COUNTY COUNCIL – 10th FEBRUARY 2022

Medium Term Financial Strategy 2022/27 and 2022/23 Budget and Council Tax

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

We recommend that:

(a) The County Council approve the following:

i) a net revenue budget of £567.826m for 2022/23 as set out in **Appendix 11**;

ii) planning forecasts for 2023/24 to 2026/27 as set out in **Appendix 11**;

iii) a contingency provision of £10.000m for 2022/23;

iv) a net contribution to reserves and general balances of £12.442m for 2022/23;

v) a budget requirement of £580.268m for 2022/23;

vi) a council tax requirement of £406.258m for 2022/23;

vii) a council tax at Band D of £1,401.30 for 2022/23 which is an increase of 2.99% when compared with 2021/22. 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	934.20
Band B	1,089.90
Band C	1,245.60
Band D	**1,401.30**
Band E	1,712.70
Band F	2,024.10
Band G	2,335.50
Band H	2,802.60

viii) 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;

ix) the Financial Health Indicators set out in **Appendix 10**;

(b) That the County Council consider and approve the following recommendations which are included within the Capital and Minimum Revenue Provision Strategy 2022/23, the Treasury Management Strategy 2022/23 and the Commercial Investment Strategy 2022/23 (**Appendices 9a to 9c**):

i. Approve the Minimum Revenue Policy for 2022/23 as contained within the Capital and Minimum Revenue Provision Strategy 2022/23 in **Appendix 9a**;

ii. Approve the Prudential Indicators as set out within the Capital and Minimum Revenue Provision Strategy 2022/23 at **Appendix 9a**;

iii. Approve the 2022/23 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) 2022/23 detailed in paragraphs 61 to 107 and Annex A and Annex B of the Treasury Management Strategy 2022/23 (**Appendix 9b**);

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 108 to 118 of the Treasury Management Strategy 2022/23 (**Appendix 9b**);

vi. Approve the proposed borrowing strategy for the 2022/23 financial year detailed in paragraphs 39 to 56 of the Treasury Management Strategy 2022/23 (**Appendix 9b**);

vii. The Treasury Management Strategy recommendations will operate within the prudential limits set out in Annex C of the Treasury Management Strategy 2022/23 (**Appendix 9b**) 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 2022/23 (**Appendix 9c**) 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 2022/23;

xi. Approve a maximum limit for an individual service investment loan of £10 million in 2022/23;

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 and Resources.

(c) That the County Treasurer be authorised to adjust the contingency provision to reflect any grant and local taxation changes announced in the final 2022/23 Local Government Finance Settlement;

(d) That the Cabinet Member for Finance and Resources 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.

COUNTY COUNCIL – 10th FEBRUARY 2022

Report of the County Treasurer

Medium Term Financial Strategy 2022/27 and 2022/23 Budget and Council Tax

Introduction by the County Treasurer

1. I am pleased to be able to introduce the Medium Term Financial Strategy (MTFS) 2022/27 and the detailed 2022/23 budget and council tax proposals. The MTFS has been prepared in conjunction with the Strategic Plan and sets out the framework for the preparation of detailed revenue and capital budgets, decisions on council tax and savings and investment plans.

2. Section 25 of the Local Government Act 2003 places a requirement on the Chief Finance Officer to report to the Council on the adequacy of reserves and robustness of the budget. The Council must have regard to this report when making its budget decisions. I have set out my comments in paragraphs 69 to 71 of this report. Given the degree of review and scrutiny of the budget that has taken place, the level of the contingency provision and the risk-based assessment of the level of general balances, this does, in my opinion, provide the reassurance required under Section 25 of the Local Government Act 2003.

3. I would like to thank Cabinet, Overview and Scrutiny Committee Members, the Senior and Wider Leadership Teams and colleagues throughout the council for their help and support in developing the MTFS and 2022/23 budget.

Financial Planning - MTFS Underlying Principles

4. In February 2021 the Medium Term Financial Strategy for 2021-26 was approved. This included a balanced budget for 2021/22 and significant budget gaps in 2022/23 and 2023/24 in particular. The MTFS has included significant cost reductions each year for a number of years now including a total of £62 million to be achieved by 2024.

5. The position in February was a reasonably positive one, set against a backdrop of a pandemic and two national lockdowns, although large risks were present with the cost reductions required and the increasing demands for social care, both Adults' and Children's. Plus the uncertainty surrounding the pandemic and how long the increased costs would last and whether additional funding would be made available.

6. During the current financial year, the county council has received numerous grants, totalling around £30 million, from the government to fund specific

activities relating to the pandemic. In addition the County Council was allocated £16.2 million in 2021/22 for general Covid related expenditure, this was included within the MTFS report in February.

7. Since the end of most restrictions nationally, demand has increased for services and in particular demand for social care, both Adults' and Children's has increased. With this in mind, it is imperative that we review the financial plans with aims of understanding the impact of addressing the budget gap and underpinning the strategic plan to deliver effective services while living within our means.

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

9. 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".

10. 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 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.

11. 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.

12. 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.

13. The planning period is five years, which provides a framework that promotes longer term planning, this has proved difficult recently with single year settlements announced by the government.

14. 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 £138m being identified and delivered in the past six years (up to and including 2020/21).

15. 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.

16. In February 2021, the MTFS included a balanced budget for 2021/22 but one that included more than £62m per annum of savings to be delivered by 2024. In addition to those already agreed savings, a further £19.7m 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 2021.

Current Economic Climate

17. The Bank of England reduced the base rate to 0.1% in March 2020, just before the country went into a national lockdown. On 15th December, the Bank of England increased the base rate to 0.25% due to the increasing rate of inflation. Markets around the world have begun to recover from the impact of many national lockdowns. An increase in demand for goods has led to supply chain issues for many products which is slowing the pace of growth around the world.

18. Inflation is well above the HM Treasury target of 2%; currently the Consumer Price Index is at 5.1%. This is driven mainly by rising energy prices, transport costs and the costs of raw materials. The forecast is for CPI to increase possibly to as much as 7.0% by early 2022 and then start to reduce. Bank of England forecasts assume this should be back at the 2% target by mid 2023.

19. With this national picture in mind, the inflation assumptions in the MTFS are reflective of the situation. For contractual commitments there is generally a larger than 2% allocation for 2022/23 which then drops back to 2% from 2023/24 onwards.

Spending Review and other Government announcements in 2021

20. The Spending Round was announced on 27th October and it was a three-year announcement, setting departmental budgets up to 2024/25. There

was very little detail for local government but indications were positive that some of the one-off funding allocated in previous years for social care, could potentially be continued in 2022/23.

21. Other announcements were that the Adult Social Care Precept would continue and be capped at an increase of 1% in 2022/23. The MTFS approved in February had assumed an increase of 2% for this part of the precept and this represented a reduction in income of £3.9 million in 2022/23, rising to £23.3 million by 2026/27. Existing business rates reliefs that were implemented to help businesses during the pandemic will continue in 2022/23 and it is expected that the resulting loss in business rates income will be funded from additional government grant. It could also be inferred from the announcements around transport and infrastructure, that the Department of Transport allocation for highways investment and maintenance will continue at a reduced rate.

22. The government document 'Build Back Better: Our Plan for Health and Social Care' was published in September 2021 and it announced a new National Insurance Levy would be introduced from April 2022. This levy will be an additional rate of 1.25%, applicable to both employers and employees, and the funding raised would be used to fund both health and social care. This has introduced an additional cost to the County Council as an employer and also within contracts as providers seek to mitigate their own cost increases. It has been stated that the funding raised will be allocated initially to the NHS to assist them with reducing the backlogs and waiting times which have been exacerbated by the pandemic.

23. This was followed in December 2021 by People at the Heart of Care: adult social care reform white paper. This signalled the Government's plans to introduce a series of reforms to adult social care including: an £86,000 cap on the costs that people pay towards the cost of their care in their lifetimes; a rise to £100,000 from £23,250 in the capital assets people are allowed before they are charged a contribution towards their care; and a requirement that local authorities pay a 'fair cost of care' with equalisation of the fees paid by local authorities and self-funders. These will substantially increase the numbers and costs of people eligible for local authority funded care. Estimates of the liabilities arising from these reforms have been included in this refresh of the MTFS however there remains substantial uncertainty about the impact on the Council.

Provisional Local Government Finance Settlement

24. The Provisional Settlement was announced on Thursday 16th December 2021 by Secretary of State, Michael Gove. This settlement followed the Spending Review announced in October. The Settlement is for one year only which does not assist longer term planning.

25. The funding announced in the Settlement included additional funding for social care and some continuation of existing funding streams. Revenue Support Grant and the Improved Better Care Fund both continued at 2021/22 levels with an uplift for inflation. New Homes Bonus has also continued in 2022/3 which is the last year of the previous arrangement but there is an additional, one-off payment in 2022/23 also.

26. The social care funding consists of an increased Social Care Support Grant which can be spent on both Adults' and Children's social care. The allocation for Staffordshire is £34.6 million which is an increase of £13.8 million over the current year. In addition to this there is a new Market Sustainability and Fair Cost of Care grant for adult social care and that allocation is £2.4 million but there will be conditions attached to this funding.

27. The Settlement also included a one-off Services Grant of £7.0 million which is unringfenced. Although the Settlement has included additional funding for Staffordshire, as a one-year announcement it makes longer term planning extremely difficult and there are significant risks that these funding streams will not continue in future years. The Settlement did announce a commitment to the long-awaited Fair Funding Review to begin in early 2022. At the moment the scope of this Review is not known but for planning purposes a similar level of grant support is assumed albeit there is clearly a risk to this approach given the changes likely from the review.

Projected pressures and cost reduction options

28. 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 1**. The current list of pressures, investments and savings options are attached as **Appendices 2a-2d** and the key impacts are discussed in the paragraphs that follow.

29. 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. 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. In addition, demand has increased significantly since the easing of restrictions during the summer and consequently, forecasting levels of demand going forward is extremely difficult. In recent years there have been allocations of non-recurrent funding from Government, however the Government has not confirmed any recurrent funding.

30. In addition, the Government's plans for adult social care reforms mean that in future years, expenditure will increase due to larger numbers of people eligible for funding from the Council for their care, lower income from clients, and higher prices in the market. Modelling is being

undertaken to refine estimates of the cost arising from these reforms and the MTFS assumes additional costs will be contained within the new grant funding made available. Additional funding has been promised by Government however there remains a great deal of uncertainty about whether this will be sufficient to cover the costs or whether there will be a net liability on the Council. At this stage it has been assumed that grant will increase in line with published increase to national control totals and will be adjusted when further information on the grant distribution is known.

31. Health and Care continues to make progress towards delivery of the planned savings approved in the MTFS for 2021/22 and future years. A number of savings have been delayed during 2020/21 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.

32. 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.

33. 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.

34. The Families and Communities current plans and new options continue to be dominated by the transformation of 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. This service area has also seen a significant increase in demand following the easing of Covid restrictions and it is anticipated that there will be further increases following the national review announced recently.

35. Within the children's social care system the planned transformation went live in October which was slightly later than planned. The redesign, which is informed by best practice, seeks to change both the practice and culture across the children's system. It will enable a whole system approach, bringing together children's social care, SEND and Inclusion, the Place Based Approach and commissioning. It is essential for the delivery of revised practices / cultures that underpin the necessary MTFS savings and reshaping of SEND.

36. Increasing numbers of EHCPs is placing further pressures on SEND services including Home to School Transport.

37. The High Needs Block is currently forecast to overspend by £7.5m and reflects continuing growing demand for SEND support. This overspend will be charged against the DSG reserve which, at the end of 2020/21 was already £2m in deficit. Staffordshire County Council is not alone in this difficult financial predicament, in fact it is a position shared by the majority of councils across the sector. It is forecast that the SEND transformation programme, with the full roll out of the district hub model, will provide a more inclusive system that enables the necessary early support and intervention to manage demand within overall resources.

38. Outside the issue of social care, there are pressures in other service portfolios with the main one being around highways maintenance and development. In 2020/21, the government grant provided for highway maintenance was reduced significantly. Consequently the MTFS includes an investment in highways in 2022/23 which will help to reduce the maintenance backlog and will mitigate the impact of the grant reduction. An amount of £15.5 million is included in the Capital Programme for this purpose and an additional £1 million is included in the MTFS for revenue costs associated with the transformation programme in this service. If the changes made to highways, including pilots from 2021/22, produce positive results then there is scope to increase this revenue allocation by a further £1m, funded from earmarked reserves, and this will be monitored and reported through the quarterly Integrated Performance reports to Cabinet.

39. The Waste service is also facing increasing pressures due to larger tonnages being received. This trend began in 2020 during the first lockdown and is continuing. This and current contract negotiations have required additional investment to be made in this service. There is also additional investment in climate change to support delivery of this part of the Strategic Plan.

40. Support services are generally living within their means and are identifying savings where possible to mitigate any emerging pressures. In response to the increased demand for Children's Services, there are pressures arising in Legal for support to this service area.

41. The total pressures and cost reductions, including the increasing pressures and savings from previous years, are shown in the table below. A summary by Directorate is attached at **Appendix 3.**

	2022/23		**2023/24**		**2024/25**		**2025/26**		**2026/27**
	£m		**£m**		**£m**		**£m**		**£m**
Pressures	30.089		58.002		76.725		90.647		90.877
Inflation	16.473		26.904		36.636		46.591		56.777
Savings	(16.834)		(24.487)		(23.989)		(21.677)		(19.677)
Investments	(0.522)		(1.340)		(1.355)		(1.355)		(1.355)
Net movement	**29.206**		**59.079**		**88.017**		**114.206**		**126.622**

Risks

42. 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.

43. There is a huge level of uncertainty in the MTFS due to a number of factors. The full impact of the pent-up demand released by the relaxation of Covid restrictions has not yet been felt and it is not clear how long-term this will become.

44. There has been a Fair Funding Review promised for some years now and this has been delayed due to the pandemic, however it was announced that this will commence early in 2022. At present the scope of the Review is unknown and there will be consultation with local authorities which is welcomed. In addition, reforms of the business rates system have been discussed prior to the pandemic and it would be beneficial for this work to be completed and contribute towards the Fair Funding Review. The outcome of both pieces of work are desperately needed to provide some certainty for financial planning.

45. 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.

46. The Government's plans for adult social care reforms mean that additional expenditure will be required to fund the costs of care for many people who are currently self funders, and to meet higher prices in the market as local authority and self funder fees move toward parity. Clarification of details by the Government and further modelling is required to refine estimates of the cost arising from these reforms as well as the funding from Government to meet them. There are growing fears that costs will significantly exceed the funding available.

47. Risks are inherent in the whole system around Children's and Families' including risks around capacity in the courts to facilitate children leaving care, new ways of working not being fully embedded to support delivery of children and families system transformation. There is also risk around any potential response to national issues surrounding care arrangements.

48. There is a medium-term risk in the negotiations of the contract with Entrust that the County Council becomes committed to a level of spend it cannot afford, particularly if other risks materialise.

49. In relation to the council's capacity to deliver, there is an increasing risk that restructures are not embedded in services. 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.

50. 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 particular around waste to energy facilities, in future years.

51. Loss of specific grants and hence income to the authority is a risk. There is a prevalence of bidding processes for funds which takes capacity from other service provision and is also very reactive. A better approach is to allocate funding directly to authorities for them to decide how best to spend it in their local areas.

52. The current level of inflation is forecast to reduce but there is a risk that it does not reduce as quickly as expected and this will result in increased pressure on budgets.

