000**
Total Service Cost Reductions Approved in February 2020	**(4.530)**	**(8.532)**	**(10.997)**	**(12.501)**	**(12.501)**
Projected Changes to Original Service Cost Reductions					
Reprofiled Children in our Care placement savings	6.400	6.313	4.355	2.235	0.000
Delayed re-configuration of workforce saving	0.050	0.000	0.000	0.000	0.000
Total Projected Changes to Service Cost Reductions Approved in February 2020	**6.450**	**6.313**	**4.355**	**2.235**	**0.000**
New Investment					
Court Team increased capacity to meet demand	(0.445)	(0.445)	(0.445)	(0.445)	(0.445)
Implementation of cluster model to better manage existing workloads	(0.747)	(0.747)	(0.747)	(0.747)	(0.747)
Children in our Care (CIOC) FSW to support the return home of children safely	(0.428)	(0.428)	(0.428)	(0.428)	(0.428)
CIOC SGO and Legal costs to support an increased number of children on special guardianship orders	(0.287)	(0.287)	(0.287)	(0.287)	(0.287)
Placements Officer to improve the capacity to commission appropriate placements and reduce the numbers that require residential provision.	(0.033)	(0.033)	(0.033)	(0.033)	(0.033)
Implementation of a Restorative Practice model working with children and their families to encourage more effective working relationships	(0.015)	(0.017)	(0.025)	(0.040)	(0.040)
Adult Specialist workers in District Teams to address the root cause of problems	0.810	0.810	0.000	0.000	0.000
New Investment Total	**(1.145)**	**(1.147)**	**(1.965)**	**(1.980)**	**(1.980)**
New Invest to Save					
Delayed Childrens Workforce Transformation (1 April 2021 to 1 July 2021)	0.520	0.000	0.000	0.000	0.000
New Invest to Save Total	**0.520**	**0.000**	**0.000**	**0.000**	**0.000**
Total Pressures	0.066	0.032	0.032	0.032	0.032
Total Cost Reductions	1.920	(2.219)	(6.642)	(10.266)	(12.501)
Total Investments	(0.625)	(1.147)	(1.965)	(1.980)	(1.980)
Service Total	**1.361**	**(3.334)**	**(8.575)**	**(12.214)**	**(14.449)**

FAMILIES AND COMMUNITIES

Projected Pressures, Cost Reduction Options and Investments

Description	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Education Services	**Community Impact Assessment Rating - Low**				
Total Service Spending Pressures Approved in February 2020	**(0.420)**	**(0.453)**	**(0.838)**	**(1.103)**	**(1.103)**
Projected Changes to Original Service Spending Pressures					
Transfer to EIS - Review of discretionary travel policy for school-age pupils	0.000	0.000	0.000	0.000	0.000
Non-delivery of anticipated reduction following implementation of the SEND transformation and a review of discretionary travel policy for nursery and post-16 age groups	0.400	0.580	0.700	0.700	0.700
Change in costs of home to school SEN transport relating to number of school days in a financial year.	0.100	(0.160)	0.000	0.160	0.080
Expected changes in SEN pupil numbers and diversity in destination bases.	0.040	0.110	0.340	0.560	0.790
Total Projected Changes to Service Spending Pressures Approved in February 2020	**0.540**	**0.530**	**1.040**	**1.420**	**1.570**
New Service Projected Pressures					
SEND Transport - expected increase in costs	3.500	3.500	3.500	3.500	3.500
SEND Stabilisation - business case changes ongoing	0.362	0.362	0.362	0.362	0.362
Education Psychology - loss of income	0.120	0.000	0.000	0.000	0.000
New Service Projected Pressures Total	**3.982**	**3.862**	**3.862**	**3.862**	**3.862**
New Service Cost Reduction Options					
Increase in ESG approved by Schools Forum	(0.097)	(0.097)	(0.097)	(0.097)	(0.097)
New Service Cost Reduction Options Total	**(0.097)**	**(0.097)**	**(0.097)**	**(0.097)**	**(0.097)**
Total Pressures	4.102	3.939	4.064	4.179	4.329
Total Cost Reductions	(0.097)	(0.097)	(0.097)	(0.097)	(0.097)
Service Total	**4.005**	**3.842**	**3.967**	**4.082**	**4.232**
Culture and Communities	**Community Impact Assessment Rating - Medium**				
New Service Projected Pressures					
Staffordshire Heritage Centre Approved business case for a 4 storey extension in partnership with National Lottery Heritage Fund. Assumes development is operational from 2023/24.	0.000	0.000	0.196	0.196	0.196

FAMILIES AND COMMUNITIES

Projected Pressures, Cost Reduction Options and Investments

Appendix 3b

Description	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Libraries - Customer base continues to be down from normal levels and will not likely recover fully ahead of the new financial year, impacting on the level of income receivable in 2021/22 (e.g. room hire, printing etc)	0.100	0.000	0.000	0.000	0.000
New Service Projected Pressures Total	**0.100**	**0.000**	**0.196**	**0.196**	**0.196**

Total Pressures	0.100	0.000	0.196	0.196	0.196
Service Total	**0.100**	**0.000**	**0.196**	**0.196**	**0.196**

Rural

Community Impact Assessment Rating - Medium

New Service Projected Pressures					
Non-delivery of prior year savings	0.340	0.340	0.000	0.000	0.000
Lost income - deflated economy post covid likely to impact on rental income, sales etc.	0.030	0.000	0.000	0.000	0.000
New Service Projected Pressures Total	**0.370**	**0.340**	**0.000**	**0.000**	**0.000**

Total Pressures	0.370	0.340	0.000	0.000	0.000
Service Total	**0.370**	**0.340**	**0.000**	**0.000**	**0.000**

Total Families & Communities Pressures and Cost Reductions	**5.836**	**0.848**	**(4.412)**	**(7.936)**	**(10.021)**
Inflation	**2.607**	**7.004**	**11.495**	**16.137**	**20.882**
Families & Communities Grand Total	**8.443**	**7.852**	**7.083**	**8.201**	**10.861**

ECONOMY, INFRASTRUCTURE AND SKILLS

Projected Pressures, Cost Reduction Options and Investments

Description	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Economic Development & Strategic Planning — Community Impact Assessment Rating - Low					
New Service Projected Pressures					
Economic Recovery - supporting business post Covid-19	1.000	1.000	1.000	1.000	1.000
Reduced income due to drop in demand due to Covid-19 pandemic (NTC parking, SBEN memberships and DMP)	0.050	0.025	0.000	0.000	0.000
New Service Projected Pressures Total	**1.050**	**1.025**	**1.000**	**1.000**	**1.000**
Total Pressures	1.050	1.025	1.000	1.000	1.000
Service Total	**1.050**	**1.025**	**1.000**	**1.000**	**1.000**
Infrastructure & Highways — Community Impact Assessment Rating - High					
Total Service Spending Pressures Approved in February 2020	**0.030**	**(0.270)**	**(0.370)**	**(0.370)**	**(0.370)**
Projected Changes to Original Service Spending Pressures					
Reflection of the continued ongoing growth in size of the road network.	0.000	0.050	0.100	0.150	0.200
Reduced income due to drop in customer demand due to Covid-19 pandemic (e.g. on-street parking charges and PCN's, Bus Lane PCN's)	0.300	0.250	0.200	0.150	0.100
Total Projected Changes to Service Spending Pressures Approved in February 202	**0.300**	**0.300**	**0.300**	**0.300**	**0.300**
New Service Projected Pressures					
Winter Service - current budget does not meet the cost of an average winter, which impacts on other routine & reactive works.	0.300	0.300	0.300	0.300	0.300
Reinstate budget for weed treatments that was reduced as part of the 'environmental' highway savings made last year.	0.050	0.050	0.050	0.050	0.050
New Service Projected Pressures Total	**0.350**	**0.350**	**0.350**	**0.350**	**0.350**
Total Pressures	0.680	0.380	0.280	0.280	0.280
Service Total	**0.680**	**0.380**	**0.280**	**0.280**	**0.280**

ECONOMY, INFRASTRUCTURE AND SKILLS

Projected Pressures, Cost Reduction Options and Investments

Description	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Transport, Connectivity & Waste	**Community Impact Assessment Rating - High**				
Total Service Spending Pressures Approved in February 2020	**0.199**	**0.819**	**0.519**	**0.519**	**0.519**
Projected Changes to Original Service Spending Pressures					
Change in costs of home to school mainstream transport relating to number of school days in a financial year.	0.080	(0.060)	0.000	0.060	0.030
Adjustment to forecast waste tonnage pressure	(0.119)	(0.332)	(0.031)	0.272	0.579
Total Projected Changes to Service Spending Pressures Approved in February 202	**(0.039)**	**(0.392)**	**(0.031)**	**0.332**	**0.609**
Original Service Savings					
Reduction in Green Waste recycling credit payments	(0.500)	(1.100)	(1.100)	(1.100)	(1.100)
Total Service Cost Reductions Approved in February 2020	**(0.500)**	**(1.100)**	**(1.100)**	**(1.100)**	**(1.100)**
Total Pressures	0.160	0.427	0.488	0.851	1.128
Total Cost Reductions	(0.500)	(1.100)	(1.100)	(1.100)	(1.100)
Service Total	**(0.340)**	**(0.673)**	**(0.612)**	**(0.249)**	**0.028**
Total Economy, Infrastructure & Skills Pressures and Cost Reductions	**1.390**	**0.732**	**0.668**	**1.031**	**1.308**
Inflation	**2.169**	**4.696**	**6.906**	**8.711**	**10.550**
Economy, Infrastructure & Skills Grand Total	**3.559**	**5.428**	**7.574**	**9.742**	**11.858**

CORPORATE SERVICES

Projected Pressures, Cost Reduction Options and Investments

Description	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Assets					
New Service Projected Pressures					
Loss of rental income in SP2 (CCG)	0.360	0.360	0.360	0.360	0.360
Further loss of income on SP2 2nd/3rd floor (prevous saving from 19/20 unachieved due to Covid-19)	0.560	0.560	0.560	0.560	0.560
New Service Projected Pressures Total	**0.920**	**0.920**	**0.920**	**0.920**	**0.920**
Total Service Cost Reductions Approved in February 2020	**(0.370)**	**(0.620)**	**(0.720)**	**(0.720)**	**(0.720)**
Projected Changes to Original Service Cost Reductions					
Delay to Property Rationalisation (StraProp2) saving above due to coronavirus.	0.204	0.250	0.470	0.620	0.620
Total Projected Changes to Service Cost Reductions Approved in February 2020	**0.204**	**0.250**	**0.470**	**0.620**	**0.620**
Total Pressures	0.920	0.920	0.920	0.920	0.920
Total Cost Reductions	(0.166)	(0.370)	(0.250)	(0.100)	(0.100)
Service Total	**0.754**	**0.550**	**0.670**	**0.820**	**0.820**

CORPORATE SERVICES

Projected Pressures, Cost Reduction Options and Investments

Description	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Business Support & Compliance					
New Service Projected Pressures					
Additional Complaints Team	0.067	0.067	0.067	0.067	0.067
New Service Projected Pressures Total	**0.067**	**0.067**	**0.067**	**0.067**	**0.067**
Total Pressures	0.067	0.067	0.067	0.067	0.067
Service Total	**0.067**	**0.067**	**0.067**	**0.067**	**0.067**
County Treasurers					
New Service Projected Pressures					
New Insurance Arrangements with schools	2.220	2.220	2.220	2.220	2.220
New Service Projected Pressures Total	**2.220**	**2.220**	**2.220**	**2.220**	**2.220**
Total Pressures	2.220	2.220	2.220	2.220	2.220
Service Total	**2.220**	**2.220**	**2.220**	**2.220**	**2.220**

CORPORATE SERVICES

Projected Pressures, Cost Reduction Options and Investments

Description	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Governance					
Total Service Pressures Approved in February 2020	**(0.032)**	**(0.077)**	**(0.099)**	**(0.118)**	**(0.118)**
Total Pressures	(0.032)	(0.077)	(0.099)	(0.118)	(0.118)
Service Total	**(0.032)**	**(0.077)**	**(0.099)**	**(0.118)**	**(0.118)**
Total Corporate Services Pressures and Cost Reductions	**3.009**	**2.760**	**2.858**	**2.989**	**2.989**
Inflation	**0.389**	**1.608**	**2.855**	**4.128**	**5.429**
Corporate Services Grand Total	**3.398**	**4.368**	**5.713**	**7.117**	**8.418**

Appendix 4

Summary of Pressures, Inflation, Savings and Investments

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Health and Care					
Pressures	19.024	31.113	42.355	53.865	65.375
Inflation	1.014	2.379	3.876	5.407	6.975
Savings	(2.401)	(6.757)	(10.256)	(11.962)	(11.980)
Investments	-	-	-	-	-
Health and Care Total	17.637	26.735	35.975	47.310	60.370
Families and Communities					
Pressures	4.638	4.311	4.292	4.407	4.557
Inflation	2.599	6.996	11.487	16.129	20.874
Savings	1.823	(2.316)	(6.739)	(10.363)	(12.598)
Investments	(0.625)	(1.147)	(1.965)	(1.980)	(1.980)
Families and Communities Total	8.435	7.844	7.075	8.193	10.853
Economy, Infrastructure and Skills					
Pressures	1.890	1.832	1.768	2.131	2.408
Inflation	2.176	4.703	6.913	8.718	10.562
Savings	(0.500)	(1.100)	(1.100)	(1.100)	(1.100)
Investments	-	-	-	-	-
Economy, Infrastructure and Skills Total	3.566	5.435	7.581	9.749	11.870
Corporate Services					
Pressures	3.175	3.130	3.108	3.089	3.089
Inflation	0.402	1.621	2.868	4.141	5.442
Savings	(0.166)	(0.370)	(0.250)	(0.100)	(0.100)
Investments	-	-	-	-	-
Corporate Services Total	3.411	4.381	5.726	7.130	8.431
Grand Total	**33.049**	**44.395**	**56.357**	**72.382**	**91.524**

All figures presented in each year represent a cumulative change from the current 2020/21 budget.

