COUNTY COUNCIL – 9th FEBRUARY 2023

Medium Term Financial Strategy 2023/28 and 2023/24 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 £649.663m for 2023/24 as set out in **Appendix 11;**

ii) planning forecasts for 2024/25 to 2027/28 as set out in **Appendix 11**;

iii) a contingency provision of £15.000m for 2023/24;

iv) a net contribution from reserves of £2.108m for 2023/24;

v) a budget requirement of £647.555m for 2023/24;

vi) a council tax requirement of £432.196m for 2023/24;

vii) a council tax at Band D of £1,471.23 for 2023/24 which is an increase of 4.99% when compared with 2022/23. 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	980.82
Band B	1,144.29
Band C	1,307.76
Band D	**1,471.23**
Band E	1,798.17
Band F	2,125.11
Band G	2,452.05
Band H	2,942.46

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 2023/24, the Treasury Management Strategy 2023/24 and the Commercial Investment Strategy 2023/24 (**Appendices 9a to 9c**):

i. Approve the Minimum Revenue Policy for 2023/24 as contained within the Capital and Minimum Revenue Provision Strategy 2023/24 in **Appendix 9a**;

ii. Approve the Prudential Indicators as set out within the Capital and Minimum Revenue Provision Strategy 2023/24 at **Appendix 9a**;

iii. Approve the 2023/24 Treasury Management Strategy, based on the 2021 CIPFA Codes (Prudential Code and Treasury Management Code), and 2018 MHCLG (now DLUHC) Guidance (on Local Government Investments and on Minimum Revenue Provision);

iv. Adopt the Annual Investment Strategy (AIS) 2023/24 detailed in paragraphs 63 to 109 and Annex A and Annex B of the Treasury Management Strategy 2023/24 (**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 110 to 120 of the Treasury Management Strategy 2023/24 (**Appendix 9b**);

vi. Approve the proposed borrowing strategy for the 2023/24 financial year detailed in paragraphs 41 to 62 of the Treasury Management Strategy 2023/24 (**Appendix 9b**);

vii. The Treasury Management Strategy recommendations will operate within the prudential limits set out in Annex C of the Treasury Management Strategy 2023/24 (**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 2023/24 (**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 2023/24;

xi. Approve a maximum limit for an individual service investment loan of £10 million in 2023/24;

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 2023/24 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 – 9th FEBRUARY 2023

Report of the Director of Finance

Medium Term Financial Strategy 2023/28 and 2023/24 Budget and Council Tax

Introduction by the Director of Finance

1. I am pleased to be able to introduce the Medium Term Financial Strategy (MTFS) 2023/28 and the detailed 2023/24 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 68 to 73 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 2023/24 budget.

Financial Planning - MTFS Underlying Principles

4. In February 2022 the Medium Term Financial Strategy for 2022-27 was approved. This included a balanced budget for 2022/23, using headroom contributed to reserves in order to smooth out the MTFS period, although budget gaps in years 2025/26 and 2026/27 remained.

5. The position in February was a reasonably positive one, set against a backdrop of an improving economic situation as the world recovers from the pandemic. However financial uncertainty remained and the hope of a longer term Settlement to provide firmer ground for financial planning was dashed. There remained large risks around the increasing demands for social care, both Adults' and Children's. In addition, the prospect of Adult Social Care reform on the horizon is a significant concern with large potential costs attached to it.

6. Since the budget for 2022/23 was approved in February, world events have colluded to provoke economic downturns across the globe. War in Ukraine has increased prices for Europe, particularly energy prices. The impact of this conflict combined with supply issues as the world emerges from the pandemic means that inflation has increased sharply since February. In turn this has led the Bank of England to increase interest rates in an effort to combat rising prices.

7. The County Council is not immune to these price increases and it is being felt across all services but particularly in the areas of energy costs, services which require fuel, such as Home to School transport and in services where construction materials are needed such as Highways. Inflation and increasing demand has had an impact on the current year's budget and that is reported quarterly to Cabinet as usual. However, bearing this in mind, it is imperative that we review the financial plans with the aim of understanding the impact of addressing any 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 £115m being identified and delivered in the past six years (up to and including 2021/22).

15. The County 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 In February the MTFS included a balanced budget for 2022/23 but one that included more than £16m of savings, in addition to the savings programmes agreed in previous years 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 2022.

Current Economic Climate

17. Inflation has been increasing dramatically since February when CPI was 6.2%. In November 2022, it was 10.7% which was a slight reduction from October's rate of 11.1%, however this is still very high and is at a level which has not been experienced in the UK for some decades. The current forecast from the Office for Budget Responsibility suggests that inflation will start to reduce during 2023, averaging around 7% in the year. Energy and fuel prices have been driving inflation alongside food and construction materials.

18. The Bank of England has responded to the inflation crisis by increasing the base rate during recent months. In February 2022, the base rate was 0.5% and at its December meeting, the Bank increased the rate to 3.5%. It is expected that the rate will increase further in an attempt to stabilise rising prices but if inflation begins to reduce during 2023 then so too could interest rates. For the County Council, higher interest rates mean larger returns on investments, while interest on external debt remains fixed.