53. 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 around £10 million each year, reducing as the risk of cost reductions not being achieved reduces.

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

55. 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 Overview and Scrutiny Committees, Portfolio Holders, SLT and Cabinet on a quarterly basis.

56. 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.

57. 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.

58. 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

59. 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	£ 3.9 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	£ 0.5 million
1% Interest (on balances)	£1.4 million

60. Details regarding the assumptions used in the financial planning exercise for the major cost elements and funding streams are attached as **Appendix 4**.

Council Tax and Business Rates

Council Tax

61. 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 2022/23 and thereafter. In addition, the Spending Review announced that the government would permit social care authorities to raise council tax by a further 1% 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 1%.

62. 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.

63. The District and Borough Councils have provided their tax bases to allow the council tax to be calculated. The council tax for the County Council is calculated by dividing the council tax requirement by the notified council tax base. The council tax base is the number of households in the county area expressed as a Band D equivalent.

64. An increase in the tax base of 0.6% had been assumed, in accordance with the 2021/22 MTFS. This reflected the impact of the pandemic and the reduction seen in 2021/22. However, the notifications show an increase for 2022/23 of 1.6%. Details of the council tax base by District and Borough council are attached as **Appendix 5**. Following discussions with District and Borough Councils, the MTFS assumes a steady increase over the MTFS period.

65. District and Borough councils are required to declare the surplus or deficit on their council tax collection funds each year. The surplus or deficit is then reflected in the council tax bills for the following year, due to the pandemic, authorities across the country had large collection fund deficits last year. New regulations have been introduced to permit these deficits to be spread over three years. The estimated position set out in **Appendix 5** shows the overall surplus relating to 2022/23 of £4.982m which includes the second of the three-year deficit spreading payments.

66. 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 £1,401.30 which is an increase of £40.68 per annum 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 £406.258m for 2022/23. Details of the precepts due from each District and Borough Council are shown in **Appendix 5**.

Category of dwelling	Council Tax rate £
Band A	934.20
Band B	1,089.90
Band C	1,245.60
Band D	**1,401.30**
Band E	1,712.70
Band F	2,024.10
Band G	2,335.50
Band H	2,802.60

Business Rates

67. Businesses across the globe were hit by the pandemic and many have continued to struggle this year. This means that the income we receive from business rates is a reduction compared with the amount originally assumed in the MTFS for 2022/23. In addition there is a large collection fund deficit for business rates and in order to balance the budget a contribution from the Local Taxation reserve has been used.

68. 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. It is intended that the County Council remain a member of this Pool for 2022/23.

Review of Reserves and Balances

69. 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.

70. The earmarked reserves and provisions have been reviewed to make sure they are still required and that they are adequate. As part of producing the formal accounts of the council for 2020/21 earmarked reserves were reviewed. Excluding those reserves earmarked for schools, the remaining reserves are deemed to be fit for purpose for matters such as insurance claims and capital investment. This review of reserves can be seen at **Appendix 6**. Alongside this review, the level of Contingency has been assessed and included in the MTFS at an initial level of £10m pa to reflect the increased risks facing the council at this time.

71. At the end of 2020/21, general balances were £47.3m. The events of the past two years have proved the importance of holding balances against uncertainties. 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 7**, has concluded that £55m is deemed to be the appropriate sum required for the council and an additional contribution has been included in the 2022/23 budget.

Capital, Treasury Management and Commercial Investment Strategies

72. The capital programme is over £100m in 2022/23. The main projects included in the programme are:
    - A new First school at Park Farm;
    - Two new Primary schools at Fradley Park and Deansdale, Lichfield;

- Expansion of a number of primary schools across the county, plus two new schools;
- Creation of the Stafford History Centre including new storage, new covered courtyard area and a repurposing of the Grade II listed William Salt library building;
- Work will begin on the Chatterley Valley West project to unlock disused industrial land, creating an employment site;
- An additional contribution of £15.5m to the Highways programme to facilitate pothole and carriageway condition improvements.

73. Further details of the Capital Programme 2022 – 2027 can be seen at **Appendix 8** together with funding information. The Programme assumes the continuation of the 5% top slice of general capital allocations to help fund corporate priority projects.

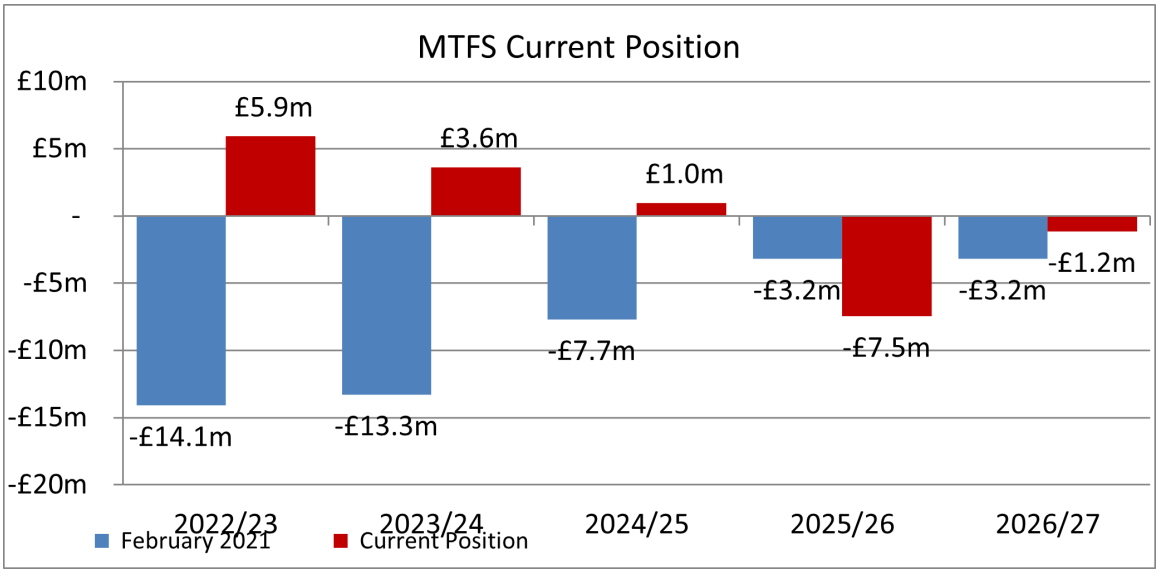
74. The Capital Strategy is attached to this report as **Appendix 9a** and it explains how the capital programme will be funded and the implications for that funding on the revenue budget. The implications for the revenue budget are described in the Minimum Revenue Provision Policy, this is Annex A to the Capital Strategy. The Capital Strategy is interconnected with the Treasury Management Strategy (**Appendix 9b**) and the Commercial Investment Strategy (**Appendix 9c**). 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. Whilst the Commercial Investment Strategy continues as in previous years, the Treasury Management Strategy shows that the County Council will continue to follow the policy of using cash rather than taking out external borrowing. For its investments, the Council maintains a prudent approach, concentrating its investments in lower risk money market funds (MMFs), government deposit and local authorities.

75. 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 10** and performance against these will be monitored and reported throughout the year.

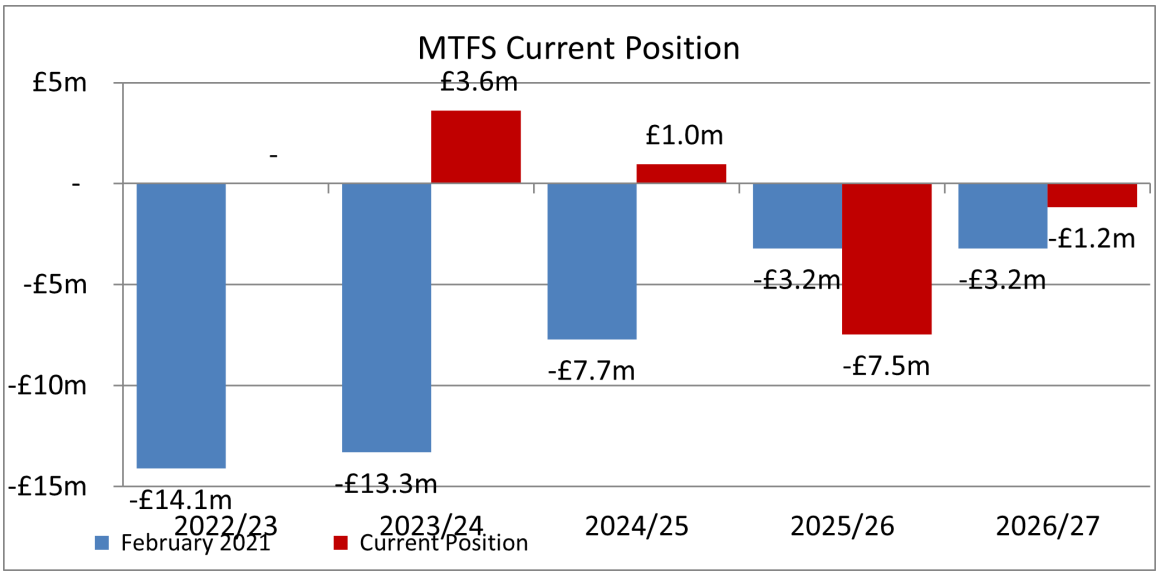
Summary of Medium Term Financial Strategy

76. In February 2021, a budget gap of £14.1m was reported for 2022/23 and a similar large gap for 2023/24. Since then, services have faced increased demand and have also identified further cost reductions to help mitigate the pressures.

77. Following the Provisional Local Government Finance Settlement with increased funding for social care and assuming the spending pressures and savings options identified in **Appendices 2a-2d** are approved, the current position is shown in the graph below:



78. The graph shows that there is some headroom in 2022/23 but a budget gap exists in 2025/26. Therefore if the headroom in 2022/23 is contributed to reserves, it can then be used in future years to bridge the budget gap and ensure a balanced position across the MTFS period. It is hoped that the Fair Funding Review together with further information on social care reforms will provide some certainty over financial planning for the whole MTFS period to ensure it remains balanced. Following the contribution of the headroom to reserves, the position is as shown in the graph below:



79. 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.

80. The 2022/23 draft revenue budget for each service area together with planning forecasts for future years is attached as **Appendix 11.** An analysis of the year on year changes to the budget is summarised in **Appendix 12**, while **Appendices 13a-13d** provide details of the budget allocations within each portfolio.

Consultation

81. Attached at **Appendix 1** 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 2022/23 as the savings options are implemented to ensure mitigations are developed to minimise any potential negative impacts.

82. Business ratepayers were consulted on 18th January 2022 when they met with the Leader, Finance Portfolio Holder and key officers. Business ratepayers welcomed the actions taken by the County Council during the pandemic and also the plans for the future. Businesses appreciate working in partnership with the County Council and have stressed that remaining flexible is important to them. In addition, savings options will require specific consultation as necessary to deliver the changes proposed.

83. Consultation with the Trade Unions took place on 27th January 2022. Concerns were expressed regarding the deficit on the High Needs Block of the DSG grant, the rising costs of SEND Transport and also the issues being experienced in the social care market. The County Council was praised for its response in recent months in getting funds out quickly to social care providers.

Corporate Overview and Scrutiny Committee Comments

84. A good budget is transparent and well scrutinised. Scrutiny has been undertaken on the results of the MTFS exercise by the Corporate Overview and Scrutiny Committee, in parallel with consideration by Cabinet. As in

previous years this committee has established a working group specifically to scrutinise the financial plans.

85. The Committee has scrutinised the detailed spending pressures and cost reduction proposals. In addition the Committee has interviewed Cabinet Members and has considered best practice from other local authorities. The report of the Committee, which concluded that the MTFS and 2022/23 budget met the principles of being a good and balanced budget, was considered by Cabinet at its 26th January meeting. The Committee's comments and recommendations along with Cabinet's response are attached as **Appendix 14**.

Conclusions

86. 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 have not been 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.

87. 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.

88. The council remains ambitious for Staffordshire, exploring new options and areas to make our county better. The Council has a clear ambition to spend as much as we can afford on maintaining and improving Staffordshire's roads and is taking a first step in doing this next year and will monitor the impact of this initial additional investment during 2022/23. The council remains committed to supporting the local economy to recover from the effects of the pandemic. As ever, we continue to be mindful of the vulnerable adults and children in our communities who need our help and support. Clearly the impact of Social Care Reforms represents a significant risk to the council in future years, as does the impact of the Fair Funding Review. In the light of these significant risks, we need to remain flexible in our ability to fund unforeseen costs, should these risks materialise.

89. 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 situation is balanced in the medium term but this includes some significant risks and assumptions around funding.

Rob Salmon
County Treasurer

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2. Detailed Pressures, Savings and Investments

    a Health and Care
    b Families and Communities
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3. Summary of Pressures, Inflation, Savings and Investments

4. Major assumptions used in MTFS

5. Council Tax Base, Collection Fund and Precepts

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14. Recommendations of the Corporate Overview and Scrutiny Committee and Cabinet's responses

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:

There are no specific legal implications presented by this report.

Resource and Value for money implications:

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

Risk implications:

Risk implications are outlined in paragraphs 42 – 58 of the report.

Climate Change implications:

We have considered the impacts on climate change whilst developing the MTFS and have, in line with the 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 MTFS. 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 Plans for Staffordshire as a place where people live longer, healthier and more fulfilling lives.

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Staffordshire County Council

Annual MTFS Community Impact Assessment Report

2022/23

Author: Keith Luscombe, Strategic Policy and Partnerships Manager / Amanda Dawson-Blower, Strategic Policy Officer

Date: 17 January 2022

Annual MTFS Community Impact Assessment (CIA) – 2022 / 23

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 includes continued investment to make a positive difference for Staffordshire and our communities and has recently undergone its annual review, along with the development in tandem of the Strategic Plan. Together this sets out our ambitions for Staffordshire, how we will work to gain the maximum impact and deliver value for money. This is all for approval by Cabinet in January 2022. The potential cross-cutting community impacts across this all are a key consideration, and to accompany this, the MTFS CIA has also been updated below to consider any additional savings proposals, alongside continued Covid-19 learning and key impacts. This paper also provides a progress report against the previously identified five CIA priorities identified in the 2021/22 CIA; and refreshes the list of CIA priorities for the upcoming year.

2. MTFS CIA Priorities (2021/22) – Progress Update

2.1. The MTFS CIA presented to Cabinet in January 2021 reported the following five proposed savings options with the highest potential impact on our communities and the places they live:

- 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)

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:

- Disabilities
- Children and Young People / Families
- Localities

2.3 Appendix 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, alongside Staffordshire's continued strong response to the pandemic, through working closely with partners, key stakeholders, the community and our workforce to ensure continued delivery of services, the service impact on some of our key vulnerable groups has been mitigated. This includes changes to the Children, Young People and Families transformation, the Rural Review and Reorganisation, and the Recovery of Mental Health Services. 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 2021 to review and discuss each of the five 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 / continued learning from Covid-19** – remaining at the forefront of managing Covid-19, the County Council has managed the impact on our services, delivering some of these in a different way and managed the impact on the communities we serve. This has brought opportunity to do things better, work closely with partners and strengthen existing relationships. The continued learning has helped in the development of mitigations, such as the increase in demand for country parks leading to changes to the Rural Review and Reorganisation programme, the delivery of Mental Health Recovery Services requiring providers to work differently, and the County Council is now commissioning its own service. Also the Children and Young People's transformation programme required significant virtual consultation and engagement, with communications and a strong focus on

well-being helping ensure all staff and stakeholders were kept informed and supported throughout.