Appendix 5

Major Assumptions Used in MTFS
Year-on-Year Increases

	2021/22	2022/23	2023/24	2024/25	2025/26
Staffing costs					
Pay	-	2.5%	2.5%	2.5%	2.5%
Local Government Pension Scheme increases	1.0%	1.0%	1.0%	1.0%	1.0%
General running costs					
Prices (including internal recharges from trading services)	1.0%	2.0%	2.0%	2.0%	2.0%
Contractual inflation	Variable	Variable	Variable	Variable	Variable
Income (standard allocation)	1.0%	2.0%	2.0%	2.0%	2.0%
Utility / Running Expenses					
Electricity	10.0%	10.0%	10.0%	10.0%	10.0%
Gas	10.0%	10.0%	10.0%	10.0%	10.0%
Business Rates bills	3.0%	3.1%	3.1%	3.1%	3.1%
Water[1]	3.0%	3.0%	3.0%	3.0%	3.0%
Petrol	3.0%	3.1%	3.1%	3.1%	3.1%
Diesel	3.0%	3.1%	3.1%	3.1%	3.1%
In-Year Increases					
Interest Rates					
Interest on investments	0.10%	0.10%	0.10%	0.10%	0.10%
Interest on debt	3.74%	3.73%	3.73%	3.77%	3.80%
General Funding					
New Homes Bonus	£2.0m	£0.8m	-	-	-
Loss of Revenue Support Grant	-	-£10.9m	-	-	-
Revenue Support Grant	£10.9m	-	-	-	-
Council Tax	1.99%	1.99%	1.99%	1.99%	1.99%
Social Care Precept	3.00%	2.00%	2.00%	2.00%	2.00%

[1] Water Bill increases are set by OFWAT. These have been capped for the 5 year period at the previous Novembers RPI inflation rate plus 0.5%

Appendix 6

Council Taxbase, Collection funds and Precepts

Tax Base (Band D equivalents)

	2020/21	2021/22
Cannock Chase	29,242.50	29,136.82
East Staffordshire	38,388.50	37,875.00
Lichfield	39,032.30	38,891.40
Newcastle	37,387.00	37,087.00
South Staffordshire	38,355.90	38,664.29
Stafford	48,260.70	47,994.06
Staffordshire Moorlands	33,225.00	33,260.00
Tamworth	22,367.00	22,366.00
Totals	**286,258.90**	**285,274.57**

Estimated Council Tax Collection Fund Position

	2020/21 £	2021/22 £
Cannock Chase	777,387	(193,546)
East Staffordshire	498,783	293,444
Lichfield	1,074,400	(212,848)
Newcastle	(380,310)	(310,069)
South Staffordshire	1,347,810	(248,200)
Stafford	1,659,697	(304,692)
Staffordshire Moorlands	213,260	(453,407)
Tamworth	544,868	430,171
Totals	**5,735,895**	**(999,147)**

Key: Surplus / (Deficit)

Precepts

	2020/21 £	2021/22 £
Cannock Chase	37,896,818	39,644,140
East Staffordshire	49,749,577	51,533,483
Lichfield	50,583,909	52,916,417
Newcastle	48,451,683	50,461,314
South Staffordshire	49,707,329	52,607,406
Stafford	62,543,454	65,301,678
Staffordshire Moorlands	43,057,939	45,254,221
Tamworth	28,986,514	30,431,627
Totals	**370,977,221**	**388,150,285**

Review of Earmarked Reserves / Provisions

Reserve Name	Reason for Reserve	Forecast Balance 31st March 2021 £m	Transfer into General Balances £m	Forecast Balance after Transfer £m
Information Technology	To provide finance to cover advance expenditure for information technology projects this will be repaid over future years. The reserve is currently committed for a range of future IT projects including education projects and the broadband network. The reserve is considered appropriate for its purpose.	6.243	0.000	6.243
PFI Reserves	These reserves are required to ensure sufficient resources are available to meet the county council's obligations over the whole life of PFI contracts and to even out the charge to revenue over the period. The balance on the street lighting PFI contract is reviewed at the end of each financial year and at other strategic points. At this stage in the contract it is considered appropriate to maintain the balance of the reserve at its current level.	0.826	0.000	0.826
Archives	The reserve forms part of the Joint Archives agreement with Stoke City Council and is used to finance any overspends or emergency work that may arise. The current level of the reserve is considered to be sufficient.	0.326	0.000	0.326
Redundancy	To smooth the impact of redundancies over a five year period. This reserve is self-funding as all interest charged is posted to revenue. It is not possible to forecast demand for contributions from this reserve therefore the current level is sufficient.	13.822	0.000	13.822
Material Damage and Motor Vehicles Reserve and Provision	To ensure that sufficient resources are available to meet outstanding liabilities in respect of the self funding element of material damage claims. An internal review has been undertaken regarding the level of the insurance provision, and has deamed the level of reserves sufficient.	0.854	0.000	0.854
Insurance self-funding Provision (pre LGR)	To ensure that sufficient resources are available to meet outstanding claims not covered by the county council's former insurance arrangements for the period 1st May 1992 to 31st March 1997.	1.092	0.000	1.092
Insurance self-funding Provision (post LGR)	To ensure that sufficient resources are available to meet outstanding claims not covered by the county council's insurance arrangements from 1st April 1997. This is a long term fund and the gap in funding will be dependant on the level of claims.	6.555	0.000	6.555

Review of Earmarked Reserves / Provisions

Appendix 7

Reserve Name	Reason for Reserve	Forecast Balance 31st March 2021 £m	Transfer into General Balances £m	Forecast Balance after Transfer £m
Schools' Balance of Risk Provision	To ensure sufficient funds are available to meet schools claims.	0.053	0.000	0.053
Schools' Supply Cover Reserves	To ensure sufficient funds are available to meet schools claims.	0.949	0.000	0.949
Conservation and Archaeology	To meet the county's obligation towards the Extensive Urban Survey scheme, which is being run in partnership with English Heritage.	0.011	0.000	0.011
Museums	The reserve has been built up from when the Museum sold some firearms. The revenue this sale created can only be used to fund items that can be included within the Museums collection. This funding is therefore not available to support the revenue budget.	0.017	0.000	0.017
Trading Services	The trading services reserves are earmarked sums set aside for trading services activity. The balance mainly represents vehicle replacement programmes managed by County Fleet Care but also includes balances that the trading service will draw down on in years when the service creates a deficit.	2.906	0.000	2.906
Revenue Carry Forward Earmarked Reserves	To hold revenue grants which remain unspent at year end and do not have any conditions attached. As the grants are unconditional (with the exception of the Growing Places fund), these funds could be available to support the MTFS.	43.180	0.000	43.180
Vehicle/Plant Renewals	To ensure sufficient resources are available to purchase replacement vehicles, plant & equipment for specific services. This includes purchasing mowers, trailers and bush cutters. This funds completely different types of vehicles to those funded through the County Fleet Care reserve.	(0.002)	0.000	(0.002)

Total Earmarked Reserves		**76.832**	**0.000**	**76.832**

Risk Based Review of General Balances

CIPFA guidance indicates that a well-managed authority with a prudent approach to budgeting should be able to operate with a relatively low level of general reserves and that Chief Financial Officers should take account of the strategic, operational and financial risks facing the authority.

A risk assessment has been undertaken to identify the key financial risks for next year which can be used as a basis for determining the minimum level of general balances for the county council. Details of this assessment are provided below. Whilst not a complete list of all the financial risks faced by the council, the assessment focuses on those most likely (High and Medium risks) to have a significant impact on the budget.

2019/20 Provision £m	Area of Expenditure	Level of Risk	Explanation of risk/justification of balances
Treatment of inflation and interest rates			
2.0	**Inflation**	Medium	Services could experience risks in contract prices over and above the general inflation allocation allocated in the MTFS. The mix of price increases could vary across sectors, which could result in a particular strain on resources in some areas.
2.0	**Brexit**	Medium	Uncertainty around prices following the country's exit from the European Union.
1.0	**Treasury Management**	Low	1% point increase in interest rate on borrowing against capital programme.
1.0	**Investments**	Medium	0.5% point drop in interest on balances will reduce the income by £0.75m.
Estimates of the level and timing of capital receipts			
3.0	**Capital Receipts**	Medium	The councils is using current flexibilities regarding funding transformatonal spend from capital receipts. In the event that the estimated level of receipts is not achieved because of unforeseen circumstances, the impact on the revenue budget in terms of available one-off funding will be immediate.
The treatment of demand led pressures			
10.0	**Adults Social Care**	High	Increasing demand for services.
10.0	**Looked after Children**	High	Continual risk that demand pressures from a potential increase in the number and cost of out of county residential care placements will exceed budget provision.
5.0	**Covid funding**	High	Risk that the funding provided for expenditure relating to the pandemic does not cover costs. This includes lost income from council tax and business rates and unachieved or delayed savings.
1.0	**Other areas**	Medium	Risks of overspend in other budget areas.
1.5	**Income** **General grant income**	High	There are risks around collection rates for both Council Tax and Business Rates, as well as uncertainty around future government grant levels.
1.50	**VAT**	Low	Risk of exceeding 5% limit for input tax.
The treatment of efficiency savings/productivity gains			
10.0	**Non achievement of efficiency savings/ ’invest to save’ costs/ redundancy costs**	Medium	Risk of non-achievement of savings, or delays in delivery or additional unforeseen one off costs to facilitate savings.

Financial risks in any significant new funding partnerships, major outsourcing deals or major capital developments			
4.0	**Partnership risks**	High	Financial risks of various potential significant partnership agreements that the council may enter into over the MTFS period.
The availability of other funds to deal with major contingencies			
2019/20 Provision £m	**Area of Expenditure**	**Level of Risk**	**Explanation of risk/justification of balances**
2.0	**Disaster recovery**	Medium	Cost of consequential losses for uninsurable risk incidents such as virus attack on ICT infrastructure and ensuring business continuity.
10.0	**Insurance** (Difficult to quantify)	Low	Risk of: uninsured terrorism, gradual pollution liabilities, gap between Aggregate stop and Provision.

Level of Balances – Summary

Level of Risk	£m
High and Medium Risks	**51.5**

Appendix 9

SCC Capital Programme

2021/22 to 2025/26 Capital Programme Forcast

Service	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Economy, Infrastructure & Skills					
Highways Schemes	69,483	3,015	125		
Economic Planning & Future Prosperity	6,248	743	750	1,070	750
Connectivity	159				
Waste & Sustainability	1,148				
	77,038	**3,758**	**875**	**1,070**	**750**
Families and Communities					
Maintained Schools	15,705	15,088			
Basic Need Works	*10,443*	*10,900*			
Maintenance and Replacement					
Special Programmes	*5,262*	*4,188*			
Carbon Reduction Initiatives					
Academy Conversion Residual					
Other Non-schools					
Vulnerable Childrens Projects	75				
Rural County	769	334	302	209	209
Tourism & Cultural County	42				
	16,591	**15,422**	**302**	**209**	**209**
Health and Care					
Care & Independence	8,139	4,805			
	8,139	**4,805**			
Corporate Services					
Finance, Resources & ICT	395				
Corporate Leased Equipment	40	40	40	40	40
Strategic Property	6,360	3,355	2,305	2,305	2,305
Trading Services - County Fleet Care	235	235	235	235	235
	7,030	**3,630**	**2,580**	**2,580**	**2,580**
Sub Total Capital Programme	**108,797**	**27,615**	**3,757**	**3,859**	**3,539**
Asset Renewal					
Capital Programme	**108,797**	**27,615**	**3,757**	**3,859**	**3,539**

Cabinet – 27 January 2021

Capital and Minimum Revenue Provision Strategy 2021/22

Recommendation of the Cabinet Member for Finance

Report of the County Treasurer

Introduction

1. This capital strategy provides 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.

Capital Expenditure and Financing

2. Capital expenditure is where the Council spends money on assets that will be used for more than one year, such as the road network, schools and economic development schemes. In local government this also includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

3. In 2021/22, the Council is planning capital expenditure of £109m, as summarised below. Although additional funds from Government allocations are expected to be announced in January. The updated programme will be reported to Cabinet on 27th January which will include these allocations.

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget	2025/26 budget
TOTAL	£109m	£28m	£4m	£4m	£4m

4. The main capital projects include:

- The Stafford Western Access Route: This will provide a strategic link between the north and west of the town, which will help the delivery of thousands of new homes and business, office and retail space. It will also reduce congestion in the town centre, particularly around the railway station. There is a total budget £62.8m funded by a combination of Local Growth Deal monies, Stafford Borough Council, Developers and SCC. Capital expenditure is predicted to be c.£7m in 2021/22.

- The i54 Western Extension, which will provide an additional 24 hectares (60 acres) of land to accommodate up to 100,000 metres squared of industrial employment floor space. It is envisaged that when the i54 site is fully completed in the coming years, it will have provided some 4,600 jobs in total and will have attracted over £1.1billion of private investment. This is a joint venture with the City of Wolverhampton Council, with a total budget of £38.5m and with partial funding from the Black Country LEP and Stoke and Staffordshire LEP. Capital expenditure is forecasted to be c.£3m in 2021/22.