19. With this national picture in mind, the impact of inflation on the MTFS has been carefully monitored. For contractual commitments, these have been allocated the amount required by the contract and for other commitments, the rate has been increased to 4% in 2023/24 which then drops back to 2% from 2024/25 onwards.

Autumn Statement 2022

20. The Autumn Statement was announced on 17th November and it largely focused on the financial years 2023/24 and 2024/25, up to the end of the Comprehensive Spending Review period.

21. The planned reforms to Adult Social Care are to be delayed by two years, with only those relating to the 'fair cost of care' going ahead. The funding which was previously allocated for these reforms was included as part of the Local Government Finance Settlement and there is more detail on the Settlement below.

22. The Autumn Statement also included the announcement that the council tax referendum limits will be revised to allow local authorities to increase the Adult Social Care precept by a further 1% (making 2% in total) and the general precept can also be increased by a further 1% (making 3% in total). It appears that these referendum limits will apply to the 2023/24 and 2024/25 financial years.

23. Further announcements include the extension of the Household Support Fund for 2023/24 and a second round of the Levelling Up Fund will be available for authorities to bid for funding. Various business rates reliefs were also announced, these will benefit small and medium businesses and for local authorities, they will be funded by the government. The National Living Wage will increase to £10.42 per hour in April and this will impact on the amount the County Council pays for services. The Statement also referenced the next Spending Review from 2025/26 and the limits on funding that are expected to apply, which is an indication of potential funding reductions for local government in the medium term.

Provisional Local Government Finance Settlement

24. The Provisional Settlement was announced on 19th December, in a written ministerial statement. The Autumn Statement had already included some information on additional funding for social care but the Settlement provides the exact allocations for the County Council.

25. There are two new grants for Adult Social Care which total £12.880m for Staffordshire and these grants come with additional conditions attached to them, with the money to be spent on specific activities such as faster discharging from hospitals and supporting the care market. The Capacity and Discharges Fund is being allocated via the Better Care Fund,

meaning that decisions around its use will be made jointly with the Integrated Care Board. The Social Care Grant has also been extended, providing an additional £22.125m for Staffordshire, with a total grant allocation of £56.759m, this funding can be used for both Adults' and Children's care.

26. In addition there are a number of other general funding streams which have continued into 2023/24, the Core Services grant continues at a reduced amount of £3.931m, New Homes Bonus also continues at £1.187m and the Revenue Support Grant (RSG) is inflated and will attract CPI rate inflation in 2024/25 also.

27. Although the Settlement only covered one year, 2023/24, there are national funding totals available for the social care funding for 2024/25 which means that reasonable estimates can be made for allocations in future years too. No details are available for future years after 2024/25.

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-2e** and the key impacts are discussed in the paragraphs that follow.

29. Inflation is mentioned above as having an impact on the County Council, this affects all services but is particularly being felt by services which use energy, either for heating purposes or fuel for transport. Construction materials are also increasing significantly in price and this is affecting highways and property services. Market pressures are impacting on all services with providers seeking to increase charges as pay and the cost of living increases. For this reason, the standard inflation assumption in the MTFS has been increased to 4%, from 2% in 2022/23. Any contractual increases over and above that level are honoured. In addition to rising prices, there is also inflationary pressure on pay with an assumption that there will be an increase around 4% in 2023/24. The total cost of inflation is £26m more than was assumed in last year's MTFS for 2023/24.

30. Health and Care is facing cost pressures from a rising demand for services, in particular home care, and increasing prices of care due to inflation, in large part as a result of uplifts in the National Living Wage. Issues with recruitment and retention among providers mean that it is difficult to allocate care packages, in particular to those vulnerable adults being discharged from hospital. Despite these issues and the impact of rising costs on providers, the market is stable and the challenge lies in obtaining longer term funding as allocations of non-recurrent funding do not allow for longer term financial planning, either by the County Council or by providers.

31. The delay to implementing the social care reforms is welcomed as the reforms are forecast to cost the County Council millions of pounds once they are fully implemented. However, those reforms which are continuing relate to the ‘fair cost of care’, meaning that payments to providers should be based on the recent national fair cost of care exercise. The funding allocated to the County Council will not cover the costs forecast by this exercise. Currently the grant determination letters for the two new grants have not yet been received and the grants will be allocated when there is clarity over any conditions attached to them.

32. Health and Care continues to make progress towards delivery of the planned savings approved in the MTFS for 2022/23 following the pandemic, which delayed savings plans. The Directorate has a good track record of identifying alternative savings, should any become delayed or unachievable.

33. 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.

34. 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.

35. The Children and Families Directorate’s current plans and new options continue to be dominated by the transformation of the Children’s 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 numbers of children in our care continue to increase.