- **Partnerships** – Working closely with partners continues to enable the effective implementation of some key MTFS changes, minimising the impact for local communities. Changes happening in rural communities, embedding the Children, Young People and Families transformation programme 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 impacts.

- **Communities** – Similarly, working with individuals, communities and the VCSE sector to help minimise the impacts of change has proved successful in a number of areas. This includes empowering our communities through our Doing Our Bit programme, which was key during the pandemic, and redesigning our approach to Children and Families (including SEND) and Mental Health Recovery services.

3. Impacts of Covid-19

3.1. The MTFS CIA presented to Cabinet in January 2021 clearly recognised the significant impact that the Coronavirus pandemic has had on the work of the Council and some of our most vulnerable residents.

3.2. Considering and understanding the impacts of COVID-19 on our residents and communities remains at the heart of all of our recovery plans and activities. This is also key to the MTFS annual review and development in tandem of the Strategic Plan.

3.3. In October 2021, Cabinet considered and endorsed an update on the Council's approach to recovery and a Community Impact Assessment was undertaken to understand the impact of Covid-19 on Staffordshire. This continued learning has been informed by a Staffordshire Covid-19 Residents Survey carried out in 2020 to provide further insights into how the early effects of the pandemic had impacted residents and actions needed to be taken to help Staffordshire's communities and businesses recover.

3.4. A follow-up Covid-19 Resident Survey took place in October and November 2021. This is to ensure the County Council continues to listen to residents to understand the pandemic's ongoing impact on the people of Staffordshire, as well as priorities for recovery. Findings from this latest survey will build on those previously gathered in 2020 as a way of understanding any ongoing or emerging impacts. Results are anticipated to be available in early 2022 and the MTFS CIA will be updated to reflect

this all, as will individual CIAs, as appropriate. Collectively this will focus on those key groups identified as potentially negatively impacted more than others. Previously these were:

- **Elderly** and individuals with a **disability/limiting illness** – having been at greater risk of Covid-19 and also suffering the wider implications of lockdown such as access to healthcare, wellbeing impacts, such as loneliness and isolation and digital exclusion.

- **Younger people and parents** – with disruption to education, but also young people experiencing personal impacts associated with limited social interaction and impact on their emotional wellbeing.

- Those **furloughed** – reporting an overall worst experience during the pandemic, driven by the impact on household finances and concerns regarding their employment situation.

3.5. We have worked hard to protect vulnerable people through the pandemic with our multi-agency partners across the public sector, strengthening existing relationships and developing new ways of working where required. We have and continue to work closely with our communities, including the local VCSE sector, who have been vital in supporting our response. For example, through anchor organisations leading the community response during the Pandemic, the surge in local and informal volunteering, help from the local community and through County Council Staff volunteers, including delivery of food and other essential supplies, medication collection, and support. Also working closely together through Elected members funding schemes, such as the #DoingOurBit Community Grants Scheme.

4. MTFS CIA (2022/23) – Summary of Key Findings

4.1. A refresh of the MTFS CIA has been undertaken, in line with the production of the MTFS 2022-27 and Strategic Plan. 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 Appendix B to this report.**

4.2. The table at Appendix B provides an assessment of the potential impacts on communities, based on proposals set out in the refreshed MTFS for 2022-27, 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:

- Strategic Review of the Care Market

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 CIA priorities for 2022/23 (listed in paragraph 5.2), these are:

- **Disability / Older People –** There are a number of savings proposals in the MTFS that result in changes to people with disabilities across both Families and Communities and Health and Care. These include the embedding of the Children, Young People and Families transformation (which includes the SEND review), the Mental Health Recovery service and programme, the Community Offer for Learning Disabilities, along with changes for older people through the Strategic Review of the Care Market and Home Care Policy on High Cost Packages. Wider ongoing impacts of Covid-19 on this cohort also need to be considered in individual service CIAs, and as part of the County Council's continued approach to recovery, 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 programme will continue to 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. As change is further embedded in the coming year, continuing to monitor and mitigate any impacts will be vital. Wider Covid-19 impacts previously identified young people's emotional wellbeing as a key negative impact. The follow-up Covid-19 Residents Survey findings and continued learning will need to factor into wider service developments, as appropriate, for these communities.

- **Localities** – Crucial to a number of the proposed savings options identified in the refreshed MTFS 2022-27 will be close working with local communities and our partners in Borough, District and Parish Councils, as well as with the VCSE sector and Providers. These include embedding the Children, Young People and Families transformation, Review of Countryside Estates and Rights of Way,

Community Offer for Learning Disabilities, and the Mental Health Recovery service.

5. Revised MTFS Community Impact Assessment Priorities for 2022/23

5.1. Following the 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 2022-27, a refreshed list of six CIA priorities is set out below.

5.2. This list is a combination of existing priorities from 2021/22 that are still to be implemented and/or impact monitored, along with new options proposed in the revised MTFS for 2022/23 that have the highest potential impact on communities:

- Embedding the 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)
- Strategic Review of the Care Market

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 continue to 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, people with protected characteristics, as well as considering wider impacts such as climate change, the environment, economy and health and care. How we can work with local partners, members, the VCSE sector and communities to mitigate any potentially negative impacts will also be key considerations.

6. Next Steps

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

Appendix A - Current MTFS CIA Priorities - 2021/22 - Progress Update

MTFS Proposal	CIA Implementation Update	Community Impact & Mitigations
Embedding the Children, Young People and Families Transformation Programme	• A full CIA was produced alongside Cabinet report Nov 2020, updated in Feb 2021 ahead of consultation. • Changes expected to be positive any risks of programme to be monitored and mitigations in place to reduce potential negative impacts. • Will run until 2025/26.	• The long-term **Children, Young People and Families Transformation** programme is now complete and being embedded into a new way of working which will ensure a whole system approach for children and families and 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. • Progress on the second phase was initially paused due to Covid-19, however the programme restarted and a 75-day consultation was completed in June 2021, and the new district model went live in October 2021. The new structure is now complete and the workforce are in place; training and development is underway and communication and engagement to inform and reassure the workforce and partners is ongoing. Work continues on the pathways and processes and a transition plan continues to be implemented to ensure the safe handover of the programme and ongoing monitoring to the business. • The SEND element of the transformation has been considered a priority and therefore continued throughout the pandemic. A SEND Strategy is now in place and a partnership implementation plan is currently being agreed. Phasing of further transformation is currently being planned. SEND has been part of the workforce reorganisation and the SEND offer will now be part of the integrated early help and family support teams within the district. • Overall, 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	• **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

MTFS Proposal	CIA Implementation Update	Community Impact & Mitigations

	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.
		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 tender of Greenfield House was undertaken in October 2021 but was unsuccessful – the decision was made to keep Greenfield House in-house. Feasibility studies are being undertaken by Entrust and an options appraisal for investment will commence early 2022, which once complete will go to Cabinet.
		  o Horninglow Bungalows was reviewed in August 2021 and it was determined there is limited market capacity and appetite, the service is therefore now being considered to be included in the supported living options appraised being undertaken by Commissioning.
		  o A service review of day opportunities and respite has resulted in the design of an integrated service. A pilot will be undertaken with service users and families in 2022, facilitated via a co-production steering committee.
		  o Two day-services in Boney Hay and Tamworth have merged and will be operational in a new building in Lichfield in March/April 2022.
		  o Recommendations to improve and refurbish the Hawthorn House building for up to 15 residents was approved by Cabinet in October 2021. Project planning has commenced, with construction due to start in December 2022 and the new building to be complete by early 2024.
		• Given further service change it is recommended that this remains a MTFS CIA priority with ongoing review of impacts.

MTFS Proposal	CIA Implementation Update	Community Impact & Mitigations
Savings to Mental Health Recovery Service	• Current contracts will expire in March 2022 and SCC is commissioning a new social care only service. • A full CIA has been undertaken as part of the decision-making process.	• **Savings to Mental Health Recovery services** involves recommissioning the services to focus on promoting social inclusion 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. • The decision has been made for SCC to commission its own service when contracts with the three current providers, jointly funded with the CCG, end on 31 March 2022. • Discussions are taking place with the replacement provider to ensure that existing service users have the option to transfer to the new service. • Recommended that this is reviewed as part of the development of the MTFS CIA 2023/24.
Home Care Policy on High Cost Packages	• A full CIA on the Strategic Review of Home Care was undertaken in September 2020 • Review of high cost packages and packages under 5 hours is being undertaken	• **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. • Robust assessments are carried out by Midlands Partnership NHS Foundation Trust (MPFT) to ensure assessed eligible needs continue to be met. • Recommended that this is reviewed as part of the development of the MTFS CIA 2023/24.
Rural review and reorganisation	• Presented to Cabinet, with a full CIA in March 2019. • Review of wider staffing structures commenced in January 2020, then placed on hold due to Covid-19. In early 2021 the staffing reorganisation was reviewed following consultation with staff/trade unions feedback and	• The biggest impact will be on the rural communities where the Country Parks are situated. However, sites will still be available for public use and will remain under the ownership of the County Council. Management of two sites was transferred in 2018/19 to an environmental NGO and a parish council and is working well. Due to COVID 19 impacts and wider changes, the approach to future management of countryside sites is under review. • Staff will also be impacted by the review and re-organisation. An initial review of the staff structure was commenced in 2020 but was put on hold due to COVID-19. Concerns regarding capacity and resilience of the service in the face of significantly increasing demand were highlighted and the MTFS has been revised. A revised

MTFS Proposal	CIA Implementation Update	Community Impact & Mitigations
	learning from Covid-19 and MTFS position revised. • The next phase of the Countryside Estates work is under review – a CIA was undertaken in 2019 with an update for the staff review undertaken in 2021.	proposal has been consulted on a final structure now confirmed. The new operational model for Rural County is expected to be fully implemented in May 2022. • It is recommended this remains a MTFS CIA priority and revisited following the outcome of the review and upcoming discussions.
Ongoing review and monitoring of Policy on Winter Grit Bins (and any potential service change to Winter Service if appropriate)	• 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. • 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 both the 2019/20 and 2020/21 winter seasons have been identified. • Recommended that this no longer remains a MTFS CIA priority.

Appendix B – MTFS Community Impact Assessment for 2022/23

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 social inclusion 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 be commissioned from 1 April 2022 onwards.

				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. Robust assessments are carried out by Midlands Partnership NHS Foundation Trust (MPFT) to ensure assessed eligible needs continue to be met. **Strategic Review of the Care Market** A Strategic Review of the Care Market is being undertaken to ensure the County Council can continue to meet its statutory duty to meet the needs of people who are assessed as eligible for care and support under the Care Act 2014. Covid-19 has had a profound impact upon both the home care market and the accommodation-based market. The review therefore includes: • Commissioning of care home placements • Shaping of the care market • Investing non-recurring funding in the sector to improve recruitment and retention • Exploring how technology can be used to support people • Working across the Council to develop a workforce strategy for people who work in the care sector 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	The long-term **Children, Young People and Families Transformation** programme is now complete and being embedded into a new way of working which will ensure a whole system approach for children and families and 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. 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 2022/23. The existing CIA remains in place and has been updated with further updates as appropriate in line with any service change.
	Rural	All Localities Staff	Medium	Due to Covid-19 impacts, the **Review of Countryside Estates and Rights of Way** has been delayed and the approach to future management of countryside sites is being reviewed. In terms of the **Rural Review and Reorganisation** that is being carried over from last year's MTFS CIA, concerns regarding capacity and resilience of the service in the face of significantly increasing demand due to Covid-19 were highlighted. This has resulted in a further review of the staff structure and a revised proposal has been consulted on and is currently being confirmed. Updates to the Community Impact Assessment have been undertaken and a new operational model is expected to be implemented in May 2022.
	Transport Policy	Young People and Families	Low / Medium	**Discretionary school travel policy** Ongoing monitoring of school travel policy. The MTFS Task and Finish Group will support and maintain oversight of this during the coming year.

HEALTH AND CARE

Appendix 2a

Projected Pressures, Cost Reduction Options and Investments

Description	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Care Commissioning	**Community Impact Assessment Rating - Medium**				
Total Service Spending Pressures Approved in February 2021	**10.464**	**20.057**	**29.889**	**41.399**	**45.749**
Projected Changes to Original Service Spending Pressures					
Demographic change is recognised widely as a key risk facing national and local government. Additional funding is required to meet additional demand for services arising from an ageing population.	0.000	0.000	0.278	0.760	2.330
This is the estimated cost impact of the National Living Wage increase.	1.872	1.872	1.872	1.872	1.872
This is the estimated cost impact of the National Living Wage increase.	2.892	2.892	2.892	2.892	2.892
The cost of older people care home placements is rising due to inflation and national living wage.	0.000	0.000	0.000	1.245	3.656
Increased in Better Care Fund activity	0.971	0.971	0.971	0.971	0.971
Additional income generated by growth in demand and price rises. Updated to reflect latest assumptions.	0.000	(1.797)	(4.298)	(2.335)	(9.666)
Additional BCF funding from inflationary uplift to CCG cash transfer in 2021/22 onwards	(1.013)	(1.013)	(1.013)	(1.013)	(1.013)
Total Projected Changes to Service Spending Pressures Approved in February 2021	**4.722**	**2.925**	**0.702**	**4.392**	**1.042**
New Service Projected Pressures					
Pay home care providers for 7 days as opposed to one day currently when clients are hospitalised. This helps them to retain staff.	0.600	0.600	0.600	0.600	0.600
Demand for equipment is rising and costs are escalating due to supply chain issues and inflation.	0.300	0.300	0.300	0.300	0.300
Additional Home First capacity to support hospital discharges.	1.000	1.000	1.000	1.000	1.000
The Covid pandemic has led to increased referrals for Mental Health support.	0.500	0.500	0.500	0.500	0.500
Introduction of the New Liberty Protection Safeguards will result in an increase in demand for Advocacy services.	0.100	0.100	0.100	0.100	0.100
Demand for Replacement Care (Respite) services for people towards the end of life is increasing in the wake of the Covid pandemic.	0.300	0.300	0.300	0.300	0.300
There is a backlog of people waiting for care due to high demand during autumn and winter 2021/22.	4.255	4.255	4.255	4.255	4.325