- Expansion of Coton Green Primary School and Sir Graham Balfour to accommodate rising pupil numbers are anticipated to cost c.£1.3m in 2021/22.

5. 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, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions –

	2021/22 budget	**2022/23 budget**	**2023/24 budget**	**2024/25 budget**	**2025/26 budget**
External sources	£68m	£16m	£1m	£0m	£0m
Capital resources	£22m	£3m	£2m	£3m	£3m
Revenue resources	£0m	£1m	£0m	£1m	£1m
Debt	£19m	£8m	£1m	£0m	£0m
TOTAL	**£109m**	**£28m**	**£4m**	**£4m**	**£4m**

6. 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). Planned MRP is as follows:

Table 3: Replacement of debt finance in £ millions

	2021/22 budget	**2022/23 budget**	**2023/24 budget**	**2024/25 budget**	**2025/26 budget**
Revenue resources	£19.2m	£19.0m	£18.6m	£17.7m	£17.2m

7. The Council's full minimum revenue provision statement is attached at the end of this report

8. 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. The CFR is expected to decrease by £2.2m during 2021/22. 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 in £ millions

	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget	2025/26 budget
TOTAL CFR	**£580.1m**	**£567.4m**	**£547.4m**	**£528.2m**	**£509.4m**

9. **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 Authority is currently also permitted to spend capital receipts on service transformation projects until 2022/23. Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive £13.5m of capital receipts in the coming financial year as follows:

Table 5: Capital receipts in £ millions

	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
Asset sales	£23.4m	£25.4m	£13.5m	£4.2m	£0.3m
Loans etc repaid					

10. This is subject to re-phasing as sales progress and the figures include earmarked receipts.

11. **Governance**: Capital expenditure programmes are contained within the Medium Term Financial Strategy (MTFS) and follow the governance arrangements associated with the MTFS.

Prudential Indicators

12. We have a Treasury Management strategy and an Investment strategy which follows this report.

13. **Borrowing strategy:** Projected levels of the Council's total external loans.

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget	2025/26 budget
External loans	**£464m**	**£459m**	**£449m**	**£439m**	**£423m**
Capital Financing Requirement	**£580m**	**£567m**	**£547m**	**£528m**	**£509m**

14. Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term.

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

Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget	2025/26 budget
Authorised limit – borrowing	£667m	£654m	£633m	£612m	£592m
Authorised limit – Other liabilities	£258m	£262m	£264m	£267m	£270m
Authorised limit – total	£925m	£916m	£897m	£879m	£862m
Operational boundary – borrowing	£522m	£522m	£519m	£508m	£495m
Operational boundary – Other liabilities	£258m	£262m	£264m	£267m	£270m
Operational boundary – total	£780m	£784m	£783m	£775m	£765m

<u>Revenue Budget Implications</u>

16. 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 9: Prudential Indicator: Proportion of financing costs to net revenue stream

	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget	2025/26 budget
Financing costs (£m)	39.6	39.4	38.4	36.9	36.1
Proportion of net revenue stream	7.5%	7.5%	7.1%	6.6%	6.2%

Conclusion

17. There is a planned capital programme amounting to £109m in 2021/22. If any borrowing is planned then the costs of repaying it are reflected in the capital financing budget. The Prudential Indicators are included within the Capital and Minimum Revenue Provision Strategy and these show that the planned level of borrowing is affordable.

Minimum Revenue Provision (MRP) Policy Statement

Introduction

Capital expenditure is expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred therefore such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life.

The manner of spreading these costs is through an annual Minimum Revenue Provision (MRP), which was previously determined under Regulation, and will in future be determined under Guidance.

The Government issued guidance which came into force on 31 March 2008 which requires that a Statement on the County Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The guidance offers four main options under which MRP could be made (for information these are detailed over the page), with an overriding recommendation that the County Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits.

MRP Policy Statement 2021/22

The County Council implemented the new MRP guidance in 2009/10, and will assess their MRP for 2021/22 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

The major proportion of the MRP for 2021/22 will relate to the more historic debt liability that will continue to be charged at the rate of 4%, in accordance with the recommendations and intent of Option 1 of the Guidance.

Further amounts of new capital expenditure may continue to be charged at the rate of 4%, and added to the above mentioned base Capital Financing Requirement (CFR) amount, up to an amount equivalent to the County Council's annual Supported Capital Expenditure (Revenue) allocation.

Certain expenditures reflected within the debt liability at 31 March 2021 will under delegated powers be subject to MRP under Option 3.

Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the County Council. However, the County Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

Asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure.

With regards to loans granted by the County Council no MRP will be charged on them. The MRP will be equated to the principal repayment of the individual loans.

Option 1: Regulatory Method
Under the previous MRP regulations, MRP was set at a uniform rate of 4% of the adjusted CFR (i.e. adjusted for “Adjustment A”) on a reducing balance method (which in effect meant that MRP charges would stretch into infinity). This historic approach must continue for all capital expenditure incurred in years before the start of this new approach. It may also be used for new capital expenditure up to the amount which is deemed to be supported through the SCE annual allocation.

Option 2: Capital Financing Requirement Method
This is a variation on Option 1 which is based upon a charge of 4% of the aggregate CFR without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation. The CFR is the measure of an authority’s outstanding debt liability as depicted by their balance sheet.

Option 3: Asset Life Method.
This method may be applied to most new capital expenditure, including where desired that which may alternatively continue to be treated under Options 1 or 2.

Under this option, it is intended that MRP should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure. There are two useful advantages of this option.

- Longer life assets e.g. freehold land can be charged over a longer period than would arise under Options 1 and 2, although this should not normally exceed 50 years.
- No MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an ‘MRP holiday’). This is not available under Options 1 and 2.

There are two methods of calculating charges under Option 3:

a. equal instalment method – equal annual instalments; or

b. annuity method – annual payments gradually increase during the life of the asset.

Option 4: Depreciation Method
Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than Option 3.

The same conditions apply regarding the date of completion of the new expenditure as apply under Option 3.

Local Members Interest
N/A

Cabinet – 27 January 2021

Treasury Management Strategy 2021/2022

Recommendations of the Cabinet Member for Finance

Report of the County Treasurer

1. That Cabinet approve the 2021/2022 Treasury Management Strategy, based on the 2017 CIPFA Codes (Prudential Code and Treasury Management Code), and 2018 MHCLG Guidance (on Local Government Investments and on Minimum Revenue Provision).

2. That, in accordance with the regulations, Cabinet recommends to the County Council, at its meeting on the 11 February 2021, the adoption of the Annual Investment Strategy (AIS) 2021/22 detailed in **paragraphs 60 to 107,** and **Annex A** and **Annex B** of this report.

3. That Cabinet approve the proposed Borrowing Strategy for 2021/2022 laid out in **paragraphs 38 to 55** comprising:

   a) maximising the use of cash in lieu of borrowing, as far as is practical;
   b) the ability to borrow new long-term loans, where deemed appropriate;
   c) the use of cash to repay loans early, subject to market conditions; and
   d) a loan rescheduling strategy that is unlimited where this re-balances risk.

4. That Cabinet approve policies on:

   a) reviewing the Treasury Management Strategy;
   b) the use of external advisors;
   c) investment management training; and
   d) the use of financial derivatives.

   as described in **paragraphs 109 to 119** of this report.

5. All of the above will operate within the prudential limits set out in **Annex C** and will be reported to the Cabinet Member for Finance, in respect of decisions made for raising new long-term loans, early loan repayments and loan rescheduling.

Introduction

6. Treasury Management comprises the management of the County Council's cash flows, borrowings and investments, and their associated risks. The County Council has borrowed and invested large sums of money and is therefore exposed to financial risks, including the effects on revenue from changing interest rates on borrowings and investments, and the risks of a potential loss of invested cash. It is important that the County Council successfully identifies, monitors and controls financial risk as part of prudent financial management.

7. The County Council conducts its treasury risk management within the framework of the Chartered Institute of Public Finance and Accountancy's (CIPFA) *Treasury Management in the Public Services Code of Practice 2017 Edition* (the CIPFA Code). The CIPFA Code requires that the County Council approves a treasury management strategy before the start of each financial year. In addition, this report fulfils the County Council's legal obligation to have regard to the CIPFA Code under the *Local Government Act 2003.*

8. Any investments held for service purposes or for commercial reasons i.e. the Council's non-treasury investments, are considered in a separate report. The (Non-Treasury) Commercial Investment Strategy 2021/22 report meets the requirements of the statutory guidance issued by the Ministry of Housing, Communities and Local Government's (MHCLG) in its *Guidance on Local Government Investments 2018 Edition*.

Link to the Medium-Term Financial Strategy (MTFS)

9. It is a statutory requirement under Section 33 of the Local Government Finance Act 1992 for the County Council to produce a balanced budget. In particular, Section 32 requires the calculation of a budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. Capital expenditure must not exceed an amount which can be afforded, in terms of interest charges and running costs for the foreseeable future.

10. The Local Government Act 2003 requires a local authority to have regard to the Prudential Code and to set Prudential Indicators for the next three years to ensure that its capital investment plans are affordable, prudent and sustainable. The Prudential Indicators are approved as part of the Medium--Term Financial Strategy (MTFS), but the treasury indicators are included in this report as they require consideration as part of the Treasury Management Strategy.

11. The Treasury Management Strategy is a key element of the MTFS as the planned capital expenditure programme drives the borrowing required. This is explained further in the Borrowing Strategy from **paragraph 38** onwards.

External Context

Economic background

12. The impact on the UK from coronavirus, together with the exit from the European Union and future trading arrangements with the bloc, will remain a major influence on the County Council's treasury management strategy for 2021/22.

13. The Bank of England (BoE) maintained Bank Rate at 0.10% in November 2020 and also extended its Quantitative Easing programme by £150 billion to £895 billion. The Monetary Policy Committee voted unanimously for both, but no mention was made of the potential future use of negative interest rates.

14. UK Consumer Price Inflation (CPI) for November 2020 registered 0.3% year on year, down from 0.7% in the previous month. Core inflation, which excludes the more volatile components, fell to 1.1% from 1.5%. The most recent labour market data for the three months to October 2020 showed the unemployment rate rose to 4.9% while the employment rate fell to 75.2%. Both measures are expected to deteriorate further due to the ongoing impact of coronavirus on the jobs market, particularly when the various government job retention schemes start to be unwound in 2021, with the BoE forecasting unemployment will peak at 7.75% in Q2 2021. In October, the headline 3-month average annual growth rate for wages were 2.7% for total pay and 2.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up by 1.9% while regular pay was up 2.1%.

15. GDP growth rebounded by 16.0% in Q3 2020 having fallen by -18.8% in the second quarter, with the annual rate rising to -8.6% from -20.8%. All sectors rose quarter-on-quarter, with dramatic gains in construction (41.2%), followed by services and production (both 14.7%). Monthly GDP estimates have shown the economic recovery slowing and remains well below its pre-pandemic peak. Looking ahead, the BoE's November MPR forecasts economic growth will rise in 2021 with GDP reaching 11% in Q4 2021, 3.1% in Q4 2022 and 1.6% in Q4 2023.

16. GDP growth in the euro zone rebounded by 12.7% in Q3 2020, after contracting by -3.7% and -11.8% in the first and second quarters respectively. Headline inflation, however, remains extremely weak, registering -0.3% year-on-year in October, the third successive month of deflation. Core inflation registered 0.2% year-on-year, well below the European Central Bank's (ECB) target of 'below, but close to 2%'. The ECB is expected to continue holding its main interest rate of 0.0% and deposit facility rate of -0.5% for some time.

17. The US economy contracted at an annualised rate of 31.7% in Q2 2020 and then rebounded by 33.1% in Q3 2020. The Federal Reserve maintained the Fed Funds rate at between 0.0% and 0.25% and announced a change to its inflation targeting regime to a more flexible form of average targeting. The Fed also provided strong indications that interest rates are unlikely to change from current levels over the next three years.

Credit outlook

18. After spiking in late March as coronavirus became a global pandemic, credit default swap (CDS) prices for the larger UK banks have steadily fallen back to almost pre-pandemic levels. Although uncertainly around coronavirus related loan defaults led to banks provisioning billions for potential losses in the first half of 2020, drastically reducing profits, reported impairments for Q3 were much reduced in some institutions. However, general bank profitability in 2020 is likely to be significantly lower than in previous years.

19. The credit ratings for many UK institutions were downgraded on the back of downgrades to the UK sovereign rating. Credit conditions more generally though in banks and building societies have tended to be relatively benign, despite the impact of the pandemic.

20. Looking forward, the potential for bank losses to be greater than expected, when government and central bank support starts to be removed, remains a risk suggesting a cautious approach to bank deposits in 2021/22 remains advisable.

Interest rate forecast

21. The County Council's treasury management adviser Arlingclose is forecasting that BoE Bank Rate will remain at 0.1% until at least the end of 2023. The risks to this forecast are judged to be to the downside as the BoE and UK government continue to react to the coronavirus pandemic and the Brexit transition period ends. The BoE extended its asset purchase programme to £895 billion in November while keeping Bank Rate on hold. However, further interest rate cuts to zero, or possibly negative, cannot yet be ruled out but this is not part of the Arlingclose central forecast.

22. Gilt yields are expected to remain very low in the medium-term while short-term yields are likely to remain below or at zero until such time as the BoE expressly rules out the chance of negative interest rates or growth/inflation prospects improve. The central case is for 10-year and 20-year Gilts to rise to around 0.5% and 0.75% respectively, over the time horizon. The risks around the Gilt yield forecasts are judged to be broadly balanced between upside and downside risks, but there will almost certainly be short-term volatility, due to economic and political uncertainty and events.