36. The children’s social care service is being transformed to 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 stabilisation of SEND. However, there is a risk that the number of children needing our help will increase beyond the levels which are assumed in the MTFS.

37. Increasing numbers of EHCPs is placing further pressures on SEND services including Home to School Transport. This service area is also under pressure from fuel price increases and in the current year, additional funding has been allocated on a one-off basis to mitigate the inflationary

pressures being felt. The refreshed MTFS now includes the ongoing impact of those pressures.

38. The High Needs Block is currently anticipated to overspend by £6m and reflects continuing growing demand for SEND support. This overspend will be charged against the DSG reserve which at the end of 2021/22 was already £8.6m in deficit. Potential clarifications of the rules in this area may exacerbate this position further. Staffordshire County Council is not alone in this difficult financial predicament – this is a position shared by the majority of Councils across the sector.

39. Due to pressures being felt across both Adults' and Children's care markets, an amount of £15m has been allocated to use to address these during 2023/24. This funding will be allocated by Cabinet as investments in services during the year.

40. Outside the issue of social care, there are pressures in other service portfolios with the main one being around highways maintenance and development. Additional funding was allocated to Highways in last year's MTFS but this service area has also come under pressure from rising prices and further funding of £2m is required to ensure that inflation does not erode the previous investment. Streetlighting is also facing increased prices as the cost of electricity rises.

41. Support services are generally living within their means and are identifying savings where possible to mitigate any emerging pressures. There are pressures arising in Legal due to increased demand for Rights of Way support and in Finance there is a nationally set increase in audit fees.

42. 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.**

	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28**
	£m	**£m**	**£m**	**£m**	**£m**
Pressures	39.948	58.192	74.517	73.200	78.465
Inflation	25.998	39.861	52.720	64.776	78.022
Savings	(10.358)	(10.125)	(7.813)	(5.813)	(5.813)
Investments	(0.818)	(0.833)	(0.833)	(0.833)	(0.833)
Net Movement	54.770	87.095	118.591	131.330	149.841

Risks

43. 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.

44. There is a huge level of uncertainty in the MTFS due to a number of factors. The global economic pressures are continuing to impact on the UK as a whole and will do so well into 2023/24, according to forecasts. The County Council also feels the inflationary pressures and increased demand in particular service areas.

45. Having a one-year Settlement announced each year does not aid longer term financial planning and does not allow the County Council to do as much as it could to stabilise the care market. There is also an increased risk of funding reductions in the next Spending Review period, which is particularly worrying in respect of social care grant funding.

46. The biggest risks are in social care, both Adults' and Children's. 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.

47. The announcement of a delay to the introduction of the social care reforms means a delay to those costs being incurred, however the reforms being taken forward mean that there is a cost implication for the County Council in 2023/24 which will be covered by the proposed budget. Should regulations change or inflationary pressures increase, then the proposed budget will no longer be enough to cover these costs.

48. Risks are inherent in the whole system around Children's and Families including risks around capacity in the courts to facilitate children leaving care and the risk of numbers of children needing our care continuing to rise. There is also risk around any potential response to national issues surrounding care arrangements.

49. The High Needs Block is currently forecast to overspend, with an estimated deficit of circa £14.5m by 31st March 2023. The County Council is not alone in this difficult financial predicament – this is a position shared by the majority of Councils across the sector. Whilst it is anticipated that the SEND transformation programme will provide for a more inclusive system that enables the necessary early support and intervention to manage demand within overall resources, this will take time and will not generate the immediate savings required to address the current shortfall. A deficit management plan has been produced and presented to Schools Forum at its meeting in November 2022. Any further decisions will be made in conjunction with the Forum.

50. There is a specific risk around legislation concerning the generation of electricity and a proposed new levy which could have an impact on many local authorities, Staffordshire included, where they operate a waste to energy scheme and generate electricity. It remains to be seen whether the legislation will apply to local authorities or not, lobbying is being undertaken to persuade the government to make local authorities exempt.

51. Loss of specific grants and hence income to the authority is a risk, particularly around the next Spending Review period from 2025/26. 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. There is an increased risk of spending exceeding budgets and/or income falling short of budgets. The County 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.

53. Delivery Plans now need to be revised in the light of the financial situation facing the Council. 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.

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

55. 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.

56. 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.

57. 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

58. 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	£ 4.1 million
1% Business Rates growth (SCC receives 9% of the total collected rates across Staffordshire)	£2.7m across Staffordshire, of which SCC receives £242k (9%)
1% Pay award (excludes staff funded from specific grant (e.g. Dedicated Schools Grant)	£ 1.6 million
1% Non-pay budget	£ 0.7 million
1% Interest (on balances)	£1.0 million

59. 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

60. The current assumption in the financial plans contained in this report is that the general council tax increase is 2.99% for 2023/24 and 2024/25, this is in line with the referendum limits. In addition, the Adult Social Care precept is assumed to be maintained at a level of 2% for both 2023/24 and 2024/25,

again in line with the referendum limits. These increases drop back to 1.99% and 1% respectively from 2025/26 which aligns with the next Spending Review period.