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

Appendix 2a

HEALTH AND CARE

Projected Pressures, Cost Reduction Options and Investments

Description	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Estimated additional funding to pay care providers a "fair rate" under the Government's adult social care funding reforms.	1.428	1.428	1.428	1.428	1.428
Estimated additional funding to pay care providers a "fair rate" under the Government's adult social care funding reforms.	2.849	2.849	2.849	2.849	2.849
Additional NHS contribution to S117 funded clients as a result of a 50/50 approach to funding phased in over a 5 year period.	0.000	14.089	22.489	22.489	22.489
Estimated additional funding to pay home care providers a "fair rate" under the Government's adult social care funding reforms including a 6% uplift in 2022/23.	0.000	8.962	12.185	9.545	9.125
Estimated additional funding to pay care home providers a "fair rate" under the Government's adult social care funding reforms including a 6% uplift in 2022/23.	(2.500)	(2.500)	(2.500)	(2.500)	(2.500)
Estimated additional cost impact of the Government's adult social care funding reforms (care cap and increased asset thresholds).	(1.483)	(1.483)	(1.483)	(1.483)	(1.483)
Estimated use of Social Care Support Grant to fund additional demand arising from the Government's adult social care funding reforms.	(1.000)	(2.000)	(3.000)	(4.000)	(5.000)
Appropriation to reserves as a contingency against further rises in demand or prices.	2.595	0.000	0.000	0.000	0.000
New Service Projected Pressures Total	**8.944**	**28.400**	**39.023**	**35.383**	**34.033**
Total Service Cost Reductions Approved in February 2021	**(2.645)**	**(4.040)**	**(4.068)**	**(4.086)**	**(4.086)**
Projected Changes to Original Service Cost Reductions					
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 manner to meet eligible need	0.500	0.000	0.000	0.000	0.000
Management team saving no longer deliverable due to increase in demand for services attributable to the Coronavirus pandemic and anticipated requirements of the new CQC assurance framework	0.050	0.050	0.050	0.050	0.050
Commissioner staffing saving no longer deliverable due to increase in demand for services attributable to the Coronavirus pandemic and anticipated requirements of the new CQC assurance framework	0.040	0.040	0.040	0.040	0.040
Total Projected Changes to Service Cost Reductions Approved in February 2021	**0.590**	**0.090**	**0.090**	**0.090**	**0.090**
New Service Cost Reduction Options					
Further management of demand and prices in order to reduce costs.	(10.000)	(10.000)	(6.000)	(2.000)	0.000
New Service Cost Reduction Options Total	**(10.000)**	**(10.000)**	**(6.000)**	**(2.000)**	**0.000**
Total Pressures	24.130	51.382	69.614	81.174	80.824
Total Cost Reductions	(12.055)	(13.950)	(9.978)	(5.996)	(3.996)
Service Total	**12.075**	**37.432**	**59.636**	**75.178**	**76.828**

HEALTH AND CARE

Appendix 2a

Projected Pressures, Cost Reduction Options and Investments

Description	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Adult Social Care and Safeguarding	**Community Impact Assessment Rating - Medium**				
New Service Projected Pressures					
Additional funding to the Midlands NHS Partnership Foundation Trust to cover the increase National Insurance by 1.25% from 1 April 2022, as required under the Section 75 agreements.	0.284	0.284	0.284	0.284	0.284
Additional funding to the Midlands NHS Partnership Foundation Trust to increase Occupational Therapy capacity to response to an increase in the number of referrals.	0.150	0.150	0.150	0.150	0.150
Professional leadership and resource to implement the enhanced CQC adult social care enhanced assurance framework. Plus additional social work capacity to meet increased demand for assessments anticipated to arise from the Government's adult social care funding reforms.	1.497	1.692	1.692	1.692	1.692
To ensure adequate workforce training.	0.150	0.150	0.150	0.150	0.150
Additional financial assessment capacity to meet increased demand anticipated to arise from the Government's adult social care funding reforms.	0.100	0.100	0.100	0.100	0.100
Additional social work capacity required to implement the new Liberty Protection Safeguards legislation.	0.750	0.750	0.750	0.750	0.750
New Service Projected Pressures Total	**2.931**	**3.126**	**3.126**	**3.126**	**3.126**
Total Service Cost Reductions Approved in February 2021	**(0.086)**	**(0.541)**	**(0.541)**	**(0.541)**	**(0.541)**
Total Pressures	2.931	3.126	3.126	3.126	3.126
Total Cost Reductions	(0.086)	(0.736)	(0.736)	(0.736)	(0.736)
Service Total	**2.845**	**2.390**	**2.390**	**2.390**	**2.390**
Total Health and Care Pressures and Cost Reductions	**14.920**	**39.822**	**62.026**	**77.568**	**79.218**
Inflation	**2.176**	**3.857**	**5.581**	**7.342**	**9.155**
Health and Care Grand Total	**17.096**	**43.679**	**67.607**	**84.910**	**88.373**

Appendix 2b

FAMILIES AND COMMUNITIES

Projected Pressures, Cost Reduction Options and Investments

Description	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Children's Services	**Community Impact Assessment Rating - Medium**				
Total Service Spending Pressures Approved in February 2021	**(0.034)**	**(0.034)**	**(0.034)**	**(0.034)**	**(0.034)**
Total Service Cost Reductions Approved in February 2021	**(4.139)**	**(8.562)**	**(12.186)**	**(14.421)**	**(14.421)**
New Service Cost Reduction Options					
Reduced cost of Children in Care by investment & expansion of our internal residential provision	0.000	(0.200)	(0.200)	(0.200)	(0.200)
New Service Cost Reduction Options Total	**0.000**	**(0.200)**	**(0.200)**	**(0.200)**	**(0.200)**
Investment					
Implementation of a Restorative Practice model working with children and their families to encourage more effective working relationships	(0.002)	(0.010)	(0.025)	(0.025)	(0.025)
Adult Specialist workers in District Teams to address the root cause of problems	0.000	(0.810)	(0.810)	(0.810)	(0.810)
Delayed Children's Workforce Transformation (1 April 2021 to 1 July 2021)	(0.520)	(0.520)	(0.520)	(0.520)	(0.520)
Total Investments Approved in February 2021	**(0.522)**	**(1.340)**	**(1.355)**	**(1.355)**	**(1.355)**
Total Pressures	(0.034)	(0.034)	(0.034)	(0.034)	(0.034)
Total Cost Reductions	(4.139)	(8.762)	(12.386)	(14.621)	(14.621)
Total Investments	(0.522)	(1.340)	(1.355)	(1.355)	(1.355)
Service Total	**(4.695)**	**(10.136)**	**(13.775)**	**(16.010)**	**(16.010)**

FAMILIES AND COMMUNITIES

Appendix 2b

Projected Pressures, Cost Reduction Options and Investments

Description	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Education Services	**Community Impact Assessment Rating - Low**				
Total Service Spending Pressures Approved in February 2021	**0.030**	**0.420**	**0.800**	**0.950**	**0.950**
Projected Changes to Original Service Spending Pressures					
Expected changes in SEN pupil numbers	0.000	0.000	0.000	0.000	0.230
Total Projected Changes to Service Spending Pressures Approved in February 2021	**0.000**	**0.000**	**0.000**	**0.000**	**0.230**
New Service Projected Pressures					
SEND Home to School Transport	1.500	1.500	1.500	1.500	1.500
Increase in ESG approved by Schools Forum	(0.087)	(0.087)	(0.087)	(0.087)	(0.087)
New Service Projected Pressures Total	**1.413**	**1.413**	**1.413**	**1.413**	**1.413**
New Service Cost Reduction Options					
Reduced historical pension costs	0.000	(0.090)	(0.090)	(0.090)	(0.090)
New Service Cost Reduction Options Total	**0.000**	**(0.090)**	**(0.090)**	**(0.090)**	**(0.090)**
Total Pressures	1.443	1.833	2.213	2.363	2.593
Total Cost Reductions	0.000	(0.090)	(0.090)	(0.090)	(0.090)
Service Total	**1.443**	**1.743**	**2.123**	**2.273**	**2.503**
Culture and Communities	**Community Impact Assessment Rating - Medium**				
Total Service Spending Pressures Approved in February 2021	**(0.100)**	**0.096**	**0.096**	**0.096**	**0.096**
Total Pressures	(0.100)	0.096	0.096	0.096	0.096
Service Total	**(0.100)**	**0.096**	**0.096**	**0.096**	**0.096**
Rural	**Community Impact Assessment Rating - Medium**				
Total Service Spending Pressures Approved in February 2021	**(0.030)**	**(0.370)**	**(0.370)**	**(0.370)**	**(0.370)**
Projected Changes to Original Service Spending Pressures					
Non-delivery of prior year savings	0.000	0.340	0.340	0.340	0.340
Total Projected Changes to Service Spending Pressures Approved in February 2021	**0.000**	**0.340**	**0.340**	**0.340**	**0.340**

Appendix 2b

FAMILIES AND COMMUNITIES

Projected Pressures, Cost Reduction Options and Investments

Description	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
New Service Cost Reduction Options					
Review the management of the countryside sites in line with the Countryside Estates Review	0.000	(0.050)	(0.050)	(0.050)	(0.050)
New Service Cost Reduction Options Total	**0.000**	**(0.050)**	**(0.050)**	**(0.050)**	**(0.050)**
Total Pressures	(0.030)	(0.030)	(0.030)	(0.030)	(0.030)
Total Cost Reductions	0.000	(0.050)	(0.050)	(0.050)	(0.050)
Service Total	**(0.030)**	**(0.080)**	**(0.080)**	**(0.080)**	**(0.080)**
Total Families and Communities Services Pressures and Cost Reductions	**(3.382)**	**(8.377)**	**(11.636)**	**(13.721)**	**(13.491)**
Inflation	**7.481**	**12.078**	**16.822**	**21.673**	**26.630**
Families and Communities Services Grand Total	**4.099**	**3.701**	**5.186**	**7.952**	**13.139**

ECONOMY, INFRASTRUCTURE AND SKILLS

Appendix 2c

Projected Pressures, Cost Reduction Options and Investments

Description	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Economic Development & Strategic Planning	**Community Impact Assessment Rating - Low**				
Total Service Spending Pressures Approved in February 2021	**(0.025)**	**(0.050)**	**(0.050)**	**(0.050)**	**(0.050)**
Total Pressures	(0.025)	(0.050)	(0.050)	(0.050)	(0.050)
Service Total	**(0.025)**	**(0.050)**	**(0.050)**	**(0.050)**	**(0.050)**
Infrastructure & Highways	**Community Impact Assessment Rating - High**				
Total Service Spending Pressures Approved in February 2021	**(0.300)**	**(0.350)**	**(0.350)**	**(0.400)**	**(0.350)**
New Service Projected Pressures					
Revenue elements of the additional highways investment	1.000	1.000	1.000	0.500	0.500
New Service Projected Pressures Total	**1.000**	**1.000**	**1.000**	**0.500**	**0.500**
Total Pressures	0.700	0.650	0.650	0.100	0.150
Service Total	**0.700**	**0.650**	**0.650**	**0.100**	**0.150**
Transport, Connectivity & Waste	**Community Impact Assessment Rating - High**				
Total Service Spending Pressures Approved in February 2021	**0.074**	**(0.130)**	**(0.032)**	**0.245**	**0.545**
Projected Changes to Original Service Spending Pressures					
Increasing base budget for Climate Change / Sustainability Initiatives	0.000	0.250	0.250	0.250	0.250
Total Projected Changes to Service Spending Pressures Approved in February 2021	**0.000**	**0.250**	**0.250**	**0.250**	**0.250**
New Service Projected Pressures					
Dry Mixed recycling contract pressure	0.565	0.565	0.565	0.000	0.000
Contribution towards Hanford consultants	0.200	0.000	0.000	0.000	0.000
Future treatment costs	0.000	0.000	0.000	2.550	2.550
New Service Projected Pressures Total	**0.765**	**0.565**	**0.565**	**2.550**	**2.550**
Total Service Cost Reductions Approved in February 2021	**(0.600)**	**(0.600)**	**(0.600)**	**(0.600)**	**(0.600)**

Appendix 2c

ECONOMY, INFRASTRUCTURE AND SKILLS

Projected Pressures, Cost Reduction Options and Investments

Description	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
New Service Cost Reduction Options					
Savings within the dry mix recycling budget to offset the contract pressure in 23/24 and 24/25	0.000	(0.565)	(0.565)	0.000	0.000
New Service Cost Reduction Options Total	**0.000**	**(0.565)**	**(0.565)**	**0.000**	**0.000**
Total Pressures	0.839	0.685	0.783	3.045	3.345
Total Cost Reductions	(0.600)	(1.165)	(1.165)	(0.600)	(0.600)
Service Total	**0.239**	**(0.480)**	**(0.382)**	**2.445**	**2.745**
Total Economy, Infrastructure & Skills Pressures and Cost Reductions	**0.914**	**0.120**	**0.218**	**2.495**	**2.845**
Inflation	**4.665**	**7.625**	**9.669**	**11.766**	**13.908**
Economy, Infrastructure & Skills Grand Total	**5.579**	**7.745**	**9.887**	**14.261**	**16.753**

CORPORATE SERVICES

Appendix 2d

Projected Pressures, Cost Reduction Options and Investments

Description	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Assets					
Total Service Spending Pressures Approved in February 2021	**(0.250)**	**(0.350)**	**(0.350)**	**(0.350)**	**(0.350)**
New Service Projected Pressures					
Cyber security & IT support to revised ways of working	0.000	0.200	0.200	0.200	0.200
New Service Projected Pressures Total	**0.000**	**0.200**	**0.200**	**0.200**	**0.200**
Total Service Cost Reductions Approved in February 2021	**0.046**	**0.266**	**0.416**	**0.416**	**0.416**
Total Pressures	(0.250)	(0.150)	(0.150)	(0.150)	(0.150)
Total Cost Reductions	0.046	0.266	0.416	0.416	0.416
Service Total	**(0.204)**	**0.116**	**0.266**	**0.266**	**0.266**
County Treasurers	**Community Impact Assessment Rating - Low**				
New Service Projected Pressures					
Care payment arrangements from gross to net	0.080	0.111	0.143	0.143	0.143
New Service Projected Pressures Total	**0.080**	**0.111**	**0.143**	**0.143**	**0.143**
Total Pressures	0.080	0.111	0.143	0.143	0.143
Service Total	**0.080**	**0.111**	**0.143**	**0.143**	**0.143**
People	**Community Impact Assessment Rating - Low**				
New Service Projected Pressures					
Recruitment Project	0.160	0.160	0.160	0.160	0.160
Lone Worker System	0.040	0.040	0.040	0.040	0.040
New Service Projected Pressures Total	**0.200**	**0.200**	**0.200**	**0.200**	**0.200**
Total Pressures	0.200	0.200	0.200	0.200	0.200
Service Total	**0.200**	**0.200**	**0.200**	**0.200**	**0.200**

Appendix 2d

CORPORATE SERVICES

Projected Pressures, Cost Reduction Options and Investments

Description	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Governance					
Total Service Pressures Approved in February 2021	**(0.045)**	**(0.067)**	**(0.086)**	**(0.086)**	**(0.086)**
New Service Projected Pressures					
Child Care Legal Support	0.250	0.250	0.250	0.250	0.250
New Service Projected Pressures Total	**0.250**	**0.250**	**0.250**	**0.250**	**0.250**
Total Pressures	0.205	0.183	0.164	0.164	0.164
Service Total	**0.205**	**0.183**	**0.164**	**0.164**	**0.164**
Strategy	**Community Impact Assessment Rating - Low**				
New Service Projected Pressures					
VSCE Contract	0.000	0.000	0.000	0.500	0.500
New Service Projected Pressures Total	**0.000**	**0.000**	**0.000**	**0.500**	**0.500**
Total Pressures	0.000	0.000	0.000	0.500	0.500
Service Total	**0.000**	**0.000**	**0.000**	**0.500**	**0.500**
Total Corporate Services Pressures and Cost Reductions	**0.281**	**0.610**	**0.773**	**1.273**	**1.273**
Inflation	**2.151**	**3.344**	**4.564**	**5.810**	**7.084**
Corporate Services Grand Total	**2.432**	**3.954**	**5.337**	**7.083**	**8.357**

Summary of Pressures, Inflation, Savings and Investments

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Health and Care					
Pressures	27.061	54.508	72.740	84.300	83.950
Inflation	2.166	3.841	5.559	7.314	9.121
Savings	(12.141)	(14.686)	(10.714)	(6.732)	(4.732)
Investments	-	-	-	-	-
Health and Care Total	17.086	43.663	67.585	84.882	88.339
Families and Communities					
Pressures	1.279	1.865	2.245	2.395	2.625
Inflation	7.481	12.078	16.822	21.673	26.630
Savings	(4.139)	(8.902)	(12.526)	(14.761)	(14.761)
Investments	(0.522)	(1.340)	(1.355)	(1.355)	(1.355)
Families and Communities Total	4.099	3.701	5.186	7.952	13.139
Economy, Infrastructure and Skills					
Pressures	1.514	1.285	1.383	3.095	3.445
Inflation	4.665	7.625	9.669	11.766	13.908
Savings	(0.600)	(1.165)	(1.165)	(0.600)	(0.600)
Investments	-	-	-	-	-
Economy, Infrastructure and Skills Total	5.579	7.745	9.887	14.261	16.753
Corporate Services					
Pressures	0.235	0.344	0.357	0.857	0.857
Inflation	2.161	3.360	4.586	5.838	7.118
Savings	0.046	0.266	0.416	0.416	0.416
Investments	-	-	-	-	-
Corporate Services Total	2.442	3.970	5.359	7.111	8.391
Grand Total	**29.206**	**59.079**	**88.017**	**114.206**	**126.622**

All figures presented in each year represent a cumulative change from the current 2019/20 budget.