23. Due to the risks associated with coronavirus, the treasury strategy retains the low risk approach adopted in recent years, based on prioritising security, liquidity and then yield.

Local Context

24. On 30 November 2020, the County Council held £467.6m of external borrowing and had £254.8m temporarily invested. The County Council's future requirements for borrowing and investments can be considered by reviewing its balance sheet forecasts.

Balance sheet

25. In terms of borrowing, the County Council discloses its Capital Financing Requirement (CFR) as part of its Statement of Accounts. This represents the underlying need to borrow for capital purposes i.e. the amounts that have been financed through external and internal borrowing rather than being permanently financed. As the CFR also includes capital expenditure that has been funded through Private Finance Initiatives (PFI), we remove PFI liabilities to calculate the County Council's Loans CFR.

26. If the Council borrows to fund additional capital expenditure, this will increase its Loans CFR; conversely repaying debt through the Minimum Revenue Provision (MRP) will reduce its Loans CFR. The table below shows forecasts for the County Council's Loans CFR and how this will be financed through external and internal borrowing:

	31.03.20 Actual £m	31.03.21 Estimate £m	31.03.22 Forecast £m	31.03.23 Forecast £m	31.03.24 Forecast £m
Loans CFR	572.6	582.3	580.1	567.4	547.4
Less: External borrowing	(467.6)	(467.6)	(463.5)	(458.5)	(448.5)
Internal / (over) borrowing	**105.0**	**114.7**	**116.5**	**108.9**	**98.9**

27. The table shows that the County Council's Loans CFR is due to increase in 2021/22 before decreasing thereafter; primarily because of a reduced capital programme in future years alongside repayments of external borrowing as they mature. The County Council's internal borrowing requirements move in line with the Loans CFR projections.

28. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the County Council's total external borrowing should be lower than its highest forecast CFR over the next three years; the above table shows the County Council will comply with this recommendation during 2021/22 and going forward.

29. For investments, the County Council's total resources available are measured by its usable reserves and working capital less any amounts that have been internally borrowed. This is shown in the following table:

	31.03.20 Actual £m	31.03.21 Estimate £m	31.03.22 Forecast £m	31.03.23 Forecast £m	31.03.24 Forecast £m
Usable reserves	240.0	203.0	201.0	203.0	206.0
Working capital surplus	0	0	0	0	0
Less Internal borrowing	(105.0)	(114.7)	(116.5)	(108.9)	(98.9)
Advanced Pension contributions	13	(35)	16	19	(35)
Investment / (New borrowing)	**148.0**	**53.3**	**100.5**	**113.1**	**72.1**

30. This demonstrates the County Council's recent strategy to use internal borrowing to reduce the need for external borrowing also reduces temporary investment levels. The above table also indicates that the County Council will

have sufficient internal resources to cover the internal borrowing requirement in 2021/22 and will not need to borrow from external sources. Within the table above, it is assumed that the County Council will make a further payment in advance for pension contributions in 2023/24, as in 2020/21. The County Council is expected to continue to make significant savings by making an advanced payment for 3 years' pensions contributions, rather than paying monthly, for the three year period.

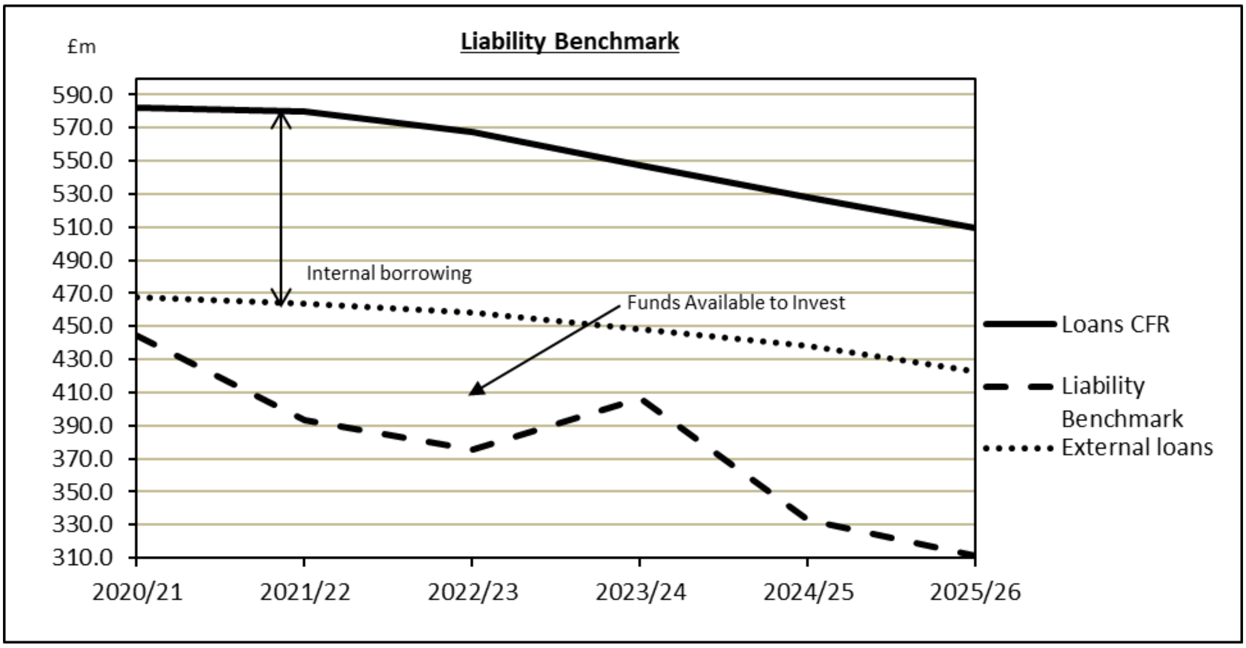
Liability benchmark

31. The CIPFA Prudential Code encourages local authorities to develop their own liability benchmark to manage treasury management risk. The liability benchmark represents the minimum amount of loans required to maintain cash balances at nil, i.e. when all usable reserves and working capital surpluses are used to offset the amount of loans borrowed.

32. Forecasts for the liability benchmark can be used to predict when further borrowing may be required or when cash is available to invest. Forecasts for the County Council's liability benchmark are shown in the following table and chart:

	31.03.20 Actual £m	31.03.21 Estimate £m	31.03.22 Forecast £m	31.03.23 Forecast £m	31.03.24 Forecast £m
External loans	467.6	467.6	463.5	458.5	448.5
(Less Investments) / Add New borrowing	(148.0)	(53.3)	(100.5)	(113.1)	(72.1)
Net borrowing requirement	**319.6**	**414.3**	**363.1**	**345.4**	**376.4**
Add: Minimum investments*	30.0	30.0	30.0	30.0	30.0
Liability benchmark	**349.6**	**444.3**	**393.1**	**375.4**	**406.4**

* Long term loans to 2 Local Authorities (Derby and Redcar and Cleveland).



33. The chart shows that the County Councils Loans CFR (solid line) has been financed through a combination of external borrowing (dotted line) and internal borrowing (the difference between the solid line and the dotted line).

34. The chart indicates that during the MTFS period covered, the County Council will not need to take out any additional external loans to fund its planned capital expenditure and can continue with its strategy of use of cash in lieu of such borrowing.

Policy framework

35. When assessing the various options for borrowing and investment it is still important to have a policy framework. The table that follows sets out three main elements.
- Objectives
- Economic considerations
- Relevant risks

36. The table compares borrowing and investments side by side to highlight the similarities and differences. For example, some of the economic considerations (i.e. the yield curve) are similar, whilst some aspects are different.

	Borrowing strategy	**Investment strategy**
Objectives	• Reduce the average rate (cost) of debt ensuring debt is affordable • Maintain medium term budget stability • Be able to respond to changes in the external environment	• Ensure security (to ensure bills can be paid) • Provide liquidity (i.e. to pay the bills as they fall due) • Earn interest
Economic considerations	• The shape of the whole yield curve* (the level of interest rates for different lengths of time) • The steepness of the yield curve • Forecast changes in interest rates • The relative position of interest rates to the average cost of the debt • The direction of travel for the level of overall debt in the future • Cash balances available to support the strategy	• The shape of the short-term yield curve* • Forecast changes in interest rates • Counterparty issues (credit worthiness) • Type of financial instrument • Risk in the financial environment
Relevant risks	• Security • Liquidity • Interest rate • Market risk • Refinancing • Regulatory and legal	• Security • Liquidity • Interest rate • Market risk • Refinancing • Regulatory and legal

*The yield curve is a fundamental concept; it represents the price paid by the County Council for its long-term loans or the price received for the money it invests.

37. The County Council's risk management for treasury borrowing and investments will form part of a separate risk register that is currently being developed.

Borrowing Strategy 2021/2022

38. In 2021/22, the County Council will hold £467.6m of loans as part of its strategy for funding previous years capital programmes. The County Council will need to ensure total amounts borrowed do not exceed the authorised limit for borrowing of £925 million, as disclosed in **Annex C** and as part of the capital strategy which includes liabilities for PFI schemes.

Objectives

39. The primary objective for the County Council when considering borrowing money is to strike an appropriate balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. Although relatively low interest costs may be secured for the short term, it is more difficult to predict interest costs over the long term.

Strategy

40. Given the significant cuts to public services and to local government funding, the County Council continues to address the key issue of affordability without compromising the long-term stability of its debt portfolio. As short-term interest rates have been lower than long term rates, it has been more cost effective for the County Council to use its internal cash resources in lieu of borrowing in the short term.

41. The current economic environment continues to favour using cash in lieu of borrowing as:
    - there is a normal yield curve, so it is cheaper to use cash than to borrow;
    - due to bail-in legislation it is important to minimise investment risk, as using cash reduces investment balances;
    - using cash within practical cash management limits would meet key parts of the current government guidance on local government investments, i.e. managing the security and liquidity risks for investments;
    - interest rate forecasts show the Bank Rate is still at a low level and it is expected to remain well below the average debt rate for the next year and beyond. Continuing to use cash would meet the objective of bringing down the average rate of interest for borrowing and provide an opportunity to fund the capital programme at low cost; and
    - the medium/long term debt levels are forecast to be lower for longer.

42. In the past, cash balances have been sufficient to allow the strategy of using cash without the need to raise further external loans. The liability benchmark analysis at **paragraph 32** indicates that this is set to continue into 2021/22.

43. The County Council does recognise that there may be unexpected reductions in cash balances in the future. This could be due to:

- increases in the capital programme;
- budget pressures (either through coronavirus or further austerity measures);
- changes in the County Council's cash funding because of structural changes; or
- LOBO loan call options being called.

44. Where additional liquidity is needed, the County Council can call upon short-term temporary loans raised from the money markets, including from other local authorities with surplus cash to invest. The County Council can also obtain long term loans of over one year, for example through the PWLB.

45. It is important to understand that when raising loans, not all of any funding gap needs to be closed with the new loans. A gap should be retained that continues to use available cash for the reasons outlined at **paragraph 41**. The proposed strategy aims to strike a balance between the liquidity needs of day to day cash management with the low risk approach that is maintained by using cash in lieu of external borrowing.

46. The County Council will monitor the benefits of internal borrowing on a regular basis, as this strategy must be balanced against the possibility that long-term borrowing costs may increase in future years, leading to additional costs as a result of deferring borrowing. The County Council will need to determine whether it borrows additional sums, at long term fixed rates in 2021/22, with a view to keeping future interest costs low. To this end, the County Council will take into account the advice and analysis carried out by its treasury management advisor.

Sources of borrowing

47. The approved sources of long term and short-term borrowing are:
    - the Public Works Loans Board (PWLB);
    - UK Municipal Bonds Agency Plc and any other special purpose companies created to enable local authority bond issues;
    - other UK public sector bodies;
    - UK public pension funds (except the Staffordshire Pension Fund);
    - approved banks or building societies authorised to operate in the UK; and
    - any institutions approved for investments.

Long term loans

48. The County Council has previously raised the majority of its long-term borrowing from the PWLB, a statutory body that issues loans to local authorities. Government consent is not ordinarily required, hence the PWLB continues to be the 'lender of first resort' because of the flexibility and ease of access. However local authorities are required by law to have regard to the Prudential Code and only borrow within relevant legislation and its borrowing powers.

49. On 9 October 2019, HM Treasury, the government department responsible for the PWLB, increased the margin over gilt yields from 80bps to 180bps for PWLB certainty rate loans. The government reasoned that the cost of borrowing had fallen to record lows and some local authorities had

substantially increased their use of PWLB borrowing. This shift in policy was aimed to restore PWLB lending rates to ‘normal’ levels. Following wider consultation, HM Treasury has now reviewed this decision and with effect from 24 November 2020, removed the 100bps margin. HM Treasury have also put measures in place to prevent public bodies using PWLB funding to finance any commercial investments and there are mechanisms in place to recall such funding, if this is found to be the case.

50. The County Council currently holds £51m of long-term borrowing in the form of LOBO (Lender Option Borrower Option) loans. The lender has the option to propose an increase in the interest rate at set dates, following which the County Council has the option to either accept the new rate or to repay the loan at no additional cost. £33m of these LOBO loans have such call options during 2021/22. Although the County Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there does remain an element of refinancing risk.

51. Under the current strategy, the County Council will repay all LOBO loans where call options are exercised by the lender. In addition, the County Council will consider repaying LOBO loans where a loan restructuring opportunity arises and is considered financially advantageous (see **paragraph 56**).

52. Where the County Council is considering taking out long-term loans, the following observations are important:

- the County Council’s existing loan portfolio is very long term as can be seen in the graph at **Annex D** and taking shorter term loans would rebalance the portfolio;.
- as stated already, the yield curve is normal, so shorter-term loans are relatively cheaper; and
- PWLB interest rates have been put back to normal levels by the HM Treasury.