61. The County Council has never 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.

62. 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.

63. An increase in the tax base of 1.07% had been assumed, in accordance with the 2022/23 MTFS. However, the notifications show an increase for 2023/24 of 1.33%. 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.

64. 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 in 2021/22. 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 2023/24 of £5.344m which includes the third and final of the deficit spreading payments.

65. 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 £1,471.23 which is an increase of £69.93 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 £432.196m for 2023/24. Details of the precepts due from each District and Borough Council are shown in **Appendix 5**.

Category of dwelling	Council Tax rate £
Band A	980.82
Band B	1,144.29
Band C	1,307.76
Band D	**1,471.23**
Band E	1,798.17
Band F	2,125.11
Band G	2,452.05
Band H	2,942.46

Business Rates

66. Businesses across the globe have been hit by rising costs following on from the pandemic. The income received from business rates was lower than expected in 2022/23 and further details are awaited for the amounts expected during 2023/24. Additional detail on the amount of income we can expect will come at the very end of January when we receive copies of the returns sent by the Districts and Boroughs to government.

67. 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 2023/24.

Review of Reserves and Balances

68. 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.

69. We have reviewed the earmarked reserves and provisions we hold to make sure they are still required and that they are adequate. As part of producing the formal accounts of the County Council for 2021/22 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**.

70. At the end of 2021/22, general balances were £47.3m and a contribution of £5m was included in the 2022/23 budget, bringing balances to a total of £52.3m. The pandemic 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 in excess of £55m is deemed to be an appropriate level for the Council.

71. Alongside this review, the level of Contingency has been assessed and included in the MTFS at a level of £15m pa to reflect the increased risks facing the County Council at this time. Any unused sums from Contingency will be used to increase general balances in line with the risk assessment.

72. The budget has been prepared involving budget managers, Senior Leadership Team, Cabinet (supported by professionally qualified officers) and has been subject to review by the Corporate Overview and Scrutiny Committee. Major planning assumptions and the MTFS process are also examined by the external auditor.

73. The Director of Finance confirms that the spending plans identified within the MTFS and the council Tax calculation for 2023/24 are robust estimates that direct resources towards priorities in an affordable manner, reflect the best estimates available and give due consideration to the risks facing the Council over the MTFS period. The Director of Finance is satisfied that the budget has been prepared in a robust manner.

Capital, Treasury Management and Commercial Investment Strategies

74. The capital programme is over £110m in 2023/24. The main projects included in the programme are:
    - A new Primary school in Tamworth;
    - Completion of a new Primary school at Deansdale, Lichfield;
    - Relocation of the St. Leonard's Primary school and new Sports Hall and Teaching Spaces at Oldfields Hall Middle School;
    - Completion of the Chatterley Valley project unlocking 1,700 jobs at the site;
    - Ongoing work to deliver the 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;
    - Extension and refurbishment of Hawthorne House;
    - Currently anticipated spend of c£19.6m on Carriageway Maintenance in 23/24 (part of a total Highways programme of £36.249m) with a contribution from SCC of £1m to facilitate pot hole and carriageway condition improvements.

75. Further details of the Capital Programme 2023 – 2028 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.

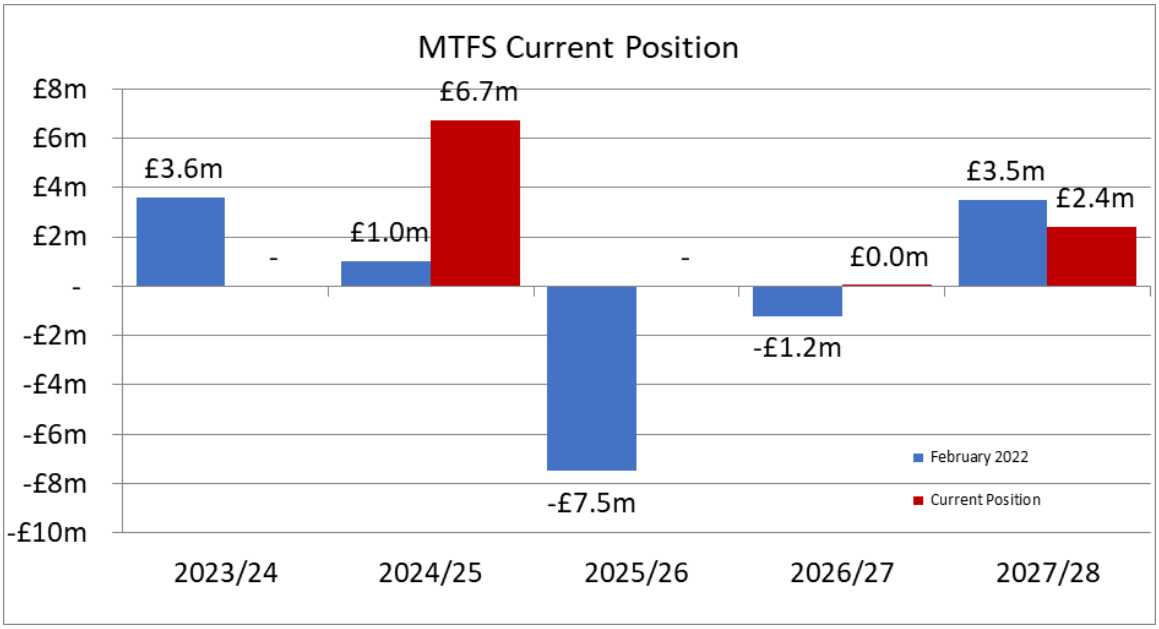
76. The Capital Strategy is attached to this report as **Appendix 9a** and it explains how the capital programme will be funded and the implications for that funding on the revenue budget. The implications for the revenue budget are described in the Minimum Revenue Provision Policy, this is Annex A to 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.