Appendix 4

Major Assumptions Used in MTFS
Year-on-Year Increases

	2022/23	2023/24	2024/25	2025/26	2026/27
Staffing costs					
Pay	2.5%	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)	2.0%	2.0%	2.0%	2.0%	2.0%
Contractual inflation	Variable	Variable	Variable	Variable	Variable
Income (standard allocation)	2.0%	2.0%	2.0%	2.0%	2.0%
Utility / Running Expenses					
Electricity	10.0%	10.0%	10.0%	10.0%	10.0%
Gas	50.0%	10.0%	10.0%	10.0%	10.0%
Business Rates bills	3.0%	3.1%	3.1%	3.1%	3.1%
Water[1]	2.0%	2.0%	2.0%	2.0%	2.0%
Petrol	2.0%	2.3%	2.6%	3.0%	2.9%
Diesel	2.0%	2.3%	2.6%	3.0%	2.9%
In-Year Increases					
Interest Rates					
Interest on investments	0.50%	0.75%	1.00%	1.25%	1.25%
Interest on debt	3.74%	3.73%	3.73%	3.77%	3.80%
General Funding					
New Homes Bonus	£2.0m	-	-	-	-
Revenue Support Grant	£11.3m	£11.3m	£11.3m	£11.3m	£11.3m
Council Tax	1.99%	1.99%	1.99%	1.99%	1.99%
Adult Social Care Precept	1.00%	1.00%	1.00%	1.00%	1.00%

[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 5

Council Taxbase, Collection funds and Precepts

Tax Base (Band D equivalents)

	2021/22	2022/23
Cannock Chase	29,136.82	29,458.15
East Staffordshire	37,875.00	39,059.20
Lichfield	38,891.40	39,695.10
Newcastle	37,087.00	37,668.00
South Staffordshire	38,664.29	39,066.18
Stafford	47,994.06	48,490.39
Staffordshire Moorlands	33,260.00	33,510.00
Tamworth	22,366.00	22,968.00
Totals	**285,274.57**	**289,915.02**

Estimated Council Tax Collection Fund Position

	2021/22 £	2022/23 £
Cannock Chase	(193,546)	1,945,825
East Staffordshire	208,982	837,201
Lichfield	(212,848)	(245,101)
Newcastle	(310,069)	200,873
South Staffordshire	(248,200)	919,585
Stafford	(304,692)	383,151
Staffordshire Moorlands	(453,407)	392,753
Tamworth	430,171	547,685
Totals	**(1,083,609)**	**4,981,972**

Key: Surplus / (Deficit)

Precepts

	2021/22 £	2022/23 £
Cannock Chase	39,644,140	41,279,706
East Staffordshire	51,533,483	54,733,657
Lichfield	52,916,417	55,624,744
Newcastle	50,461,314	52,784,168
South Staffordshire	52,607,406	54,743,438
Stafford	65,301,678	67,949,584
Staffordshire Moorlands	45,254,221	46,957,563
Tamworth	30,431,627	32,185,058
Totals	**388,150,285**	**406,257,918**

Review of Earmarked Reserves / Provisions

Appendix 6

Reserve Name	Reason for Reserve	Forecast Balance 31st March 2022 £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.	10.632	0.000	10.632
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.	2.901	0.000	2.901
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.	0.328	0.000	0.328
Exit and Transition Fund	To smooth the impact of redundancies over a five year period and to fund any one-off costs caused by delays to savings agreed as part of the 2019/20 MTFS. It is not possible to forecast demand for contributions from this reserve therefore the current level is sufficient.	15.575	0.000	15.575

Review of Earmarked Reserves / Provisions

Appendix 6

Reserve Name	Reason for Reserve	Forecast Balance 31st March 2022 £m	Transfer into General Balances £m	Forecast Balance after Transfer £m
Insurance Reserves	To ensure that sufficient resources are available to meet outstanding liabilities in respect of the self funding element of material damage claims. Also to ensure sufficient funds are available to meet schools' claims. These reserves are deemed sufficient.	2.056	0.000	2.056
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.	3.521	0.000	3.521
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.	90.480	0.000	90.480
Total Earmarked Reserves		**125.521**	**0.000**	**125.521**

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.

2021/22 Provision £m	Area of Expenditure	Level of Risk	Explanation of risk/justification of balances
Treatment of inflation and interest rates			
5.0	**Inflation**	High	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 on-going impact of 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	**54.5**

Draft Capital Programme 2022/23 to 2026/27

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Health & Care					
Adults Social Care	4.835	17.000	-	-	-
Sub Total	**4.835**	**17.000**	**0.000**	**0.000**	**0.000**
Families & Communities					
Maintained Schools	22.062	11.176	6.088	6.088	6.088
Rural County	0.329	0.295	0.295	0.301	0.224
Tourism & Cultural County	3.049	1.553	0.064	-	-
Sub Total	**25.440**	**13.024**	**6.447**	**6.389**	**6.312**
Economy, Infrastructure & Skills					
Economic Development	7.900	0.938	0.725	0.650	0.650
Strategic Infrastructure	62.218	17.500	17.375	17.375	17.375
Connectivity	0.910	-	-	-	-
Sustainability	0.890	-	-	-	-
Sub Total	**71.918**	**18.438**	**18.100**	**18.025**	**18.025**
Trading Services - County Fleet Care	0.460	0.235	0.235	0.235	0.235
Property	3.355	2.305	2.305	2.305	2.305
Draft Capital Programme	**106.008**	**51.002**	**27.087**	**26.954**	**26.877**

Appendix 9a

Cabinet – 26 January 2022

Capital and Minimum Revenue Provision Strategy 2022/23

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 2022/23, the Council is planning capital expenditure of £106m, as summarised below. Although additional funds from Government allocations are expected to be announced in February or March.

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

	2022/23 budget	2023/24 budget	2024/25 budget	2025/26 budget	2026/27 budget
TOTAL	£106m	£51m	£27m	£27m	£27m

4. The main capital projects include:

- Schools: A new 1 Form Entry (FE) First School at Park Farm (c£2m anticipated spend in 22/23); a new 1FE Primary School at Fradley Park (c£3.3m anticipated spend in 22/23); a new 1FE Primary School at Deansdale, Lichfield (c£4.5m anticipated spend in 22/23). All of these schools have been commissioned in response to rising pupil numbers in their respective locations.

- Communities: Creation of Stafford History Centre which will include new storage extension of the existing Staffordshire Record Office site on Eastgate

Street, a new covered courtyard area, restore and repurpose the Grade 2 listed William Salt Library building and create a public pathway linking North Walls to Eastgate Street. Anticipated total budget of c£5m, with £3.050m anticipated spend in 22/23 funded by £1.160m SCC borrowing and £1.890 Heritage Lottery grant.

- Chatterley Valley West: Staffordshire County Council's investment will unlock 43-hectares of disused industrial land, close to major transport links and provide the opportunity for existing businesses to expand and for new ones to invest in Staffordshire. It will create an employment site which could generate 1,700 jobs (depending on the nature of the end users), Gross Value-Added Benefits of £67 million per annum and £60 million of private sector investment. Capital expenditure is forecast to be £3.5m in 22/23.

- Highways: Currently anticipated spend of c£32.1m on Carriageway Maintenance in 22/23 (part of a total Highways programme of £62.2m) with a notable contribution from SCC of £15m to facilitate pot hole and carriageway condition improvements.

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 –

	2022/23 budget	**2023/24 budget**	**2024/25 budget**	**2025/26 budget**	**2026/27 budget**
External sources	£71m	£30m	£24m	£24m	£24m
Capital resources	£5m	£3m	£3m	£3m	£3m
Revenue resources	£1m	£5m	£0m	£0m	£0m
Debt	£29m	£13m	£0m	£0m	£0m
TOTAL	**£106m**	**£51m**	**£27m**	**£27m**	**£27m**

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

	2022/23 budget	2023/24 budget	2024/25 budget	2025/26 budget	2026/27 budget
Revenue resources	£18.8m	£18.8m	£18.2m	£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 increase by £2.1m during 2022/23. The CFR will increase in 2023/24 and beyond due to the adoption of IFRS16 bringing operating leases onto the balance sheet. Currently it is not known what the impact of IFRS 16 will be, so no figures have been included for this change in the figures below. 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

	2022/23 budget	2023/24 budget	2024/25 budget	2025/26 budget	2026/27 budget
TOTAL CFR	**£575.2m**	**£570.6m**	**£553.5m**	**£537.0m**	**£522.8m**

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. Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive £7.4m of capital receipts in the coming financial year as follows:

Table 5: Capital receipts in £ millions

	2020/21 actual	2021/22 forecast	2022/23 budget	2023/24 budget	2024/25 budget
Asset sales	£13.8m	£25.8m	£7.4m	£2.2m	£14.6m
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

	2022/23 budget	**2023/24 budget**	**2024/25 budget**	**2025/26 budget**	**2026/27 budget**
External loans	**£459m**	**£449m**	**£439m**	**£423m**	**£413m**
Capital Financing Requirement	**£575m**	**£571m**	**£554m**	**£537m**	**£523m**

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

	2022/23 budget	**2023/24 budget**	**2024/25 budget**	**2025/26 budget**	**2026/27 budget**
Authorised limit – borrowing	662	657	639	621	602
Authorised limit – Other liabilities	258	261	264	267	270
Authorised limit – total	920	918	903	888	872
Operational boundary – borrowing	515	511	507	499	480
Operational boundary – Other liabilities	258	261	264	267	270
Operational boundary – total	773	772	771	766	750

Revenue Budget Implications

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

	2022/23 budget	**2023/24 budget**	**2024/25 budget**	**2025/26 budget**	**2026/27 budget**
Financing costs (£m)	38.9	37.9	36.3	35.0	33.7
Proportion of net revenue stream	6.7%	6.3%	5.7%	5.3%	5.0%

Conclusion

17. There is a planned capital programme amounting to £106m in 2022/23. 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.

Annex A

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 2022/23

The County Council implemented the new MRP guidance in 2009/10, and will assess their MRP for 2022/23 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 2022/23 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.

Certain expenditures reflected within the debt liability at 31 March 2022 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.

Cabinet – 26 January 2022

Treasury Management Strategy 2022/2023

Recommendations of the Cabinet Member for Finance and Corporate Matters

Report of the County Treasurer (S151)

1. That Cabinet approve the 2022/2023 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 Council, at its meeting on the 10 February 2022, the adoption of the Annual Investment Strategy (AIS) 2022/23 detailed in **paragraphs 61 to 107,** and **Annex A** and **Annex B** of this report.

3. That Cabinet approve the proposed Borrowing Strategy for 2022/2023 laid out in **paragraphs 39 to 56** comprising:

   a) maximising the use of cash in lieu of borrowing, as far as is practicable;
   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 108 to 118** 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 Council's cash flows, borrowings and investments, and their associated risks. The 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 Council successfully identifies, monitors and controls financial risk as part of prudent financial management.

7. The 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 Council approves a treasury management strategy before the start of each financial year. In addition, this report fulfils the Council's legal obligation to have regard to the CIPFA Code under the *Local Government Act 2003.* CIPFA have released an updated Code of Practice at the end of 2021, for adoption during 2022/23. This will supersede the current CIPFA Code and any proposed changes will be reviewed and implemented by Treasury Officers.

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 2022/23 report meets the requirements of the statutory guidance issued by the Ministry of Housing, Communities and Local Government's (now referred to as Department for Levelling up, Communities and Local Government - DLUHC) 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 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. As well as a new Treasury Management Code, CIPFA also released a revised prudential code in December 2021 for formal adoption into the 2023/24 Treasury Management Strategy. The updated code, whilst tightening regulation, will not have a material effect on the Council as no additional borrowing has been taken to fund commercial or treasury investments.

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 39** onwards.

External Context

Economic background

12. The continuing impact on the UK from coronavirus, future trading arrangements with the EU and global inflationary pressures will remain a major influence on the Council's treasury management strategy for 2022/23.

13. The Bank of England (BoE) recently raised Bank Rate by 0.15% in December 2021 and held its Quantitative Easing programme at £895 billion. The Monetary Policy Committee (MPC) increased the rate and discussed further tightening of economic policy in 2022 in an effort to curb inflation.

14. UK Consumer Price Inflation (CPI) for September 2021 registered 3.1%, this increased to 5.1% in November and is forecast to rise as high as 6% by April 2022 with the next round of capped gas prices forecast to rise. The MPC see this level of inflation as transitory, as it is mainly being driven by gas prices, demand and supply chain issues, but it is lasting longer than initially forecast. The Labour Force Survey unemployment rate fell to 4.2% in November, Whilst Her Majesty's Revenue and Customs payroll data has continued to rise strongly. Despite the end of the furlough scheme there are few signs of increased redundancies, and the stock of vacancies has continued to grow leading to staff shortages in some areas with the unemployment rate projected to fall to 4% in January 2022. At the time of writing, it is still too early to tell the full economic impact from the recent Omicron Coronavirus variant.

15. Gross Domestic Product (GDP) growth in the UK has been rapid since the ending of coronavirus restrictions in summer 2021 with strong growth in November 2021. It is hoped that the UK economy will reach and maintain its pre-pandemic size in Q2 2022. Recent Bank of England projections on GDP Growth have ended up lower than initially forecast due to the drag in the economy caused by global demand for goods and supply bottlenecks although November 2021 was the exception to this trend.

16. Across the EU the slow roll out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Q1, Q2 came in with strong growth of 2%. With Q3 at 2.2%, the EU recovery is nearly complete although countries dependent on tourism are lagging. Recent sharp increases in gas and electricity prices have increased overall inflationary pressures but the ECB is seen as reluctant to raise rates currently.

17. In the US Shortages of goods, like semi-conductors, are fuelling increases in prices and reducing economic growth. It appears that there has been a sustained drop in the labour force suggesting the pandemic has had a longer-term scarring effect in reducing GDP. Economic growth may be reduced to between 2% and 3% in 2022 and 2023 while inflation is likely to remain around 3% in both years, instead of declining back to the 2% central target.

Credit outlook

18. Although bank Credit Default Swap (CDS) prices, which are market indicators of credit risk, spiked upwards at the end of March / early April 2020, due to the intial impact of the pandemic and the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. The Councils treasury advisers, Link, monitor CDS prices as part of their creditworthiness service and the Council has access to this information.