53. The decision to borrow long term will be taken by the Treasury Management Panel, chaired by the County Treasurer (S151), and reported to the Cabinet Member for Finance. This is because the optimum timing cannot always be foreseen, and a decision often needs to be taken at short notice. Members will be kept informed via the outturn and half-year treasury management reports.

Short term loans

54. Short term loans raised from money markets are typically under 6 months duration. These are low cost and the County Council can respond flexibly to liquidity pressures by raising these when needed. The disadvantage of short-term loans is one of availability and it can be difficult to raise them quickly from banks and building societies.

55. The local authority lending market has progressed considerably in recent years and loans are generally available in the short to medium term. However future availability cannot be predicted as loans raised depend upon other local authorities still having cash balances and being prepared to lend them to the County Council.

Loan restructuring

56. Movements in interest rates over time may provide opportunities to restructure the loan portfolio in one of two ways:
    - replace existing loans with new loans at a lower rate (known as loan rescheduling); or
    - repay loans early without replacing the loans, although this would increase the use of cash.

57. In current market conditions, loan restructuring would be very expensive and unattractive for the County Council. This is because Gilt yields are historically low. This would lead to large penalties, to compensate the PWLB, if loans were repaid early.

58. The County Council’s ability to adjust its loan portfolio through restructuring is only possible if:
    - the Government allow it; PWLB rules have been changed in the past with no notice; or
    - market conditions allow economically beneficial repayment.

59. Market conditions and regulations are not constant and do change and loan restructuring can only be carried out when conditions are favourable. The decision as to when to undertake loan restructuring will be delegated to the Treasury Management Panel, chaired by the County Treasurer (S151), and reported to the Cabinet Member for Finance.

Annual Investment Strategy (AIS) 2021/22

60. It is the Council’s borrowing strategy that determines its investment strategy, as implied in **paragraph 41**. The current economic environment of relatively low interest rates favours the use of cash instead of external borrowing, hence balances available for temporary investments are likely to be less.

61. Nevertheless, the County Council will have significant levels of cash to invest at different points of the year; this usually represents income received in advance of expenditure plus balances and reserves held. In the first half of the previous financial year, the County Council’s investment balance ranged between £117 million and £249 million.

Negative Interest Rates

62. The coronavirus pandemic has increased the risk that the Bank of England will set its Bank Rate at, or below, zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of the initial investments. In a negative interest rate environment, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

MiFID II

63. Following the introduction of the second Markets in Financial Instruments Directive (MiFID II) regulations from January 2018, local authorities will automatically be treated as retail clients by financial services firms, unless they meet the criteria and ‘opt up’ to be professional clients. As a retail client, the County Council would receive enhanced protections, but this would also mean it may face increased costs and restricted access to certain products including money market funds, pooled funds, treasury bills and treasury advice.

64. The County Council meets the criteria set out under MiFID II and having chosen to ‘opt-up’, will continue to be treated as a professional client by regulated financial services firms in 2021/22.

Objectives

65. The CIPFA Code requires local authorities to invest their cash prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield.

66. The County Council’s objective when investing its cash is to strike an appropriate balance between risk and return, thereby minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the County Council will aim to achieve a total return that is equal to or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Strategy

67. The main characteristics which should determine an investment strategy are:
- the credit risk of the counterparties invested with;
- the length of the investment; and
- the type of financial instrument that is used.

68. The County Council has taken a low risk approach to investment and the AIS for 2021/22 will continue to do so. Short term unsecured bank investments have generally provided very low returns with the increasing risk from bail-in regulations. The County Council will continue to concentrate its short-term investments in more secure money market funds and government investments.

69. MHCLG Guidance on Local Government Investments specifies the types of financial instruments that local authorities can invest in and the County Council has divided its approved investments into Standard Investments and Non-standard Investments.

Standard Investments

70. The County Council consider Standard Investments to be those made with approved counterparties that do not require further approval from the Treasury Management Panel or Members. These investments tend to be for a period of less than a year and are those most frequently used by the County Council. Standard Investments can be invested with:
- UK Government – central government or local authority, parish council or community council;
- short term money market funds (MMFs) recommended by the County Council's treasury advisor, Arlingclose; and
- bank and building society investments recommended by the County Council's treasury advisor, Arlingclose.

i) UK Government

71. The County Council invests with central government by using its Debt Management Account Deposit Facility (DMADF) account or by purchasing treasury bills. Funds held in the DMADF account are backed by the UK government, so they are very secure; however, returns tend to be lower than those received from elsewhere.

72. The County Council invests in term deposits with local authorities, which can provide a higher return depending on the availability of, or the need for cash in the local authority lending market. Like central government investments, local government investments are not subject to bail in risk.

73. Although investments in the local authority lending market have a very low risk of insolvency, they are not completely without risk. The financial risks of a few local authorities have been documented in the press; the County Council will continue to monitor such developments and seek advice from its treasury advisers where necessary.

ii) Money Market Funds (MMFs)

74. Money Market Funds have high credit quality and are pooled investment vehicles consisting of money market deposits and similar instruments. Short term MMFs that offer same day liquidity can be used as an alternative to instant access bank accounts. Same day notice MMFs have been used by the County Council for some time as they have tended to provide greater security and a higher yield than bank accounts.

75. EU regulation, introduced in January 2019, has meant most same day notice MMFs have converted from a Constant Net Asset Value (CNAV) to a Low Volatility Net Asset Value (LVNAV) structure. The assets of LVNAV MMFs are marked to market, meaning the dealing NAV (unit price) may fluctuate. However, LVNAV MMFs are allowed to maintain a constant dealing NAV provided they meet strict criteria and minimum liquidity requirements. Public

debt CNAV MMFs are still available where 99.5% of assets are invested in government debt instruments.

76. MMFs are a key tool to manage credit and liquidity risk and the County Council's treasury advisor Arlingclose are now comfortable with Local Authorities investing 100% of their cash in these vehicles. The County Council will follow this advice, as diversification into other sectors at this time may increase risk.

77. The County Council will continue to use same day notice MMFs that meet the criteria listed below. These are considered to have sufficient high credit quality to be included on the County Council's Approved Lending List:

- Recommended by the County Council's treasury adviser.
- Diversified – MMFs invest across many different investments meaning they achieve more diversification than the County Council could achieve on its own account.
- Short liquidity – cash can be accessed daily.
- Ring-fenced assets – the investments are owned by investors and not the fund management company.
- Custodian – the investments are managed by an independent bank known as a custodian, who operates at arms-length from the fund management company.

78. Like all treasury instruments, MMFs do carry an element of risk:

- the failure of one or more of an MMFs investments could lead to a run on MMFs, especially during a financial crisis, although the new MMF regulations do limit this risk to some extent; and.
- there is a possibility that the Bank Rate could be set below zero. This could mean interest earned from MMFs could become negative after the deduction of their fee. In this instance, the County Council could move funds to an alternative category of investment, if available.

iii) Bank and building society accounts

79. The County Council can make investments with approved banks and building societies by using call accounts, term deposits or Certificates of Deposit (CD's). CD's are similar to fixed term deposits, but a certificate is issued for a specified length of time and rate of interest. A CD can also be sold in the secondary market if cash is required prior to maturity.

80. Investments held with banks and building societies run the risk of credit loss via a bail in, if the regulator determines that the bank is failing or likely to fail. The levels of possible loss are quantified by the County Councils treasury advisors and this information informs whether or not a counterparty has the required funding levels for a secure investment. The Council will not invest in any institution it believes to have insufficient funding levels.

iv) Operational bank account

81. The County Council's banking provider is Lloyds Bank. Cash is retained with Lloyds Bank each night earning interest at a market rate; the amount retained

will be set in line with the diversification policy set out at **paragraph 85** onwards.

82. In respect of the Bank ring-fencing legislation Lloyds Bank has a relatively small investment banking operation meaning that 97% of the bank's assets remain within the 'retail bank' ring-fence. The County Council's business with Lloyds Bank will take place within the 'retail bank' ring-fence (Lloyds Bank Plc) and not form part of their investment banking operations (Lloyds Bank Corporate Markets).

83. Should the Lloyds credit rating fall, then smaller balances may be retained with the bank for operational efficiency. The County Council will continue to monitor Arlingclose's advice on bank credit risk and any changes will be determined by the Treasury Management Panel, chaired by the County Treasurer (S151).

Standard Investments diversification

84. Risks to investments, such as those discussed for MMFs in **paragraph 78**, point towards the fundamental need for diversification across counterparties and investment categories where possible. Diversification can help to protect the security of the investments by limiting the County Council's loss in the event of a counterparty default. Diversification will not protect the County Council from a systemic failure of the banking sector, even if the risk of this has diminished following the bail-in banking regulations.

85. Diversification can be achieved by setting a maximum amount to be invested with each counterparty to limit risk and to ensure a spread of investments. However, this needs to take account of the fact that investment balances can change throughout the year. The limits shown below are based upon percentages of investments and the Treasury team will review and reset these limits at least once a month with reference to forecast future balances.

86. Investment diversification is proposed at two levels; firstly, at investment category level:

Investment category	**Maximum % of total investments**
Government Investments	100%
Money Market Funds (MMF)	100%
Banks and Building Societies	50%

87. No limits are proposed for government investments as these may be utilised for all the County Council's investments in certain circumstances.

88. The Councils treasury advisors, Arlingclose, have recently recommended that limits in MMF accounts should be increased to 100% of total investments due to the diversified nature of their underlying investments and their liquidity levels. The Council currently has four MMFs to ensure all cash is not placed in one MMF, thus further diversifying investments.

89. Secondly, diversification will also take place at investment counterparty level:

Banks and Building Societies Lower of:	
£m	Maximum investment as a proportion of total forecast cash balances
30	5% (unsecured) 10% (secured)

Individual MMF Lower of:	
Maximum investment as a share of the total size of the MMF	Maximum investment as a proportion of total forecast cash balances
0.50%	25%

90. Due to bail-in regulations, Arlingclose have recommended a limit of 10% of cash balances, if investments are secured (e.g. covered bonds) and a limit of 5% if investments are unsecured (e.g. fixed term deposits).

91. It is proposed that the application of, and any amendments to, the investment diversification policy is delegated to the Treasury Management Panel, chaired by the County Treasurer (S151).

<u>Non-standard Investments</u>

92. The County Council considers Non-standard Investments to be all other types of approved investment counterparties that are not included as part of Standard Investments i.e. those investments that are used less frequently and may require further approval from the Treasury Management Panel or Members.

93. The Non-standard Investments proposed for use are listed below and do not present any additional security risk to the investments listed within Standard Investments:

i) <u>Covered Bonds:</u> issued by banks and building societies against mortgage assets they hold and are guaranteed by a separate group of companies. They are exempt from bail-in as their structure enables investors to have effective security over the mortgage assets, by being sold if needed.
ii) <u>Repos (Repurchase Agreements):</u> comprise the purchase of securities with the agreement to sell them back at a higher price in the future. Investments are exchanged for assets such as government bonds, which can be sold in the case of a loss.
iii) <u>UK Government Gilts:</u> similar to the DMADF account and Treasury Bills but a longer term investment that can be sold in the secondary market.
iv) <u>Multilateral Development Bank Bonds:</u> ‘AAA’ rated bonds created by institutions and backed by a group of countries. They can be sold in the secondary market if needed.

v) Collective Schemes: Examples include property and equity funds which have very different risk and return profiles to same day notice MMF's. Enhanced MMF's are considered to be collective schemes; they typically have a 3-5 day liquidity notice period as they invest further along the yield curve.

vi) 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.

94. Non-standard Investments that are subject to market risk (this is the risk that the value of the investment can go down as well as up) would usually be held until maturity. At maturity the investment and accrued interest would be paid in full. However, some investments could be sold early if there were concerns over the borrower defaulting.

Non-Standard Investment diversification

95. Diversification of Non-standard Investments is equally important, and the County Council has set the following investment amounts and duration limits, split into two groups (see **Annex A**).

- Long-term local authority loans and UK Government Gilts: these have a combined investment limit of £45m (up to 40 years duration) due to their high credit quality. The County Council has held £30m of long-term local authority investments since 2013.
- Other Non-standard Investments: these have an individual investment cap amount per asset class of £20m (up to 10 years duration) with an overall cap of £50m for this group.

96. This means a total of £95m can be invested in Non-standard Investments in 2021/22 and is reflected in **Annex C,** Prudential Indicator point 4. The decision to invest in Non-standard Investments will only be taken after due consideration by the Treasury Management Panel, chaired by the County Treasurer (S151).

97. **Annex A** sets out the investment categories authorised for use in 2021/22 and **Annex B** lists the County Council's Approved Lending List at the time of writing this report.

The Credit Management Strategy for 2021/22

98. Investments made by the County Council should be of 'high credit quality'. Although this can be difficult to define, credit ratings can be used as published by external credit rating agencies (the three main agencies are Moody's, Standard & Poors and Fitch). Credit ratings are monitored by and obtained from the County Council's treasury management adviser, Arlingclose, where available.

99. An important aspect of Arlingclose's service is the provision of credit advice. As a treasury advisor, Arlingclose provide information about suitable investments in the context of the current economic risk environment and incorporates the views of credit rating agencies. It is important to note that the County Council maintains the ultimate responsibility for the decisions it takes about its investments.

100. For 2021/22, the minimum credit-rating thresholds are set at a long-term rating of 'A-' where available. Counterparties that are rated below this level are excluded. However, credit ratings are not the only aspect of how creditworthiness is assessed by Arlingclose.