77. 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. Indicators may be updated at the Quarter One point, to reflect additional and latest data particularly on the change from net to gross invoicing of social care clients.

Summary of Medium Term Financial Strategy

78. In February 2022, a small amount of headroom was reported for 2023/24 with a large gap in 2025/26 and in 2026/27. Since then, services have faced increased demand and have also identified further cost reductions to help mitigate the pressures.

79. 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-2e** are approved, the current position, compared to the position in February, is shown in the graph below:



80. The graph shows a balanced position for 2023/24 after a contribution from reserves of £2.1m. Then there is potential headroom in 2024/25 and a balanced position in 2025/26, following further use of reserves. The five year MTFS period is therefore balanced, with reserves being utilised to achieve this. It should be noted that there is significant risk attached to the assumptions being made from 2025/26 onwards, when another Spending Review is expected. The additional funding for social care, allocated for 2023/24, is assumed to continue across the MTFS period and this is a risk, given that the Spending Review may introduce further levels of austerity for local government. Cabinet are requested to approve the establishment of a suitable innovation programme aimed at improving service delivery and identifying cost reduction proposals to be considered next year.

81. The 2023/24 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-13e** provide details of the budget allocations within each portfolio.

Consultation

82. 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.

83. Business ratepayers were consulted on 16th January 2023 when they met with the Leader, Finance Portfolio Holder and key officers. Businesses are struggling in the current environment both in Staffordshire and nationally, the increase to the Bank of England base rate has impacted on their financing and they are universally concerned about energy costs. It is felt that the business rates system requires reform. Recognising that these issues are national ones, ratepayers welcomed the County Council's work to support the local economy, including the recent branding work and the visitor economy action plan. Ratepayers welcomed the County Council's investments in the local economy but the larger, national issues remain their more pressing concerns.

84. Consultation with the Trade Unions took place on 24th January 2023. Concerns were expressed regarding the impact of the current cost of living crisis and inflationary pressures on schools, combined with concerns over the level of funding for schools.

Corporate Overview and Scrutiny Committee Comments

85. 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.

86. 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 2023/24 budget met the principles of being a good and balanced budget, was considered by Cabinet at its 25th January meeting. The Committee's comments and recommendations along with Cabinet's response are attached as **Appendix 14**.

Conclusions

87. Members have committed to delivering value for money for residents and businesses and living within the means available to the Council. It is evident from the analysis contained in this report that this is becoming increasingly difficult to do. Balanced budgets for future years will not be possible without tough decisions being made on services that affect the lives of many. To deliver on its pledge this does mean that if nothing else changes, in terms of increased funding from government, then what is set out in this report is what this Council will need to do. Of particular concern is the level of funding which will be made available for the next Spending Review period from 2025/26.

88. 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.

89. The County Council remains ambitious for Staffordshire, exploring new options and areas to make our county better. However, the financial uncertainty makes planning over the medium term very difficult. The approach is to use reserves in a targeted way to ensure there is a balanced budget for 2023/24, but even with this use of reserves, there remain significant risks to financial stability. To address those risks, consideration will be given to increasing the Contingency budget in light of the Settlement and the risks identified above.

90. The longer-term vision for the County 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.

Rob Salmon
Director of Finance

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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 43 – 57 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

Appendix 1

Annual MTFS Community Impact Assessment Report

2023/24

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

Date: 30 November 2022

Annual MTFS Community Impact Assessment (CIA) – 2023 / 24

1. Background / Overview of MTFS CIA Process

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

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

1.3. The MTFS has recently undergone its annual review and sets out how we will work to gain the maximum impact for our ambitions for Staffordshire, as outlined in the Strategic Plan 2022-26, and deliver value for money. The potential cross-cutting community impacts of this are a key consideration, therefore, to accompany this, the MTFS CIA has also been updated to consider the impact of any additional savings proposals. This paper also provides a progress report against the previously identified six CIA priorities identified in the 2022/23 CIA; and refreshes the list of CIA priorities for the upcoming year.