19. The credit ratings for many UK institutions were downgraded on the back of downgrades to the UK sovereign rating in October 2020. 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 2022/23 is still advisable. The Council, as a local authority, is exposed to bail-in risk, as Government will no longer support banks if they fail but rather it will be the investors who primarily bear the financial burden of rescuing the bank.

Interest rate forecast

21. The Council's treasury management adviser, Link, is forecasting a steady rise in the Bank of England Base Rate over the next few years, reaching 1.25% by March 2025.As with all projections there are major risks to this model such as the performance of the economy versus expectations, labour and supply shortages, virus mutations, trade agreements and the geopolitical climate.

22. Gilt yields are expected to rise steadily over the period of this report but there is likely to be short-term volatility, due to economic and political uncertainty and events such as potential increases in Coronavirus measures which may once again see a flight to safety by investors.

23. Due to the ongoing risks outlined above, 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 2021, the Council held £467.6 million of external borrowing and had £343.5 million temporarily invested. The Council's forecast future requirements for borrowing and investments can be considered in the context of, and by reviewing, its balance sheet forecasts.

Balance sheet

25. In terms of borrowing, the 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), these PFI liabilities are removed to calculate the Council's Loans CFR.

26. The Council's Treasury Advisors, Link, performed an independent reconciliation of the CFR calculation using the 2020/21 Statement of Accounts. The Council's figures were proved to be correct, giving confidence in the accuracy of the borrowing commitment and the level of investment that can be made.

27. 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 Council's Loans CFR and how this will be financed through external and internal borrowing:

	31.03.21 Actual £m	31.03.22 Estimate £m	31.03.23 Forecast £m	31.03.24 Forecast £m	31.03.25 Forecast £m
Loans CFR	568.4	573.1	575.2	570.6	553.5
Less: External borrowing	(467.6)	(463.6)	(458.5)	(448.5)	(438.5)
Internal / (over) borrowing	**100.8**	**109.5**	**116.7**	**122.1**	**115.0**

28. The table shows that the Council's Loans CFR is due to increase in 2022/23 before decreasing thereafter; primarily because of a reduced capital programme in future years, alongside repayments of external borrowing as they mature. The Council's internal borrowing requirements move in line with the Loans CFR projections.

29. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total external borrowing should be lower than its highest forecast CFR over the next three years; the above table shows the Council will comply with this recommendation during 2022/23 and going forward.

30. For investments, the 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:

	31.03.21 Actual £m	31.03.22 Estimate £m	31.03.23 Forecast £m	31.03.24 Forecast £m	31.03.25 Forecast £m
Usable reserves	380.7	308.9	311.3	313.7	316.1
Working capital surplus	0	0	0	0	0
Less Internal borrowing	(100.8)	(109.5)	(116.7)	(122.1)	(115.0)
Advance Pension contributions	(35.0)	16.0	19.0	(35.0)	16.0
Investment / (New borrowing)	**244.9**	**215.3**	**213.6**	**156.7**	**217.1**

31. This demonstrates the 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 Council will have sufficient internal resources to cover the internal borrowing requirement in 2022/23 and will not need to borrow from external sources. Within the table above, it is assumed that the Council will make a further payment in advance for 3 years' pension contributions in 2023/24, as they did previously in 2020/21. The Council is expected to continue to make significant savings by doing so, as opposed to paying monthly, for the 3-year period.

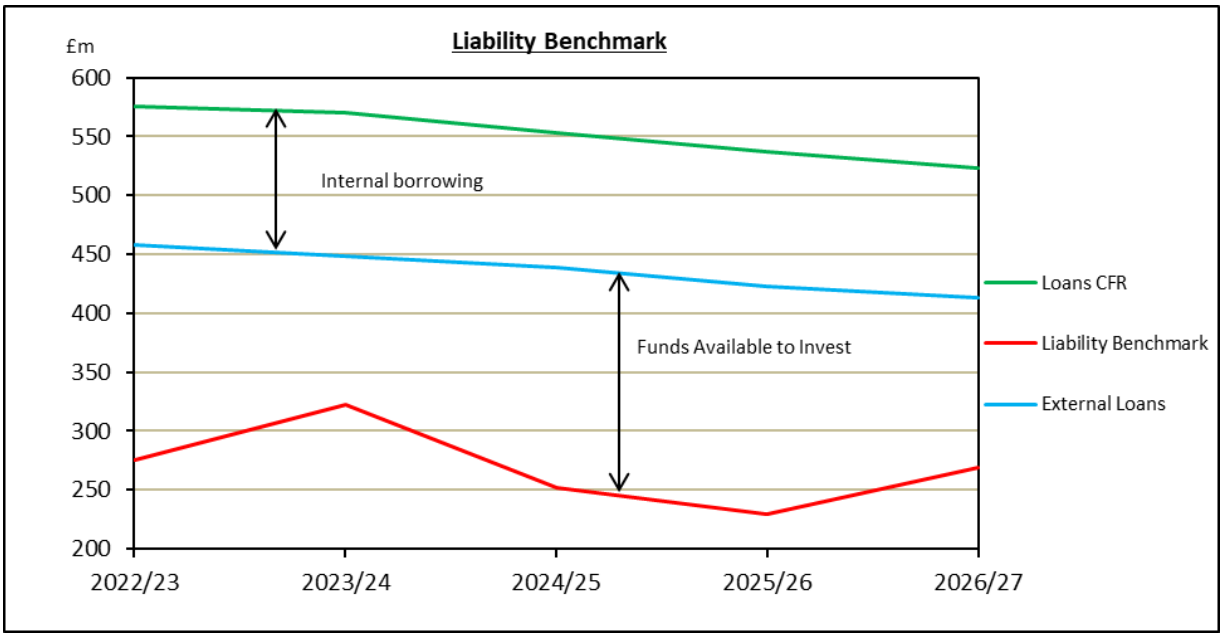
Liability benchmark

32. The CIPFA Prudential Code requires 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.

33. 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 Council's liability benchmark are shown in the following table and chart:

	31.03.21 Actual £m	31.03.22 Estimate £m	31.03.23 Forecast £m	31.03.24 Forecast £m	31.03.25 Forecast £m
External loans	467.6	463.6	458.5	448.5	438.5
(Less Investments) / Add New borrowing	(244.9)	(215.3)	(213.6)	(156.7)	(217.1)
Net borrowing requirement	**222.7**	**248.3**	**244.9**	**291.8**	**221.4**
Add: Minimum investments*	30.0	30.0	30.0	30.0	30.0
Liability benchmark	**252.7**	**278.3**	**274.9**	**321.8**	**251.4**

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



34. The chart shows that the Councils Loans CFR (green line) has been financed through a combination of external borrowing (blue line) and internal borrowing (the difference between the green line and the blue line).

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

Policy framework

36. 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

37. 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 Council for its long-term loans or the interest rate received for the money it invests.

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

Borrowing Strategy 2022/2023

39. In 2022/23, the Council will hold £463.6 million of loans as part of its strategy for funding previous years capital programmes. The Council will need to ensure total amounts borrowed do not exceed the authorised limit for borrowing of £920 million, as disclosed in **Annex C** and as part of the capital strategy which includes liabilities for PFI schemes.

Objectives

40. The primary objective for the Council when considering the need to borrow 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

41. Given the ongoing financial pressures to public services and local government funding, the 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 interest rates, it has been more cost effective for the Council to use its internal cash resources in lieu of borrowing in the short term.

42. 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.

43. 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 34** indicates that this is set to continue into 2022/23.

44. The 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 Council's cash funding because of structural changes; or

- LOBO loan call options being called.

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

46. 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 42**. 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.

47. The Council will monitor the benefits of internal borrowing, via the Treasury Management Panel, chaired by the County Treasurer (S151 officer), on a regular basis. The strategy of internal borrowing 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 Council will need to determine whether it borrows additional sums, at long term fixed rates in 2022/23, with a view to keeping future interest costs low. To this end, the Council will take into account the advice and analysis carried out by its treasury management advisor - Link.

Sources of borrowing

48. 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

49. The 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.

50. 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.

51. The Council currently holds £51 million 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 Council, as the borrower, has the option to either accept the new rate or to repay the loan at no additional cost. £18 million of these LOBO loans have such call options during 2022/23. Although the 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.

52. Under the current strategy, the Council will repay all LOBO loans where call options are exercised by the lender. In addition, the Council will consider repaying LOBO loans where a loan restructuring opportunity arises and is considered financially advantageous (see **paragraph 57**).

53. Where the Council is considering taking out long-term loans, the following observations are important:
    - the Council's existing loan portfolio is very long term, this can be seen in the graph at **Annex D,** and taking shorter term loans would rebalance the portfolio; and
    - as stated already, the yield curve is normal, so shorter-term loans are relatively cheaper.

54. Any 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 to borrow 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

55. Short term loans raised from money markets are typically under 6 months duration. These are low cost, and the 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.

56. 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 Council.

Loan restructuring

57. 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.

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

59. The 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.

60. 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) 2022/23

61. It is the Council's borrowing strategy that determines its investment strategy, as implied in **paragraph 40**. 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.

62. The 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 Council's investment balance ranged between £266 million and £409 million.

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 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 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 2022/23.

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 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 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 Council has taken a low-risk approach to investment and the AIS for 2022/23 will continue to do so. In recent years, short-term unsecured bank investments have generally provided very low returns, with the increasing risk from bail-in regulations. Therefore, it is likely that the Council will continue to concentrate the majority of its short-term investments in more secure money market funds and government investments, in 2022/23.

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

Standard Investments

70. The 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 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); and
    - bank and building society investments recommended by the Council's treasury advisor, Link.

i) UK Government

71. The 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 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 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 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 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 Council's Approved Lending List:
    - Diversified – MMFs invest across many different investments meaning they achieve more diversification than the 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: and
    - Custodian – the investments are managed by an independent bank known as a custodian, who operates at arms-length from the fund management company.

77. 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 Council could move funds to an alternative category of investment, if available.

iii) <u>Bank and building society accounts</u>

78. The 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.

iv) <u>Operational bank account</u>

79. The 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 84** onwards.

80. 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 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).

81. Should the Lloyds credit rating fall below the Council's minimum threshold, then smaller balances may be retained with the bank for operational efficiency. The Council will continue to monitor Link'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

82. Risks to investments, such as those discussed for MMFs in **paragraph 77**, 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 Council's loss in the event of a counterparty default. Diversification will not protect the Council from a systemic failure of the banking sector, even if the risk of this has diminished following the bail-in banking regulations.

83. 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 at the Council will review and reset these limits at least once a month with reference to forecast future cash balances.

84. 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%

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

86. Limits in MMF accounts stand at 100% of total investments due to the diversified nature of their underlying investments and their liquidity levels. The Council currently has five MMFs to ensure all cash is not placed in one MMF, thus further diversifying investments.

87. 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%

88. Due to bail-in regulations 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) has been set.

89. 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).

Non-Standard Investments

90. The Council considers Non-Standard Investments to be all other types of approved investment or with 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.

91. The Non-Standard Investments proposed for use are listed below. Some of these investments' present additional risks to the investments listed within Standard Investments, which would be taken into consideration in any proposed investment.

i) Covered Bonds: 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) Repos (Repurchase Agreements): 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) UK Government Gilts: similar to the DMADF account and Treasury Bills but a longer-term investment that can be sold in the secondary market.
iv) Multilateral Development Bank Bonds: '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 Investment Schemes: Examples include pooled property and equity funds which have very different risk and return profiles to same day notice MMFs. Enhanced MMFs are considered to be collective investment 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.

92. 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

93. Diversification of Non-Standard Investments is equally important, and the 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 £45 million (up to 40 years duration) due to their high credit quality. The Council has held £30 million of long-term local authority investments since 2013.
- Other Non-standard Investments: these have an individual investment cap amount per asset class of £50 million (up to 10 years duration) with an overall cap of £150 million for this group.

94. This means a total of £195 million can be invested in Non-standard Investments in 2022/23 and this 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).

95. **Annex A** sets out the investment categories authorised for use in 2022/23 and **Annex B** lists the Council's Counterparty List at the time of writing this report.

Credit Management Strategy 2022/23

96. Investments made by the 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 Council's treasury management adviser, Link, where available.

97. An important aspect of Link's service is the provision of credit advice. As a treasury advisor, Link 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 Council maintains the ultimate responsibility for the decisions it takes about its investments and will not use a counterparty that, for any reason, it does not deem appropriate.

98. For 2022/23, 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 Link.

99. The Council uses the creditworthiness service provided by Link to help determine its Lending List. This service employs a sophisticated modelling

approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

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

100. The Link modelling approach combines credit ratings and any assigned Watches and Outlooks in a weighted scoring system, which is then combined with an overlay of CDS spreads. The methodology produces a series of colour coded bands (shown below) which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council can then use counterparties within the following durational bands.

- Yellow - 5 years *
- Dark Pink - 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light Pink - 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple - 2 years
- Blue - 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange - 1 year
- Red - 6 months
- Green - 100 days
- No colour - not to be used

As demonstrated, the Link creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings. Appendix 3 shows an example of the colour system used by Link.

101. Typically, the minimum credit ratings criteria the Council use will be a short-term rating (Fitch or equivalents) of F1 and a long-term rating of A-, as stated in **paragraph 99**. There may be occasions when the counterparty ratings from one rating agency are marginally lower but as long as the remaining two agencies have them in range they may still be used. In these instances, consideration will be given to the whole range of ratings available to support their use.

102. The credit list will be monitored on a weekly basis using Link's weekly update information. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service. In addition to the use of credit ratings the Treasury Team will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Financials benchmark and other market data on a daily basis via Link's exclusive Passport website. Extreme market movements may result in the downgrade of an institution or removal from the Council's Lending List.

103. If Link communicate credit rating changes and significant changes in other risk indicators to the Treasury Team, action will be taken. 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.

104. 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.

105. As mentioned previously, the Council retains the ultimate responsibility for its investment decisions. The Treasury Management Panel chaired by the County Treasurer (S151) meets on a monthly basis and reviews any changes recommended by Link. In between these meetings, the Treasury Team may be required to make investment decisions at short notice upon the recommendation of Link. 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 Link do not make a firm recommendation, this will also be referred to the Panel for review. The Council will also use market data, information on any external support for banks, and knowledge of geo-political factors to help support its decision-making process.

106. 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 Council's investment risk profile. This may result in moving investments to lower risk counterparties or instruments.

<u>Non-treasury investments</u>

107. These are discussed as part of a separate investment strategy report titled '(Non-Treasury) Commercial Investment Strategy 2022/23'.

Review of strategy

108. The 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.

109. The responsibility for assessing these circumstances and proposing changes to the strategy is allocated to the Treasury Management Panel.

Policy on the use of external service providers

110. Link are the Council's current external treasury management advisor appointed via a competitive tender process. The contract with Link is for three years, which commenced on 1 April 2021.

111. Link are contracted to provide information, technical accounting assistance and an investment advice service. The Council recognises that the ultimate responsibility for treasury management decisions remains with itself at all times.

112. 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 Council to discharge its responsibilities.

Investment management training

113. 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.

114. 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 Council's staff review process. The function is also subject to regular audit and independent checks.

115. 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

116. 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).

117. The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the 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.

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

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.

Contact Details

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Equalities implications: There are no equalities implications.

Legal implications: Approval of Prudential Indicators and an Annual Investment Strategy is necessary to meet the requirements of the Local Government Act 2003.

Resource and value for money implications: All resource implications are covered in the body of this report which links to the Council's MTFS.

Risk implications: Risk is inherent in Treasury Management activity and is dealt with throughout the report.