101. The following elements are also factored in when considering creditworthiness:
- potential government support;
- Credit Default Swap prices (CDS) (i.e. the cost of insuring against counterparty default);
- share prices and bond yields;
- balance sheet structure;
- macro-economic factors; and
- a subjective overlay, i.e. a judgement being made about whether the counterparty should be recommended or not.

102. Arlingclose will consider the above elements when determining their recommended investment counterparty list. Counterparties can be removed from this list based on changes to this information, so it is not solely based on credit rating changes.

103. The economic environment in the recent past has been very volatile, so Arlingclose have generally been cautious when providing their advice. This has resulted in the use of investment counterparties with high quality credit characteristics, intended to insulate the County Council against further volatility.

104. Arlingclose communicate credit rating changes and significant changes in other risk indicators to the Treasury team, together with any revisions to their recommendations. Such changes by Arlingclose are usually notified by e-mail, although in more urgent situations, this will be followed up by a telephone call. 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.

105. 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.

106. As mentioned previously, the County Council retains the ultimate responsibility for its investment decisions. The Treasury Management Panel chaired by the County Treasurer (S151) meet on a monthly basis and review any changes recommended by Arlingclose. In between these meetings, the Treasury team may be required to make investment decisions at short notice upon the recommendation of Arlingclose. Where required, the Treasury team will implement these recommendations pending retrospective approval by the Treasury Management Panel, chaired by the County Treasurer (S151). On the rare occasion that Arlingclose do not make a firm recommendation, this will also be referred to the Panel for review.

107. Under stressed market conditions, additional Treasury Management Panel meetings may take place at very short notice after which the Panel may decide to adjust the County Council's investment risk profile. This may result in moving investments to lower risk counterparties or instruments.

Non-treasury investments

108. These are discussed as part of a separate investment strategy report titled '(Non-Treasury) Commercial Investment Strategy 2021/22'.

Review of strategy

109. The County Council will prepare a revised strategy when there are significant changes to the following factors:
- the economic environment;
- the financial risk environment;
- the budgetary position;
- the regulatory environment; or
- the appointment of a new treasury management advisor.

110. The responsibility for assessing these circumstances and proposing changes to the strategy is allocated to the Treasury Management Panel, chaired by the County Treasurer (S151).

Policy on the use of external service providers

111. Arlingclose are the County Council's current external treasury management advisor but this contract is now subject to a competitive tender and due to be let for three years commencing 1 April 2020. Should the contract be awarded to a different advisor, then this will be reported to Cabinet at the earliest opportunity as part of the Treasury Management outturn report.

112. Arlingclose are currently contracted to provide information, technical accounting assistance and an investment advice service and this will also be the case with any replacement provider. The County Council recognises that the ultimate responsibility for treasury management decisions remains with itself at all times.

113. An annual review of service quality is carried out by the Treasury Management Panel. Treasury Advisors will be expected to attend meetings bi-annually to

discuss strategy and how well they are assisting the County Council to discharge its responsibilities.

Investment management training

114. Treasury management is a specialised area requiring high quality and well trained staff that have an up to date knowledge of current issues, legislation and treasury risk management techniques.

115. Officers who attend the Treasury Management Panel are senior qualified finance professionals. Treasury practitioners also attend regular CIPFA and treasury advisor training seminars throughout the year and have any training needs identified during the County Council's staff review process.

116. Member training is also important to introduce treasury concepts. The need for training events will be kept under review with sessions arranged in the future if necessary.

Policy on the use of financial derivatives

117. 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).

118. The County 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 Authority 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.

119. In line with the CIPFA Code, the County Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Rob Salmon
County Treasurer

<u>Background Documents</u>

1. Treasury Management in the Public Services: Code of Practice (CIPFA) (2017)
2. Prudential Code for Capital Finance in Local Authorities (CIPFA) (2017)

3. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
4. Statutory Guidance on Local Government Investments – Issued under Section 15(1) (a) of the Local Government Act 2003 (2018)
5. Statutory Guidance on Minimum Revenue Provision – Issued under section 21 (1A) of the Local Government Act 2003 (2018)
6. Localism Act 2011 – Guidance on the General Power of Competence in sections 1 to 6.

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Annex A

Cabinet – 27 January 2021 - Investment categories authorised for use 2021/22

Investment	Standard	Non-standard	Comments
UK Government - Debt Management Account Deposit Facility (DMADF) (regulation investment)	**unlimited**	×	6 months maximum available
UK Government - Treasury Bills (T-Bills) (regulation investment)	**unlimited**	×	6 months maximum available
UK local authorities term deposits (regulation investment)	**unlimited**	**£45m across these categories**	Up to 40 years in duration (non-standard)
UK Government – Gilts	**unlimited**		
Money Market Funds	✓	×	100% of total investments in this category. Individual MMF - Lower of 0.50% of individual MMF size or 25% of total forecast cash balances per MMF
Term deposits with banks and building societies	✓	×	50% of total investments in this category. Lower of 5% (unsecured) or 10% (secured) of total forecast cash balances or £30m per counterparty
Certificates of deposit (banks / building societies)	×	**Maximum £20m per investment category and £50m in total across all categories**	Up to 10 years in duration (non-standard)
Bonds issued by Multilateral Development Banks	×		
Collective Investment Schemes	×		
Covered Bonds	×		
Real Estate Investment Trusts	×		
Repos (repurchase agreement)	×		

** Up to 12 months*

Annex B

Cabinet - 27 January 2021

County Council Lending List – December 2020	
	Maximum Time Limit
Regulation investments	
DMADF account	6 months
UK Government T-Bills	6 months
UK local authority	12 months
Banks and building societies	
Barclays Bank UK	35 days
HSBC UK Bank	35 days
Lloyds Bank	35 days
Santander UK	35 days
Nationwide Building Society	35 days
MMF	
Black Rock	same day
Insight	same day
Federated	same day
Aberdeen Standard	same day
State Street (SSGA)	same day
Enhanced MMF	
Royal London Cash Plus	3-day notice

Annex C

Cabinet – 27 January 2021

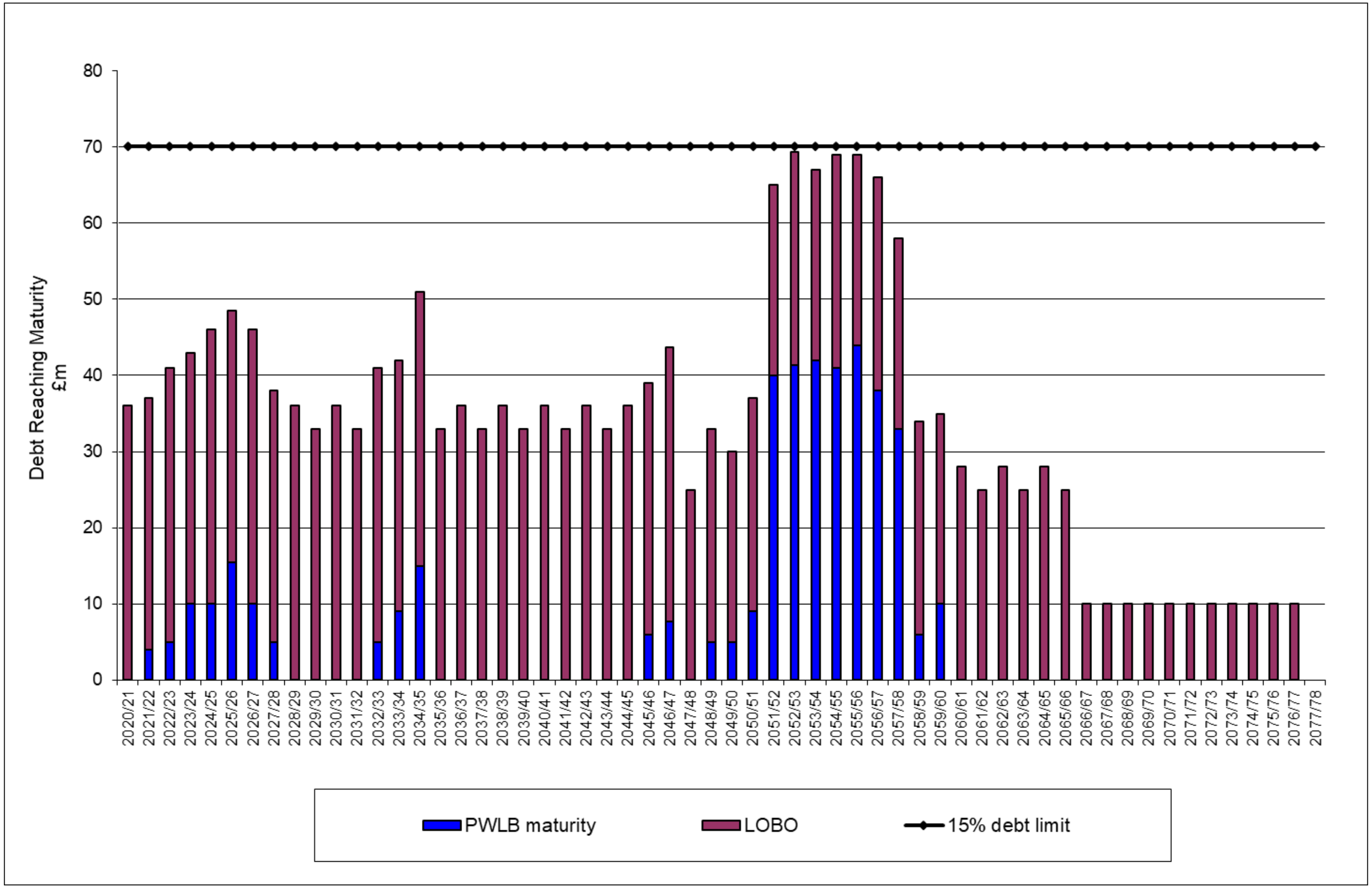
Prudential Indicators for Treasury Management

Indicator	Estimate 2021/22	Estimate 2022/23	Estimate 2023/24	Estimate 2024/25	Estimate 2025/26
1. External Debt	£m	£m	£m	£m	£m
Authorised Limit for borrowing	667	654	633	612	592
Authorised Limit for other liabilities	258	262	264	267	270
TOTAL	**925**	**916**	**897**	**879**	**862**
Operational Boundary for borrowing	522	522	519	508	495
Operational Boundary for other liabilities	258	262	264	267	270
TOTAL	**780**	**784**	**783**	**775**	**765**
External Loans	**464**	**459**	**449**	**439**	**423**
The Authorised Limit is the maximum level of external borrowing which should not be exceeded. It is linked to the estimated level of borrowing assumed in the capital programme. *The Operational Boundary represents an estimate of the day to day limit for treasury management borrowing activity based on the most likely i.e. prudent but not worst case scenario.* *"Other liabilities" relate to PFI schemes which are recorded in the County Council's accounts.*					
2.Interest Rate Exposures					
a. Upper Limit (Fixed)	£582m	£580m	£567m	£547m	£528m
b. Upper Limit (Variable)	(£259m)	(£274m)	(£282m)	(£288m)	(£295m)
The County Council has set upper limits of fixed and variable borrowing and investments. The effect of setting these upper limits is to provide ranges within which the County Council will manage its exposure to fixed and variable rates of interest. Negative figures are shown in brackets; these relate to the 'high- point' of investments at a variable rate which are not offset by variable borrowings. The exposure to variable rate movements has been reduced by the use of cash in lieu of borrowing.					
3.Maturity Structure of Borrowing	Upper Limit	Lower Limit			
See **Annex D**					
This indicator relates to the amount of loans maturing in specified periods. The overarching principle is that steps should be taken from a risk management point of view to limit exposure to significant refinancing risk in any short period of time. The County Council currently applies the practice of ensuring that no more than 15% of its total gross fixed rate loans mature in any one financial year. *Because this is a complex situation for the County Council, involving PWLB loans, LOBO loans with uncertain call dates and the use of internal cash, specific indicators have not been set. Instead the County Council will manage its exposures within the limits shown in the graph at **Annex D**. This graph shows all LOBO call options on a cumulative basis; the actual pattern of repayment, although uncertain, will not be of this magnitude.*					
4.Upper limit for total principal sums invested for longer than a year (from maturity)					
*This limit has been set at the total amount that could be invested in non-standard investments as per the County Council's policy (see **paragraph 101**) which is the maximum that could be invested for 1 year or over.*	£95m	£95m	£95m	£95m	£95m

Annex D

Cabinet – 27 January 2020

County Council maturity structure of debt



Local Members Interest
N/A

Cabinet – 27 January 2021

Commercial Investment Strategy 2021/2022

Recommendation of the Cabinet Member for Finance

Report of the County Treasurer

1. That Cabinet approves:

   (a) the Commercial Investment Strategy for 2021/22 and notes the circumstances under which Commercial Investments can be made;

   (b) the Governance arrangements that are in place for proposing and approving Commercial Investments;

   (c) a maximum quantum for Commercial Investments, of a further £20 million in 2021/22;

   (d) a maximum limit for an individual Service Investment Loan of £10m in 2021/22; and

   (e) that any upwards change in the amounts of the limits specified in Recommendations 1(c) and 1 (d) be delegated to the County Treasurer (S151) in consultation with the Cabinet Member for Finance.

Introduction

2. The County Council ('the Council') can invest its money for three main purposes:
   - **Treasury Management Investments** – when the Council has surplus cash because of its day-to-day activities, i.e. where income is received in advance of expenditure;
   - **Service Investments** – when the Council supports local public services by lending to or buying shares in other organisations; and
   - **Commercial Investments** – where the Council's main purpose is to earn investment income.