2. MTFS CIA Priorities (2022/23) – Progress Update

2.1. The MTFS CIA presented to Cabinet in January 2022 reported the following six proposed savings options with the highest potential impact on our communities and the places they live:

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

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

- Disability / Older People
- 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 MTFS CIA work is that our close working with communities, partners, key stakeholders, and our workforce has both ensured continued and flexible delivery of services and helped to mitigate service impacts on some of our key vulnerable groups. Where changes have gone ahead, full individual service CIAs have been developed and conversations have taken place both internally and with key stakeholders to ensure potential impacts are minimised.

2.5 The MTFS CIA Task and Finish Group met in November 2022 to review and discuss each of the six MTFS CIA priorities and identified several cross-cutting themes which have helped to mitigate the impact of current changes on individuals and our communities.

- **Flexibility and doing things differently** – Whilst increasing costs along with rising demand of social care for adults and children, together with significant inflationary costs, continues to put pressures on finances, we have continued to do what is necessary to support those who need it most. Alongside this, delivering some services in a different way and being flexible in our response to how we manage the challenges has helped minimise the impact on the communities we serve. This has brought opportunity to do things better, strengthen existing relationships and work closely with partners and our communities. Examples include:
    - The 'Rural Review and Reorganisation programme' has focused on a new and strengthened Vision for the Estate, following the impact of Covid-19 and retaining the Estate management in house.
    - The 'Community Offer for Learning Disabilities', includes an integrated service pilot approach for day opportunities, with service users and families, facilitated via a co-production steering committee, which will help inform future service delivery.
    - The 'Strategic Review of the Care Market' has helped address issues around rising costs, for example a phased increase in the number of block booked care home beds in accordance with demand, which also ensures providers have a level of financial stability.

- A flexible approach is also being adopted in response to Challenges associated with the embedding of large scale 'Children and Young People's transformation', alongside increasing cost, number and complexity of Child Protection and Children in Care. This includes establishing new programmes of work overseen by a Programme Board focused on: workforce; ways of working; development of a communications strategy; and Children in Care planning.

- **Partnerships** – enabling the effective implementation of some key MTFS changes, whilst minimising the impact for residents and communities has significantly benefitted from continued strong engagement and collaboration with partners. Changes happening have required us to work closely with providers, Integrated Care Board partners, businesses, District and Borough Councils and the VCSE sector, to minimise any potential negative impacts. This has included, for example, changes across the 'Strategic Review of the Care Market', 'Rural Review and Reorganisation programme' and 'embedding the Children and Young People's transformation'.
- **Communities** – Through the Council's Communities Delivery Plan, we have worked closely with our partners and communities to support our residents to help themselves and each other, which has contributed to minimising any potentially negative impacts of change across our six MTFS priority areas. The Council has worked with partners in the VCSE sector to review and agree our new Early Help Strategy 2022-27 and Family Hub Model, which will change the way we deliver support for families locally. We have also recently recommissioned our support for the VCSE sector following the end of our previous VCSE Strategic Capacity Building Partnership. This new contract will see SCVYS and Support Staffordshire continue to work with Staffordshire County Council to build capacity in the VCSE sector and deliver key Council programmes of work. As part of these new arrangements, SCVYS will be engaging with partners and communities on increasing co-production for young people with SEND. Support Staffordshire are also working with VCSE groups in Tamworth, Cannock, and East Staffordshire to increase accessibility of support for adults with learning disabilities, with a view to expanding this work to the other districts in the future. In addition, activity has taken place to provide communities with helpful information, advice, guidance and signposting, including locally targeted #DoingOurBit campaigns on loneliness and health and wellbeing, and the 'Here to Help' cost of living campaign (further highlighted in section 4).

2.6 In addition, the MTFS CIA Task and Finish Group highlighted work underway to address the nationwide recruitment challenges, through a number of broader initiatives to ensure we are further equipped to attract talented and diverse new people, with the aim of making the Council an employer of choice in Staffordshire.

2.7 As demand for care and support continues to increase across the country, the Council and partners across Staffordshire have also taken the initiative to work together to develop a new wide-reaching Future Social Care Workforce Strategy to address retention and recruitment challenges. At the centre of this work, is a focus on innovation and being bold in how we recruit the right people, celebrate their important contribution, and make sure people within the care workforce feel valued and supported in their career development.

3. Revised MTFS Community Impact Assessment Priorities for 2023/24

3.1. Following an annual review of the MTFS, a refresh of its CIA has been undertaken alongside this, to ensure any associated cumulative impacts are considered alongside additional saving options proposed by the MTFS. This analysis can be seen at Appendix B to this report.

3.2. The table at Appendix B provides an assessment of the potential impacts on communities, based on proposals set out in the refreshed MTFS for 2023-28 as well as an overall community impact rating for the respective Council business area.

3.3. Overall, this annual review highlights many of the current MTFS CIA priorities remain relevant for the upcoming year, with implementation continuing and ongoing monitoring of impacts in place. with no new savings proposals identified as having a potential high impact on our communities and the places they live. The refreshed list of 4 CIA priorities is set out below.