Climate change implications: There are no direct climate change implications arising from treasury and investment strategy decisions.

Health impact assessment screening: There are no health impact assessment implications arising from this report.

Cabinet – 26 January 2022 - Investment categories authorised for use 2022/23

Investment	Standard	Non-standard	Comments
UK Government - Debt Management Account Deposit Facility (DMADF) (standard investment)	**unlimited**	×	6 months maximum available
UK Government - Treasury Bills (T-Bills) (standard investment)	**unlimited**	×	6 months maximum available
UK local authorities term deposits (standard 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 £50m per investment category and £150m 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 - 26 January 2021

County Council Lending List – December 2021	
	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	Maximum duration
HSBC UK Bank	confirmed on deposit
Lloyds Bank	date as per colour code
Santander UK	below based on rating:
Nationwide Building Society	
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

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

Cabinet – 26 January 2022

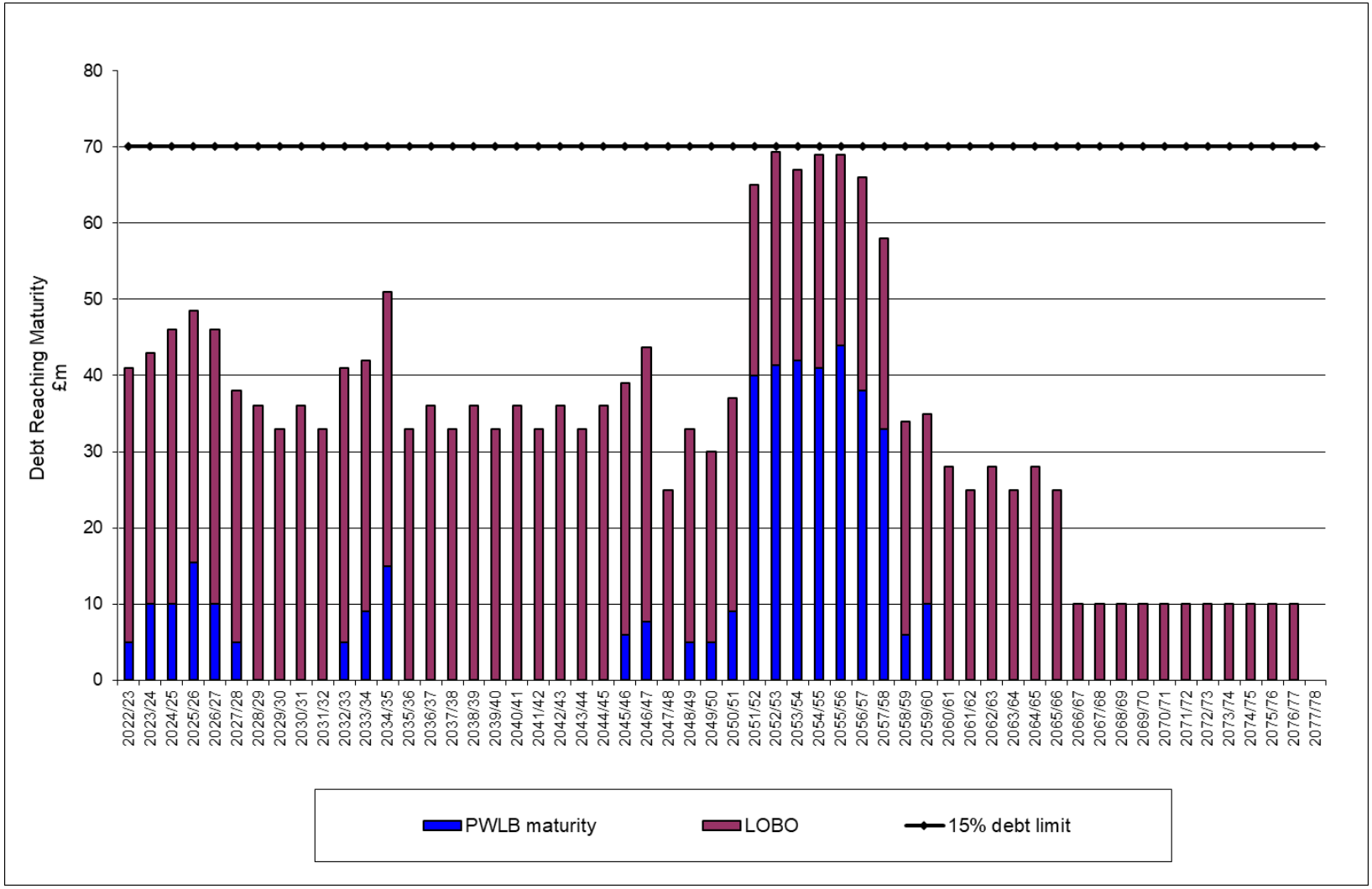
Prudential Indicators for Treasury Management

Indicator	Estimate 2022/23	Estimate 2023/24	Estimate 2024/25	Estimate 2025/26	Estimate 2026/27
1. External Debt	£m	£m	£m	£m	£m
Authorised Limit for borrowing	662	657	639	621	602
Authorised Limit for other liabilities	258	261	264	267	270
TOTAL	**920**	**918**	**903**	**888**	**872**
Operational Boundary for borrowing	515	511	507	499	480
Operational Boundary for other liabilities	258	261	264	267	270
TOTAL	**773.0**	**772.0**	**771.0**	**766.0**	**750.0**
External Loans	**721.6**	**719.5**	**712.5**	**705.5**	**693.0**
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)	£543m	£545m	£541m	£524m	£507m
b. Upper Limit (Variable)	(£316m)	(£262m)	(£271m)	(£278m)	(£278m)
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 **Appendix 5**					
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 **Appendix 5**. 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.*	£195m	£195m	£195m	£195m	£195m

Annex D

Cabinet – 26 January 2022

County Council Maturity Structure of Loans



Cabinet – 26 January 2022

Commercial Investment Strategy 2022/2023

Recommendation of the Cabinet Member for Finance and Corporate Matters

Report of the County Treasurer (S151)

1. That Cabinet approves:

   (a) the Commercial Investment Strategy for 2022/23 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 £20 million in 2022/23;

   (d) a maximum limit for an individual Service Investment Loan of £10 million in 2022/23; 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 2022/23, 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 2022/23 report meets the requirements of the statutory guidance issued by the Ministry of Housing, Communities and Local Government (now referred to as Department for Levelling up, Communities and Local Government - DLUHC) 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 Council matters only and does not include Staffordshire 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 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 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').

6. CIPFA released a new version of the Prudential Code in December 2021 and whilst reporting requirements are deferred to the 2023/24 strategies, the provisions in the code apply with immediate effect. The points affecting this report are as follows:
    - A Local Authority must not borrow to invest primarily for financial return;
    - Commercial Property – makes clear any historical asset base is not impacted and that plans to divest should form part of an annual review;
    - Definition of Investment – separate categories for Treasury Investment, Service Investment and Commercial Investment.

    Staffordshire Council has not, nor plans to, contravene any provisions in the revised code.

Treasury Management Investments

7. The Council typically receives income in cash (e.g. from precepts and grants) and pays for its expenditure in cash (e.g. through payroll and invoices). It also holds 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.

8. The contribution that treasury investments make to the objectives of the 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.

9. Details of the Council's policies and plans for treasury management activities for 2022/23 are covered in the Treasury Management Strategy, which includes the Annual Investment Strategy.

Service Investments

10. 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.

11. Service Investments can be broadly defined as any investments made to support delivery of statutory and local public services, and the details of these are contained within the Capital Strategy for 2022/23, which is also the subject of a separate report. However, in terms of the DLUHC guidance on Service Investments, these are more specifically defined as Loans or Shares.

Loans

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

13. 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 loan has now been repaid to the Council in full.

14. Whilst the loan to Nexxus was 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.

15. 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 2022/23 be set at £10 million. 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., a local business relative to an employee.

16. 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.

17. 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

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

19. 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) owned 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.

20. 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 2021; however, the investment continues to contribute to the Council's service delivery objectives.

21. 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 2022/23, as any investment proposal will need to be considered fully prior to being presented to Cabinet for their decision.

22. 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.

23. For liquidity purposes, both types of Service Investments fall outside the remit of the Capital Strategy; therefore the Council will need to put in place procedures to determine how it will stay within any Approved Limits and the maximum investment

duration permitted for investments. For 2022/23, 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

24. Under current DLUHC Guidance, the Council is permitted to make Commercial Investments with the intention of making a profit or generating revenue income.

Property Commercial Investments

25. 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'.

26. In November 2019, HM Treasury increased the borrowing rates on all loan periods by 1%, to discourage borrowing for commercial purposes. The rate has returned to normal levels, but 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. CIPFA has also revised the Prudential Code to further strengthen the position and this now prevents authorities from borrowing to invest primarily for financial return.

27. Whilst there has 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 Prudential Code revisions this type of investment activity is prohibited, if there is a need to utilise PWLB funding.

28. 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.
- What other sources of information are used to assess and monitor risk.

29. 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

30. 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 and they are structured in multiple different investment forms and legal structures, such as direct investments, unitised investment vehicles and limited partnerships.

Loan Commitments and Financial Guarantees

31. 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 Investment Panel

32. During 2019/20, the Council formed a Commercial Investment 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.

33. 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.

34. To date, the Council has not made any Commercial Investments and before doing so, detailed consideration of any proposed investments will be reviewed in accordance with the Governance framework described later in this report (see **Paragraph 39**).

Quantum, Proportionality and Diversification

35. 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.

36. Whilst the Council does have Service Investments in the form of 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.

37. In respect of Commercial Investments, it is proposed that in 2022/23 total exposure should be capped at £20 million p.a. Whilst it would be beneficial to also limit the amount on any single investment, thus forcing diversification, (i.e. a £5 million 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

38. 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.

39. 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.

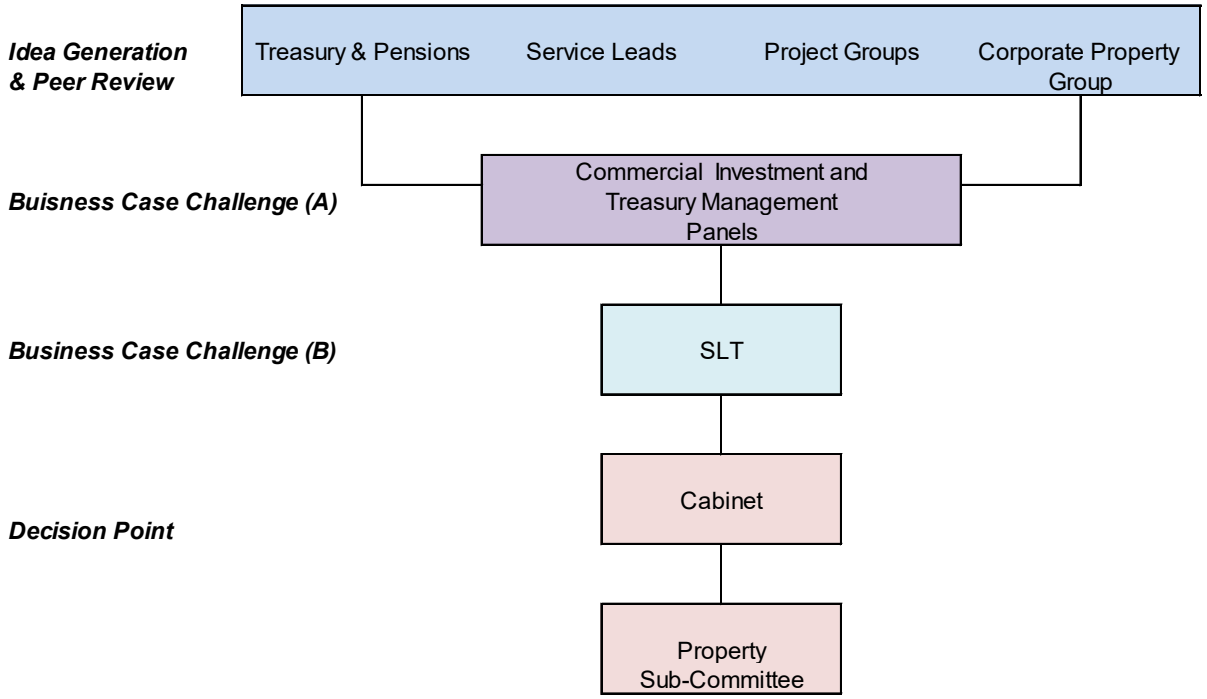
Governance, Capacity, Skills and Culture

40. The Council will ensure that Elected Members and Senior 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.

41. Elected Members and Senior 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.

42. 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



43. 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.

44. A Business Case, in an agreed form, but covering such details as that provided in Annex B 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

45. The business case will be submitted to the Commercial Investment Panel for consideration to be put forward into the Council's formal decision-making process which, depending on the type of approval required, will go into the committee cycle.

Investment Indicators

46. 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 C.

Rob Salmon
County Treasurer

Background Documents

1. Treasury Management in the Public Services: Code of Practice (CIPFA) (2021)
2. Prudential Code for Capital Finance in Local Authorities (CIPFA) (2021)
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

Equalities implications: There are no equalities implications.

Legal implications: Approval of Prudential Indicators and a Commercial Investment Strategy is necessary to meet the requirements of the Local Government Act 2003.

Resource and value for money implications: All resource implications are covered in the body of this report which links to the Council's MTFS, Capital and MRP Strategy and Treasury Management Strategy for 2022/23.

Risk implications: Risk is inherent in Commercial Investment and is dealt with throughout the report.

Climate change implications: There may be climate change implications arising from Commercial Investment decisions. These will be highlighted as part of any Business Case.

Health impact assessment screening: There are no direct health impact assessment implications arising from this report.