3. The Council's treasury management investments are considered as part of the Council's Treasury Management Strategy 2021/22, which is the subject of a separate report and which meets the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) *Treasury Management in the Public Services Code of Practice 2017 Edition* (the CIPFA Code).

4. The Commercial Investment Strategy 2021/22 report meets the requirements of the statutory guidance issued by the Ministry of Housing, Communities and Local Government's (MHCLG) in its *Guidance on Local Government Investments 2018*

Edition. It will concentrate on Service Investments and Commercial Investments i.e. the Council's non-treasury management investments. This Strategy covers County Council matters only and does not include any Pension Fund investments, which are subject to separate governance arrangements.

5. With effect from 26 November 2020, as a condition of accessing the Public Works Loan Board (PWLB) Local Authorities will be asked to confirm that there is no intention to buy investment assets, primarily for yield, in the current or next two financial years. As there is no intention by the County Council, to buy commercial investments purely for yield, nor to fund them through the PWLB, then this should not be cause for concern. Commercial Investments for the County Council will remain in line with the acceptable use of PWLB monies, which includes investment for:

   - Service Delivery;
   - Housing;
   - Regeneration;
   - Preventative Action; and
   - Refinancing / Treasury Management (including to replace 'internal borrowing').

Treasury Management Investments

6. The Council typically receives income in cash (e.g. from precepts, taxes and grants) and pays for its expenditure in cash (e.g. through payroll and invoices). It might also hold reserves for future expenditure. These activities, plus the timing of long-term borrowing decisions can lead to a cash surplus which is invested in accordance with the Treasury Management guidance from CIPFA.

7. The contribution that treasury investments make to the objectives of the County Council is not focussed purely on generating investment income. Whilst yield is an important consideration, it is in support of effective treasury management activities and is therefore secondary in nature to the security and liquidity of those investments.

8. Details of the Council's policies and plans for treasury management activities for 2021/22 are covered in the Treasury Management Strategy, which includes the Annual Investment Strategy.

Service Investments

9. The core function of the Council is to deliver statutory and local public services to local residents and ensure the general wellbeing of the County and its residents. Indeed, the Council's own Vision is for a County where big ambitions, great connections and greener living give everyone the opportunity to prosper, be healthy and happy.

10. Service investments can be broadly defined as any investments made to support delivery of those statutory and local public services, and the details of these are contained within the Capital Strategy for 2021/22, which is the subject of a separate report. However, in terms of the MHCLG guidance on Service Investments, these are more specifically defined as Loans or Shares.

Loans

11. The Council can lend money, to third parties, to support local public services and stimulate economic growth.

12. Previously, the Council has lent £150,000 to Nexxus Trading Services Ltd, a company wholly owned by the Council to provide social care services for older people and those with disabilities. The balance outstanding as at 31 March 2020 was £118,290.

13. Whilst the loan to Nexxus is to an organisation with which the Council has strong links, if the Council wanted to make a loan to local organisations, such as suppliers, local businesses, local charities, housing associations, local residents or its employees, it would need to ensure the loan meets service delivery objectives or fulfils one of its roles as a local authority.

14. The principal risk of making service investment loans is that the borrower may be unable to repay the principal lent or the interest due. To limit this risk, the Council will need to consider setting upper limits for each category of borrower and potentially a maximum single loan amount. To provide some flexibility, it is proposed that the maximum single loan amount for 2021/22 be set at £10m. Consideration will also need to be given to limits by category of borrower and any single loan amount limits within those categories. Proportionality and the covenant strength of the borrower will also need to be considered e.g. local business relative to local charity relative to an employee.

15. Any request for a service loan will be considered on its own merits. The Council will need to undertake a full risk assessment before making a service loan and continue to assess the covenant strength of the borrower, during the full term of the loan. The risk assessment will consider, but not be limited to, the following:

- Assessment of the market and the borrower including:
    i. the nature and level of competition in that market;
    ii. how the market and borrower's needs will evolve over time;
    iii. any barriers to entry or exit to that market;
    iv. any ongoing investment needs for the borrower; and
    v. any State Aid considerations.
- Whether and how the Council will use external advisors.
- How the quality of advice from the external advisor will be monitored and maintained.
- To what extent credit ratings have been used.
- Where credit ratings are used, how they are monitored and the procedures for taking action if credit ratings change.
- What other sources of information are used to assess and monitor risk.
- Any security that might be required.

16. Where service loans are made, the Council will make every reasonable effort to ensure the full amount lent is repaid and will have appropriate credit control arrangements in place to recover overdue payments. Accounting standards still require the Council to set aside loss allowances for any likelihood of non-payment. The Council will report the balance owed less any loss allowance in its statement of accounts.

Shares

17. The Council can invest in the shares of a third-party organisation to support local public services and potentially stimulate local economic growth.

18. Prior to the revised guidance being issued, the Council already owned 49% of the shares in Entrust and Capita Business Services Limited (a subsidiary of Capita Plc) own the remaining 51%. Entrust provide education support services to local schools, so this investment clearly aligns itself to the Council's service delivery objectives i.e. the running operations of schools in Staffordshire.

19. The main risk of investing in shares is that they may fall in 'market value' meaning that the initial outlay may not be recovered, if there was ever a need to sell the shares. The Council's shares in Entrust had a nil value at 31 March 2020; however, the investment continues to contribute to the Council's service delivery objectives.

20. To try to limit this risk in the future, and as part of this strategy, the Council could consider setting upper limits on the amount that can be invested in each category of shares. However, no limits are being suggested for 2021/22, as any investment proposal will need to be considered fully prior to being presented to Cabinet for their decision.

21. Any request to invest in the shares of a company for service purposes will be considered on its own merits. The Council will need to undertake a full risk assessment before making such an investment and will also need to continue to assess the financial strength of the company whilst it remains invested in those shares. The risk assessment will consider, but not be limited to, the following:

- Assessment of the market and the investment company including:
  i. the nature and level of competition in that market;
  ii. how the market and the investment company's needs will evolve over time;
  iii. any barriers to entry or exit to that market; and
  iv. any ongoing investment needs for the company.
- Whether and how the Council will use external advisors.
- How the quality of advice from the external advisor will be monitored and maintained.
- To what extent credit ratings have been used.
- Where credit ratings are used, how they are monitored and the procedures for taking action if credit ratings change.
- What other sources of information are used to assess and monitor risk.

22. For liquidity purposes, for both types of service investments, which fall outside the Capital Strategy, the Council will need to put in place procedures to determine how the Council will stay within any Approved Limits and also the maximum investment duration permitted for investments. For 2021/22, with very few service investments anticipated, it is proposed that this be incorporated into the risk assessment of the individual loan or share proposals, which will be overseen as part of the Governance arrangements described later in this report.

Commercial Investments

23. Under current MHCLG Guidance, the Council is permitted to make commercial investments with the intention of making a profit or generating revenue income.

Property Commercial Investments

24. In November 2019, CIPFA published its informal guidance on 'Prudential Property Investment', highlighting concerns over the recent and rapid expansion of commercial property purchases and its relationship with the statement in the Prudential Code; 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.

25. Although there is no legal duty for local authorities to have regard to the guidance, increasing purchases of commercial property could place a strain on the credibility of the prudential framework. In November 2019,HM Treasury increased the borrowing rates on all loan periods by 1% to discourage borrowing for commercial purposes. In addition to that intervention HM Treasury also announced a consultation process with all local authorities to clarify the position on borrowing for commercial investment. The outcome of the consultation was published in November 2020 and HM Treasury have now expressly prohibited PWLB lending for commercial purposes and furthermore, have put measures in place to prevent such activity. The Council does not have any such commercial investments in property.

26. There has also been some political challenge about borrowing to invest outside of the local area. More acceptable would be investment in property, within the local area, particularly where it supports the provision of services. Previously, this type of investment activity may have been funded using surplus reserves or external borrowing for capital purposes, where long term reserves were not available. However, due to the recent HM Treasury announcement this type of investment activity may also be prohibited if there was a need to utilising PWLB funding.

27. Irrespective of location, service purpose or method of funding, any property investments would be subject to the same risk assessment process as other commercial investments. This will include, but not be limited to, the following:

- Assess the market and the investment specifics including:
    i. the nature and level of competition in that market;
    ii. how the market and the investment will evolve over time;
    iii. any barriers to entry or exit to that market; and
    iv. any ongoing investment needs for the asset class.
- Whether and how the Council will use external advisors.
- How the quality of advice from the external advisor will be monitored and maintained.
- To what extent credit ratings have been used.
- Where credit ratings are used, how they are monitored and the procedures for taking action if credit ratings change.
- What other sources of information are used to assess and monitor risk.

28. Property has additional risk considerations in terms of valuation, income and liquidity:

- The market and accounting valuations may be lower than the purchase cost (including taxes and transaction costs) and this may have revenue account consequences;
- Rental income is dependent on having a tenant and the ability of that tenant (covenant) to make payment; and
- Properties can be difficult to sell and convert to cash at short notice, especially in certain market conditions.

Other Commercial Investments

29. Under the wider commercial investment opportunity, the Council can also invest in non-property related assets such as Equities, Bonds, Land, and Infrastructure. Within these asset classes, there are different sub-sectors such as Clean tech, Agri tech and Renewable Energy to name but a few. These may take on multiple investment forms and legal structures such as direct investments, unitised investment vehicles and limited partnerships.

Loan Commitments and Financial Guarantees

30. Whilst not investments per-se, as no money has exchanged hands, loan commitments and financial guarantees are referenced for completeness as they carry similar risks to investments.

Commercial Investments Panel

31. During 2019/20, the Council formed a Commercial Investments Panel ('the Panel') consisting of senior officers at the Council and chaired by the County Treasurer (S151). The Panel meet periodically and as necessary to consider commercial investment opportunities and how they might be aligned with investment in the County and the public services the Council needs to provide.

32. The Panel agreed the remit and scope of its commercial investment strategy. This included discussions regarding:

    - The initial investment quantum;
    - The likely investment asset class and sector;
    - The favoured geographic location of the investment; and
    - The target for income and growth required from the investment.

33. To date, the Council has not made any commercial investments and before doing so, detailed consideration of any proposed investments will given by the Senior Leadership Team, with further discussion of options with Cabinet afterwards. The Panel have agreed that should individual investment proposals warrant further consideration, they will be reviewed in accordance with the Governance framework described later in this report (see **Paragraph 39**).

Quantum, Proportionality and Diversification

34. Guidance recommends that if a Local Authority plans to become dependent on profit generating investment activity to achieve a balanced revenue budget, then it must show the extent of that dependency as part of this report. Contingency plans if it fails to achieve the expected net profits should also be outlined.

35. Whilst the Council does have a few Service Investments in the form of one loan and some shares, and whilst the Council is open to reviewing its approach to determine whether income from investments can be improved, the Council is not currently, nor does it plan to become, dependent on profit generating investment activity to achieve a balanced revenue budget. However, it is considered good practice and good risk management to consider the Council's exposure to commercial investments in terms of total exposure, single investment exposure and diversity of investments.

36. In respect of Commercial Investments, it is proposed that in 2021/22 total exposure should be capped at £20m p.a. Whilst it would be beneficial to also limit the amount on any single investment, thus forcing diversification, (i.e. a £5m single investment limit would mean a minimum of 4 investments) it is considered impractical to do so in the early stages of building up any commercial investment portfolio. However, this will need to be kept under review.

Borrowing in Advance of Need

37. As referred to previously, Government guidance states that local authorities must not borrow more than or in advance of their needs, 'to profit from the investment of the extra sums borrowed'. To date, the Council has not borrowed in advance of need for this purpose. When the Council did borrow in advance of need or if it is likely to need to do so in the future, then this would only be to fund the borrowing requirement for the capital programme; particularly if future borrowing rates were expected to increase. The reasons for such would be explained as part of this report. The Council would also outline its policies for managing the risks of investing the money borrowed in advance of need e.g. not achieving the desired profits or the impact of a change in borrowing rates.

38. Alongside the data currently required by the Debt Management Office, to provide a Local Authority with access to PWLB funding at the 'certainty rate', there will now be a requirement to submit additional data and provide assurance from the S151 Officer about the purpose of any Borrowing in Advance of Need. Should it be ascertained that such borrowing is being used to invest primarily for yield, and there has been misuse of the PWLB then penalties could include:

- a request that the council unwinds problematic transactions;
- suspension of access to PWLB;
- repayment of loans with penalties; or
- a wider ranging sanction relating to a government review of the local government borrowing and investment framework.