- Embedding the Children, Young People and Families transformation phase 2 (including SEND)
- Community Offer for Learning Disabilities
- Rural Review and Reorganisation (including countryside estates and rights of way)
- Strategic Review of the Care Market

3.4. The rationale for not continuing to include and monitor the 'Savings to Mental Health Recovery Service' and the 'Home Care Policy on High Cost Packages' is set out in the detailed progress update at Appendix A.

3.5. For those CIA priorities above that remain relevant, each 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 continue to be recorded to ensure they remain up to date and relevant.

3.6. As part of refreshing the MTFS CIA for 2023/24, several cumulative impacts for key groups were identified as set out below:

- **Disability / Older People –** A number of savings proposals in the MTFS that result in changes to people with disabilities and older people are across both health and social care as well as families and communities. These include changes through the 'Strategic Review of the Care Market', the 'Community Offer for Learning Disabilities', and the 'embedding of the Children, Young People and Families transformation' (which includes the SEND review).
    - As acknowledged by Cabinet in January 2022, wider ongoing impacts of Covid-19 on this cohort will also need to continue to be considered alongside any further emerging learning in individual service CIAs, and as part of the Council's continued approach to service change and delivery.
    - Alongside potential impacts identified, opportunities to build on existing strengths and assets can be maximised across proposed changes. For example, as part of the new vision for the Countryside Estate Healthy Parks Programme is being developed, as well as a site improvement to improve accessibility and to help benefit all local residents.

- **Children and Young People/Families** – The 'embedding of 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 noted above).
    - As change is further embedded in the coming year, and as this is all further informed by the new programmes of work overseen by the Programme Board (and the SEND provision co-designed with communities), continuing to monitor and mitigate any impacts will be vital.
    - Again, as acknowledged by Cabinet in January 2022, wider ongoing impacts of Covid-19, which previously identified young people's emotional wellbeing as a key negative impact, alongside any further emerging learning will also need to factor into wider service developments, as appropriate, for these communities.

- **Localities** – Working with local communities, who are at the heart of what makes Staffordshire a strong and thriving county, remains crucial to a number of the proposed savings options identified in the annual MTFS 2023-28 review.
    - This will also include close working with our public sector partners, and the VCSE sector locally. These proposed savings options include 'embedding the Children, Young People and Families transformation', the 'Community Offer for Learning Disabilities', and the Countryside Estates

and Rights of Way (within the 'Rural Review and Reorganisation programme').

- Working with District and Borough Councils, Parish Councils and local VCSE groups will be critical in effectively delivering these saving options locally in a way that minimises any potentially negative impacts on residents. Several strands of work in the Council's Communities Delivery Plan will support this, including for example the new VCSE Capacity Building Framework.

3.7. Alongside the above, two further key developments and issues have been identified, and which will need to continue to be considered. Workforce capacity and recruitment challenges were identified as key further consideration, and as noted in section 2 a range of activity is underway to address local challenges (which are mirrored nationally). In addition to the cumulative impact considerations above we also know that residents across the county remain worried about the rise in the **cost of living**. Whilst not specific to the above CIA priorities, it is important to consider the impact of cost of living on the daily lives of residents, particularly for our most vulnerable residents.

3.8. Close work continues with our multi-agency partners across public sector, strengthening existing relationships, such as through the Staffordshire Leaders Board, and developing new ways of working where required. There has been a strong focus on providing much needed support and signposting for residents around cost of living, alongside continued close working with our communities, and the local VCSE sector, who remain vital in supporting across this all. For example:

- The 'Here to Help' campaign and website provides residents with information, advice and signposting residents to local community support.
- A number of grant programmes are supporting cost of living initiatives, including the Members Community Fund and the Community Recovery Grant scheme with the Community Foundation for Staffordshire.
- The Council are also working with many District and Borough partners to distribute slow cookers to vulnerable households as part of the Household Support Fund.
- Staffordshire library services is offering a range of support over the winter months, from free hot drinks in some of its libraries, warm spaces, offering a place for charging phones and laptops, helping students to study in a warm place and supporting small start-up businesses with a place to work.
- The County Council's network of Community Help Points, which include libraries and children's centres, will also be signposting residents to support and help with the cost of living pressures.

- There is also significant support being provided right across the county by our VCSE sector, and by our residents supporting each other.
- The Staffordshire Leaders Board is also establishing an Officer Group in order to maximise efficiencies and reduce any duplication across this continued focus and work.

3.9. The MTFS CIA will be updated to reflect further learning across this, as appropriate, as will individual CIAs.

4 Next Steps

4.1 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.

4.2 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.

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

4.4 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 - 2022/23 - 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. • Pressures are being experienced relating to increased costs and number/complexity of Child Protection and Children in Care, these are being flexibly responded to by establishing several new programmes of work overseen by a Programme Board focused on workforce, ways of working, development of a communication strategy and Children in Care planning • 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.