Annex B

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 C

COMMERCIAL INVESTMENT INDICATORS

Total Risk Exposure

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

Total investment exposure	**31 March 22 Actual £m**	**31 March 23 Forecast £m**	**31 March 24 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	**2021/22 Actual**	**2022/23 Forecast**	**2023/24 Forecast**
Treasury management investments			
Service Investments: Loans			
Service Investments: Shares			
Commercial Investments:			
ALL INVESTMENTS			

Appendix 10

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 consistent with the risk review of general balances	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 11

Proposed Net Budget 2022/23 Planning Forecasts 2023/24 to 2026/27

	Proposed Net Budget 2022/23	Planning Forecast 2023/24	Planning Forecast 2024/25	Planning Forecast 2025/26	Planning Forecast 2026/27
	£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	45.429	46.166	47.390	48.640	49.930
Care Commissioning	197.848	223.688	246.386	262.433	264.600
Better Care Fund	(32.708)	(32.708)	(32.708)	(32.708)	(32.708)
Sub Total	*210.569*	*237.146*	*261.068*	*278.365*	*281.822*
Families and Communities					
Children's Services	119.656	117.163	116.535	117.376	120.517
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	28.398	29.929	31.614	33.101	34.700
Culture and Communities	5.581	5.925	6.077	6.233	6.392
Rural	2.435	2.448	2.513	2.579	2.647
Community Safety	9.545	9.752	9.963	10.179	10.399
Sub Total	*165.615*	*165.217*	*166.702*	*169.468*	*174.655*
Economy, Infrastructure and Skills					
Business and Enterprise	2.329	2.392	2.485	2.583	2.686
Infrastructure & Highways	32.090	33.265	34.085	34.374	35.282
Transport, Connectivity & Sustainability	42.770	43.587	44.702	48.572	49.933
Skills	6.937	7.010	7.085	7.162	7.241
EI&S Business Support	1.146	1.184	1.223	1.263	1.304
Sub Total	*85.272*	*87.438*	*89.580*	*93.954*	*96.446*
Corporate Services					
Assets	10.805	11.481	11.995	12.366	12.745
Business Support and Compliance	4.271	4.431	4.595	4.763	4.935
Traded Service / Business Partner	(0.758)	(0.757)	(0.756)	(0.755)	(0.754)
County Treasurers	9.797	10.094	10.398	10.676	10.960
People	3.122	3.223	3.326	3.431	3.539
Governance	5.945	6.110	6.282	6.477	6.676
Corporate Services	0.215	0.221	0.227	0.233	0.239
Strategy	4.050	4.172	4.297	4.925	5.056
Sub Total	*37.447*	*38.975*	*40.364*	*42.116*	*43.396*
Service Total	**498.903**	**528.776**	**557.714**	**583.903**	**596.319**
Capital Financing					
Capital Financing	33.979	33.497	32.840	33.645	33.898
Centrally Controlled	23.780	29.289	30.513	31.968	33.502
Investment Programme Capacity Fund	1.164	1.621	2.093	2.093	2.093
Contingency	10.000	10.000	9.000	9.000	8.000
Net Revenue Budget	**567.826**	**603.183**	**632.160**	**660.609**	**673.812**
Use of Local Taxation Reserve	(2.466)	-	-	-	-
Contribution to Reserves	14.908	0.349	3.462	3.983	4.514
Budget Requirement	**580.268**	**603.532**	**635.622**	**664.592**	**678.326**
Revenue Support Grant	(11.256)	(11.256)	(11.256)	(11.256)	(11.256)
Retained Business Rates	(111.745)	(113.381)	(115.473)	(117.804)	(119.332)
Settlement Funding Assessment	**(123.001)**	**(124.637)**	**(126.729)**	**(129.060)**	**(130.588)**
New Homes Bonus	(2.026)	-	-	-	-
Council Tax Collection Fund (Surplus) / Deficit	(4.982)	1.584	-	-	-
Core Services Grant	(6.976)	(6.976)	(6.976)	(6.976)	(6.976)
Social Care Support Grant	(34.634)	(34.634)	(34.634)	(34.634)	(34.634)
Market Sustainability and Fair Cost of Care	(2.391)	(19.600)	(28.000)	(28.000)	(28.000)
Council Tax	(406.258)	(422.889)	(440.246)	(458.461)	(476.977)
Financing Total	**(580.268)**	**(607.152)**	**(636.585)**	**(657.131)**	**(677.175)**
(Headroom) / Shortfall	-	*(3.620)*	*(0.963)*	*7.461*	*1.151*

Appendix 12

Summary of Budget Changes

Proposed Net Budget 2022/23	**2021/22 Revised Base Budget**	Inflation	Other Service Movements	Total Spending Pressures	**Total Pressures**	Investments	Service Savings	**2022/23 Draft Budget**
	£m	£m	£m	£m	**£m**	£m	£m	**£m**
Health and Care	**194.444**	2.166	(0.961)	27.061	**28.266**	0.000	(12.141)	**210.569**
Families and Communities	**161.516**	7.481	0.000	1.279	**8.760**	(0.522)	(4.139)	**165.615**
Economy, Infrastructure and Skills	**79.693**	4.665	0.000	1.514	**6.179**	0.000	(0.600)	**85.272**
Corporate Services	**35.005**	2.161	0.000	0.235	**2.396**	0.000	0.046	**37.447**
Service Total	***470.658***	***16.473***	***(0.961)***	***30.089***	***45.601***	***(0.522)***	***(16.834)***	***498.903***
Centrally Controled Items	**44.449**	0.733	(21.402)	0.000	**-20.669**	0.000	0.000	**23.780**
Capital Financing	**34.669**	0.000	(0.690)	0.000	**(0.690)**	0.000	0.000	**33.979**
Investment Fund	**0.798**	0.000	0.366	0.000	**0.366**	0.000	0.000	**1.164**
Contingency	**5.000**	0.000	5.000	0.000	**5.000**	0.000	0.000	**10.000**
Net Revenue Budget	***555.574***	***17.206***	***(17.687)***	***30.089***	***29.608***	***(0.522)***	***(16.834)***	***567.826***

Health and Care
BUDGET SUMMARY

	2021/22 Original Budget **£m**	2021/22 Revised Budget **£m**	2022/23 Draft Budget **£m**
Public Health and Prevention	27.382	27.382	27.382
Public Health Ring Fenced Grant	(27.382)	(27.382)	(27.382)
Adult Social Care and Safeguarding	40.623	41.001	45.429
Care Commissioning	191.790	185.190	197.848
Better Care Fund	(31.747)	(31.747)	(32.708)
TOTAL	**200.666**	**194.444**	**210.569**
Centrally Controlled Items	3.394	3.596	3.686
Total Including Centrally Controlled Items	204.060	198.040	214.255

Appendix 13b

Families and Communities
BUDGET SUMMARY

	2021/22 Original Budget **£m**	2021/22 Revised Budget **£m**	2022/23 Draft Budget **£m**
Children's Services	113.502	119.796	119.656
Childrens Public Health	9.802	9.802	9.802
Public Health Ring Fenced Grant	(9.802)	(9.802)	(9.802)
Education Services	27.347	24.669	28.398
Culture and Communities	4.999	5.438	5.581
Rural	2.356	2.356	2.435
Community Safety	6.716	9.257	9.545
TOTAL	**154.920**	**161.516**	**165.615**
Centrally Controlled Items	4.004	5.329	5.470
Total Including Centrally Controlled Items	158.924	166.845	171.085

Appendix 13c

Economy, Infrastructure and Skills
BUDGET SUMMARY

	2021/22 Original Budget **£m**	2021/22 Revised Budget **£m**	2022/23 Draft Budget **£m**
Business and Enterprise	2.194	2.194	2.329
Infrastructure & Highways	29.687	29.687	32.090
Transport, Connectivity & Sustainability	39.880	39.880	42.770
Skills	6.585	6.835	6.937
EI&S Business Support	1.097	1.097	1.146
TOTAL	**79.443**	**79.693**	**85.272**
Centrally Controlled Items	1.389	1.644	1.682
Total Including Centrally Controlled Items	80.832	81.337	86.954

Appendix 13d

Corporate Services
BUDGET SUMMARY

	2021/22 Original Budget **£m**	2021/22 Revised Budget **£m**	2022/23 Draft Budget **£m**
Assets	11.175	10.445	10.805
Business Support and Compliance	3.912	3.927	4.271
Traded Service / Business Partner	(0.622)	(0.761)	(0.758)
County Treasurers	11.425	9.237	9.797
People	2.728	2.728	3.122
Governance	5.272	5.395	5.945
Corporate Services	0.204	0.204	0.215
Strategy	3.990	3.830	4.050
TOTAL	**38.084**	**35.005**	**37.447**
Centrally Controlled Items	2.095	3.718	3.814
Total Including Centrally Controlled Items	40.179	38.723	41.261

Recommendations of the Corporate Overview and Scrutiny Committee and Cabinet's response

Comments and Recommendations of the Corporate Overview and Scrutiny Committee		Cabinet's Response
Cabinet Member for Health and Care		
R1	That the voluntary sector must be appropriately supported in Communities to support people to live independently.	Noted and work is ongoing with the voluntary sector to support them as resources allow, the MTFS includes additional money for the extension of the VCSE contract.
R2	That public health be requested to focus messages of healthy lifestyle choices to residents in the County to encourage living healthier longer and deflect from increasingly expensive care costs.	We have continued to promote healthy lifestyles and mental well-being throughout the pandemic. As Covid eases we will be able to increase our focus on these messages.
R3	The working Group would support the efforts to introduce consistency and best practice in digital innovations in adult social care where some care centres would benefit from this (e.g., some are less innovative or are using paper-based systems where technology could help).	We continue to innovate and have implemented or are planning to introduce a range of new digital systems including in care homes: Reminiscence Interactive Therapy Activities, Oxevision, pressure and falls mats, video-calling platforms, electronic care records; in home care: ARMED; in learning disability in house provider services: a digital care management system.
Cabinet Member for Children and Young People		
R4	The Working Group highlight the importance of progressing work towards moving children out of care towards permanency whether by returning them home, or to adoption or fostering families and that this should be done with immediate effect to address the rising cost of children in our care. It is recommended that Staffordshire Children's Services carry out a review of processes to consider the continued suitability of placements and that best practice identified by the Working Group be considered to develop a	The Children's Transformation programme has been developed to take account of best practice, to address the rising costs of the service and to ensure that the vulnerable children in Staffordshire receive the best possible care. The Placement Team considers exit strategies as appropriate and the service is implementing a focused piece of work which identifies those young people who may be able to move out of care, including those placed at home on a Care Order.

Recommendations of the Corporate Overview and Scrutiny Committee and Cabinet's response

Comments and Recommendations of the Corporate Overview and Scrutiny Committee		Cabinet's Response
	placement team to look at exit strategies to move children out of care, when appropriate.	
R5	To assist with early detection of potential care issues, Worcester CC look at school exclusion records, targeting families with missing school attendance issues and have a vulnerable learner team. Staffordshire should review its early detection trend data availability in this way.	This practice is also mirrored in Staffordshire and will be enhanced by the new district integrated children and families' teams which include education and social care. This is supported by our partners which deliver family support services, our Social Workers in School national pilot and the multiple intelligence sources used in the Building Resilient Families and Communities (BRFC) programme to deliver the earliest support possible. Staffordshire is one of the top national performers in the BRFC programme for its impact on supporting families and children to remain out of crisis.
R6	That the Children's Transformation Programme progress be monitored and measured, and that a report be requested to Corporate Overview and Scrutiny Committee in 6 months to update on actions and timelines for implementation.	Noted but it has previously been agreed that this will be included in the workplan for the Safeguarding Overview and Scrutiny Committee. The Corporate Overview and Scrutiny Committee will continue to receive the quarterly integrated Performance reports which will include monitoring of this area as appropriate.
Cabinet Members for Highways and Transport, and Commercial Matters		
R7	That appropriate measures are put in place to mitigate the identified risks to delivering transformation relating to availability of skilled staff, regaining control over quality, and fully engaging front line staff in the process.	Agreed. Identifying the risks and mitigating actions is a standing agenda item in both the Highways Transformation Steering Group and Programme Board meetings so this is monitored on an ongoing basis.
R8	To ensure that processes are in place to ensure Highways teams work proactively with local members on highways enquiries. It was suggested that best	As part of the transformation programme a new highway communications strategy is being developed. This includes routinely publishing more planned works programmes as well as promoting the

Recommendations of the Corporate Overview and Scrutiny Committee and Cabinet's response

Comments and Recommendations of the Corporate Overview and Scrutiny Committee		Cabinet's Response
	practice identified by the Working Group be considered to work with the communications team to provide elected members a weekly bulletin of planned activities for each member. It was considered this would be very useful in reducing the cost of dealing with enquiries.	highway defects dashboard, which is already available for each Members division. Due to the longer-term uncertainty in the MTFS as a result of the one-year only settlement, we need to live within our means and only do what we can afford. It may not be possible with the current level of revenue investment to provide elected members with a weekly bulletin. The level of revenue investment in Highways will be continually monitored as part of the corporate quarterly monitoring process with a key review date in December 2022.
R9	That Cabinet give consideration to good practice to potentially reduce operational costs. Surrey CC operates a Find and Fix scheme with its contractor and Staffordshire might want to consider something similar to reduce the costs of revisits to locations.	As part of the 22/23 investment we will be piloting a new 'right-first-time' and 'single-street-visit' approach to reactive maintenance activities to help address public perception around value for money. This approach includes attending to defect repairs above statutory service requirements and therefore requires additional investment. The pilot will establish potential future service levels and quantify additional investment requirements. The pilot will also establish the necessary new process and system requirements, so that they are ready to be rolled out if future ongoing funding is available.
R10	Staffordshire should review whether greater quality checking would have cost benefits. The target for Surrey CC is to have 5% quality control checking of completed works, also requesting before and after pictures from its contractor.	In line with the response to R9 the right-first-time pilots will look at opportunity to carry out additional quality checks, including review of the use of before and after pictures that are already being collected as part of the existing end-to-end Quality Management System. However, due to the longer-term uncertainty in the MTFS as a result of the one-year only settlement, we need to live within our means and only do what we can afford. It is not possible with the

Recommendations of the Corporate Overview and Scrutiny Committee and Cabinet's response

Comments and Recommendations of the Corporate Overview and Scrutiny Committee		Cabinet's Response
		current level of revenue investment to recruit additional Safety Quality Inspectors. The level of revenue investment in Highways will be continually monitored as part of the corporate quarterly monitoring process with a key review date in December 2022 and any additional activity around quality checking would need to be mobilised thereafter.
R11	That effective communication is in place to inform District, Borough and Parish Councils on matters relating to Highways Transformation.	Agreed. A communications strategy is being developed as part of the Highways Transformation Programme and will be monitored through the transformation governance arrangements.
R12	That the Cabinet Member gives consideration to minor and rural roads in any improvement strategy.	It is intended that where the investment strategy supports improved ways of working, including engagement with local Members, works scheduling, quality checks and customer communications the improvements will apply equally to all roads. In line with the highway transformation vision additional investment to replace life expired roads will be prioritised towards high visibility key routes in and around town centres.
R13	That the Cabinet Member champions embedding environmental matters and climate change in all aspects of highways and transport work.	Agreed. Climate Change is a key priority in SCC's latest Strategic Plan and the highways service has developed a "Roadmap to Net Zero". This includes achievement of Net Zero target of 2035 for Scope 1 & 2 emissions with Scope 3, including Suppliers by 2040. This aligns well with the corporate Net Zero by 2050 target.
Cabinet Member for Finance and Resources		
R14	That the Cabinet Member consider innovations and best practice developing in artificial intelligence AI to transform social care and the potential financial benefit	This will be considered but resources are limited and potential development costs could be large.

Recommendations of the Corporate Overview and Scrutiny Committee and Cabinet's response

Comments and Recommendations of the Corporate Overview and Scrutiny Committee		Cabinet's Response
	associated.	
R15	That Cabinet agree to carry out horizon scanning to identify new and up to date technologies and applications, and to note the importance of consulting residents when developing new apps such as MyStaffs to ensure they are user friendly and have attraction to being used.	The method of horizon scanning will be considered and the importance of consulting residents is noted and will be factored into future developments.
R16	That the Digital Programme Board invite an elected member to attend meetings to offer constructive challenge and support to the Board, and that the Board also give consideration to suggestions and feedback from front line staff and partners.	The Programme Board reports regularly to the Cabinet Member but consideration will be given to a Member attending the meetings.
R17	Consider having a user group of residents to trial new applications or software and give feedback.	This will be considered.
R18	Consider an employee reward scheme for new innovation or cost saving ideas suggested.	This will be considered.
To Cabinet		
R19	That Cabinet monitor risk of uncertainty around future funding from central Government and where possible lobby the Government to extend the settlement grant for a three year period.	Agreed and lobbying is being undertaken, the risks of future funding shortfalls will be incorporated into the next round of the MTFS.
R20	That Cabinet give approval for an initial one-year investment of £15.5m (£5.5m high priority areas plus £10m i.e. 50% of DfT gap) and revenue (£1.0m initial investment in new model plus contract management capacity plus an element of community teams capacity) with December 2022 Review Point.	Agreed and included in the report elsewhere on this agenda.