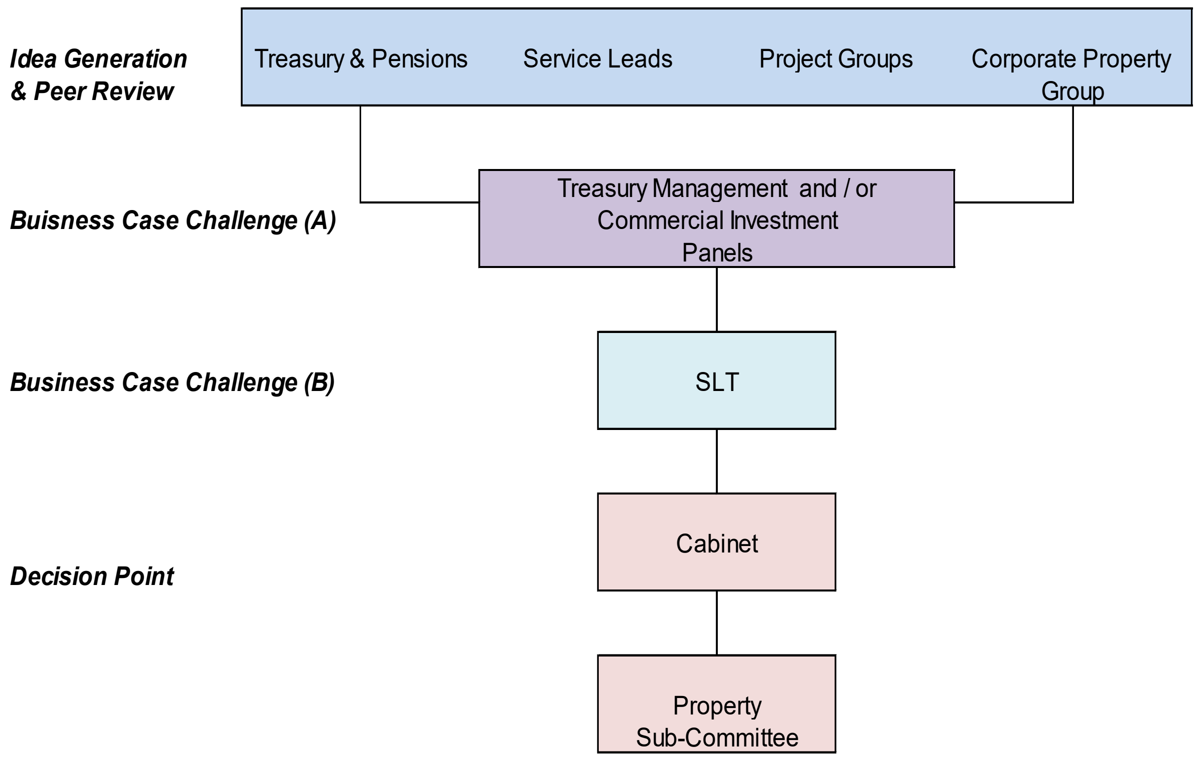
Governance, Capacity, Skills and Culture

39. The Council will ensure that Elected Members and Officers involved in the investment decision making process have the appropriate capacity, skills and information. Those involved in the investment decision making process should;
- take informed decisions about whether to enter into a specific investment;
- assess individual investments in the context of the strategic objectives and risk profile of the Council; and
- understand how their investment decisions can change the risk exposure of the Council.

40. Elected Members and Officers involved in negotiating commercial deals for the Council will be aware of the core principals of the prudential framework and of the regulatory regime within which the Council operates. Whilst much of this has been covered in the body of this report, other things, such as procurement regulations will also need to be considered.

41. Whilst idea generation will not be exclusive, the Council will ensure that it has Corporate Governance arrangements in place to ensure accountability, responsibility and authority for decision making on investment activities within the context of the Council's corporate values. The following chart illustrates how this will work within the current Corporate Governance arrangements albeit it is recognised that this may need to change as the Council's awareness and involvement in commercial investment activity evolves. The Scheme of Delegation, and any relevant sub-schemes, may also need to change to reflect any new arrangements going forward.

Commercial Investment Governance Framework



42. Investment Advisors will be used in the Governance process, not only to bring relevant investment expertise and information but also to introduce independent challenge into the process. The cost of using Advisors will need to be considered in any analysis of forecast net investment returns.

43. A Business Case, in an agreed form, but covering such details as that provided in Annex A will need to be submitted by the initiator of the Investment to facilitate peer review and challenge. As well as a descriptor of the Commercial Investment opportunity, the Business Case will need to demonstrate its alignment to the Council's Vison and Priorities as well as any service delivery considerations. Key areas of the Business Case will include and demonstrate:

- Details of Investment
- Background (including the Service Objective being fulfilled)
- Due Diligence Undertaken
- Financial and Legal Implications
- Risk and Risk Management

Investment Indicators

44. As part of its routine reporting, and in addition to the various investment limits the Council should also consider setting quantitative indicators to assess its commercial investment decisions. As a minimum these should include the Council's Total Risk Exposure, Investment Funding and the Net Investment Rate of Return. Again, indicators will need to be developed as part of working practices as the Council's Commercial Investment activities gain momentum. An illustration of how these Indicators might be constructed is provided in Annex B.

Rob Salmon
County Treasurer

Background Documents

1. Treasury Management in the Public Services: Code of Practice (CIPFA) (2017)
2. Prudential Code for Capital Finance in Local Authorities (CIPFA) (2017)
3. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
4. Statutory Guidance on Local Government Investments – Issued under Section 15(1) (a) of the Local Government Act 2003 (2018)
5. Statutory Guidance on Minimum Revenue Provision – Issued under section 21 (1A) of the Local Government Act 2003 (2018)
6. Localism Act 2011–Guidance on the General Power of Competence in sections 1 to 6.

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Annex A

STAFFORDSHIRE COUNTY COUNCIL

COMMERCIAL INVESTMENT BUSINESS CASE

Illustration of areas to be considered

A **Details of Investment**

1. Name of Investment
2. Proposed Investment / Price £
3. Brief Description of Investment
4. Form and Legal Structure of Investment
5. Forecast Net Investment Return (Capital and Annual Income)
6. Investment Period
7. Investment Management Fees / Developer Profit

B **Background**

1. Reason for proposing Investment
2. Service Objective fulfilled
3. Social Impact
4. Funded from
5. Fit with other Investments / Strategy (Diversification)

C **Due Diligence Undertaken**

1. Investment Advisors / Managers
2. Structure of Company and People involved in the Investment
3. Process for Investment decision making
4. Underlying Investment Philosophy
5. Performance of previous similar Investments
6. Price

D **Financial Implications**

1. Yield
2. Capital / Income Return Targets
3. Source of Funding
4. Borrowing in Advance of Need
5. Commitment, drawdown, investment periods
6. j-curve
7. Payback period
8 Exit Penalties
9. MRP
10. International Financial Reporting Standard 9 – Financial Instruments
11. Fees

E **Environmental, Social and Governance Implications**

1. Positive / Negative factors
2. Legality

F Risk & Risk Management

1. Security Risk
2. Investment Risk
3. Liquidity Risk
4. Development Risk
5. Counterparty Risk
6. Reputational Risk
7. Compliance Risk
8. Operational Risk
9. Regulatory Risk
10 Interest Rate Risk
11. Market Risk
12. Currency Risk
13. Non-Systematic Risk (Diversification)

G Legal Implications

1. Form and Structure of Investment
2. Documents
3. Anti-Money Laundering / Know Your Customer
4. Indemnities
5. Conflict of Interest

H Procurement Implications

1. Procurement Route followed
2. Exemptions received

Governance

Peer Review undertaken:

Comments:

Business Case Challenge (A) TMP / CIP undertaken:

Comments:

Business Case Challenge (B) SLT undertaken:

Comments:

Recommendation to Cabinet / Property Sub- Committee:

Annex B

COMMERCIAL INVESTMENT INDICATORS

Total Risk Exposure

This demonstrates the Council's total exposure to potential investment losses.

Total investment exposure	31 March 20 Actual £m	31 March 21 Forecast £m	31 March 22 Forecast £m
Treasury management investments			
Service investments: Loans			
Service investments: Shares			
Commercial investments:			
TOTAL INVESTMENTS			
Commitments to lend			
Guarantees issued on loans			
TOTAL EXPOSURE			

Investment Funding

The Council's investments may be funded by borrowing and /or the use of reserves, capital receipts, grants, developer contributions etc. These will be itemised appropriately.

Net Investment Rate of Return

This indicator shows the investment income received less the associated costs (including the cost of borrowing if appropriate), as a proportion of the sum initially invested. Under the local government accounting framework, not all gains and losses affect the revenue account in the year they are incurred.

Net Investment Rate of Return	2019/20 Actual	2020/21 Forecast	2021/22 Forecast
Treasury management investments			
Service investments: Loans			
Service investments: Shares			
Commercial investments:			
ALL INVESTMENTS			

Appendix 11

Financial Health Indicators

	Current Performance
Level of General Reserves (annual indicator) Well managed organisations operate with an adequate level of general reserves taking into account the risks they face. We determine the actual level of reserves we require annually through a risk based approach. However, it is prudent to aim to hold a minimum level of general reserves.	
General reserves are maintained at a level of at least 2% of the council's current net revenue budget	G
Aged Debt (quarterly indicator) Organisations need to ensure that money owed to them is collected in a timely manner. This indicator shows how well we are managing to collect money owed to us.	
Level of outstanding general debtors more than 6 months old does not exceed £14.7m	R
Working Capital (annual indicator) It is essential that working capital is well managed. This indicator shows how well our debtors and creditors are being managed.	
Current debtors divided by current creditors is in the acceptable range of 1 - 3	G
Payments to suppliers (quarterly indicator) By paying suppliers quickly we are supporting the Staffordshire economy. It also means businesses are more likely to want to do business with us and offer us competitive rates which will improve our financial health in the medium term.	
At least 90% of invoices have been paid within 30 days of us receiving them during the last quarter	G
Financial Monitoring (quarterly indicator) Effective financial monitoring is essential in any organisation. Monitoring provides organisations with early information of potential issues enabling them to take corrective action to avoid future financial difficulties.	
Quarterly financial monitoring reports have been issued to Cabinet during the last 12 months	G
The council's most recent revenue outturn forecast did not vary by more than +/-2% when compared to the overall revenue budget	G
Financial Reporting (annual indicator) Preparing timely and accurate accounts is vital to demonstrate to interested parties that we have sound financial controls. They also provide detailed information which shows our overall financial health.	
The council's most recent Statement of Accounts were produced on time and were issued with an unqualified opinion by our external auditors	A

R Indicator not met	A Indicator not met by small margin	G Indicator met

Appendix 12

Proposed Net Budget 2021/22 Planning Forecasts 2022/23 to 2025/26

	Proposed Net Budget 2021/22	Planning Forecast 2022/23	Planning Forecast 2023/24	Planning Forecast 2024/25	Planning Forecast 2025/26
	£m	£m	£m	£m	£m
Health and Care					
Public Health and Prevention	27.382	27.382	27.382	27.382	27.382
Public Health Ring Fenced Grant	(27.382)	(27.382)	(27.382)	(27.382)	(27.382)
Adult Social Care and Safeguarding	39.520	40.337	40.885	41.912	42.964
Care Commissioning	192.995	201.276	209.968	220.276	232.284
Better Care Fund	(31.747)	(31.737)	(31.737)	(31.737)	(31.737)
Sub Total	*200.768*	*209.876*	*219.116*	*230.451*	*243.511*
Families and Communities					
Children's Services	113.605	111.670	109.248	108.488	109.193
Children's Public Health	9.802	9.802	9.802	9.802	9.802
Public Health Ring Fenced Grant	(9.802)	(9.802)	(9.802)	(9.802)	(9.802)
Education Services	27.347	28.385	29.737	31.158	32.645
Culture and Communities	5.438	5.492	5.845	6.006	6.171
Rural	2.356	2.386	2.107	2.170	2.234
Community Safety	6.607	6.829	7.056	7.289	7.528
Sub Total	*155.353*	*154.762*	*153.993*	*155.111*	*157.771*
Economy, Infrastructure and Skills					
Business and Enterprise	2.194	2.289	2.389	2.520	2.656
Infrastructure & Highways	29.687	30.972	32.120	32.942	33.782
Transport, Connectivity & Sustainability	39.880	40.259	41.044	42.144	43.171
Skills	6.585	6.655	6.727	6.800	6.875
EI&S Business Support	1.097	1.137	1.178	1.220	1.263
Sub Total	*79.443*	*81.312*	*83.458*	*85.626*	*87.747*
Corporate Services					
Assets	10.998	11.165	11.664	12.201	12.596
Business Support and Compliance	4.019	4.173	4.331	4.493	4.658
Traded Service / Business Partner	(0.622)	(0.621)	(0.620)	(0.619)	(0.618)
County Treasurers	11.425	11.683	11.947	12.217	12.493
People	2.728	2.835	2.944	3.055	3.169
Governance	5.534	5.696	5.886	6.083	6.304
Corporate Services	0.202	0.202	0.202	0.202	0.202
Strategy	3.884	4.005	4.129	4.255	4.384
Sub Total	*38.168*	*39.138*	*40.483*	*41.887*	*43.188*
Service Total	**473.732**	**485.088**	**497.050**	**513.075**	**532.217**
Capital Financing					
Capital Financing	34.669	34.331	34.253	32.694	32.060
Centrally Controlled	25.176	21.452	27.348	28.849	30.449
Investment Fund	0.798	1.164	1.621	2.093	2.093
Covid 19 Expenditure	16.204				
Social Care Support	(25.283)	(20.809)	(20.809)	(20.809)	(20.809)
Contingency	5.000	5.000	5.000	5.000	5.000
Net Revenue Budget	**530.296**	**526.226**	**544.463**	**560.902**	**581.010**
Use of Reserves	(6.255)	(1.043)	0.272	1.290	1.290
Contribution to Pay Provision	-	1.023	1.573	2.130	2.130
Budget Requirement	**529.245**	**524.622**	**544.724**	**564.322**	**584.430**
Revenue Support Grant	(10.925)	-	-	-	-
Retained Business Rates	(106.787)	(105.093)	(106.763)	(108.419)	(110.470)
Settlement Funding Assessment	**(117.712)**	**(105.093)**	**(106.763)**	**(108.419)**	**(110.470)**
New Homes Bonus	(1.975)	(0.803)	-	-	-
Covid 19 Funding	(16.204)				
Council Tax	(388.150)	(406.181)	(426.263)	(448.231)	(470.774)
Financing Total	**(529.245)**	**(510.493)**	**(531.442)**	**(556.650)**	**(581.244)**
(Headroom) / Shortfall	*(0.000)*	*14.129*	*13.282*	*7.672*	*3.186*