MTFS Proposal	CIA Implementation Update	Community Impact & Mitigations
		• It is recommended that this remains a MTFS CIA priority to ensure the ongoing review of impacts.

Community Offer for Learning Disabilities	• Work was agreed by Cabinet in October 2019; however, Covid-19 had an impact upon commencement and completion of some service changes.
	• Further update report and CIA was considered by Cabinet in November 2020.
	• Further work has been undertaken including feasibility studies and options appraisals which will be considered by cabinet in December 2022.
	• Subsequent CIAs will be undertaken alongside service reviews.
		• **Community Offer for Learning Disabilities** will see changes to the way we provide services to some adults with learning disabilities and/or autism, who are in receipt of services across the county. The purpose of these changes is to ensure there are appropriate and sustainable services across the county to meet support needs.
		• Changes will include reviewing and refreshing respite care, residential care, and day services. Provider Services will be creating an integrated model of care which encompasses community-based support in addition to building-based services.
		• Progress since August 2020 includes:
		  ○ The tender of Greenfield House was undertaken in October 2021 but was unsuccessful – the decision was made to keep Greenfield House in-house for the medium-term and for a limited refurbishment to improve quality. The capital investment required was approved in principle by Cabinet in October 2022.
		  ○ Horninglow Bungalows was reviewed in August 2021, and it was determined there is limited market capacity and appetite, the service is therefore now being included in the countywide procurement of Supported Living approved by Cabinet in October 2022.
		  ○ A service review of day opportunities and respite has resulted in the design of an integrated service. A pilot us currently underway with service users and families which is facilitated via a co-production steering committee.
		  ○ Two day-services in Boney Hay and Tamworth have merged and operating from a new building in Lichfield.
		  ○ 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 Spring 2023 and the new building to be complete by October 2025.
		  ○ Options appraisal for day services in Cannock are being explored.

MTFS Proposal	CIA Implementation Update	Community Impact & Mitigations
		○ A consultation on a proposal to relocate Newcastle respite day service to a refurbished local building is taking place. • Given further service change it is recommended that this remains a MTFS CIA priority with ongoing review of impacts.
Savings to Mental Health Recovery Service	• Contracts expired in 2022 and SCC commissioned a new social care only service • A full CIA was undertaken • The current contract will expire in March 2024	• **Savings to Mental Health Recovery services** involved recommissioning the service to focus on promoting social inclusion and mental well-being through a community-based model. • The Social Inclusion and Recovery (SIR) Service was recommissioned from 1 April 2022 as a social care only mental health Floating Support Service. It is being provided by MPFT on a two-year contract which runs to 31 March 2024. • No savings were agreed as part of the recommission therefore SCC's contribution to the mental health service remains unchanged. • The vast majority of SIR users transferred to the Floating Support Service and their assessed eligible needs are continuing to be met. • Recommended that this no longer remains a MTFS CIA priority.
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) and assessed eligible needs continue to be met. • Recommended that this no longer remains a MTFS CIA priority.
Rural review and reorganisation	• Initially 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	• The biggest impact of the **Rural Review and Reorganisation** 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 was reviewed.

MTFS Proposal	CIA Implementation Update	Community Impact & Mitigations
	reorganisation was reviewed following consultation with staff/trade unions feedback and learning from Covid-19 and MTFS position revised. A further CIA was undertaken in 2021. • A further report and CIA on a new vision for the Countryside Estate considered by Cabinet in December 2022.	• Staff are also impacted by the review and reorganisation. 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 was revised. A revised proposal was consulted on and a final structure is now in place and recruitment continues to take place. A new operational model for Environment and Countryside has now been implemented. • A new vision for the Countryside Estate to keep in-house and link to the Council's strategic aims has been considered by Scrutiny and is due to be considered by Cabinet. The proposals represent a generally positive impact since they seek to enhance the ability for all members of the community to gain the benefits of access to natural greenspace and to protect and enhance the environment. • To implement these improvements however, there is a need to recover costs through extending pay and display parking to additional sites alongside a range of other funding mechanisms. Recognising current cost of living pressures for many service users, a range of measures have been identified to reduce impacts, including: o Meters will not be installed at new sites until after the current winter period when people's household costs may be high o Charges at new sites will be phased in, with an initial voluntary period o Charges at existing sites will remain at the current rate until April 2024 – charges compare favorably with other countryside locations in the area o An annual permit will be available for use at all SCC countryside sites which significantly reduces the costs for regular users • Annual permits for those who regularly volunteer at the sites and members of the supporter scheme are also being explored.

MTFS Proposal	CIA Implementation Update	Community Impact & Mitigations
		• It is important to note that the costs recovered through parking charges will enable better management of the car park facilities and investment in the management of the sites, including making them more accessible for all abilities, caring for wildlife and heritage and improving the visitor experience. • It is recommended this remains a MTFS CIA priority and revisited following implementation of the new Vision for the Countryside Estate.

Strategic Review of the Care Market	• A Cabinet paper on the Strategic Review of the Care Home Market, with accompanying CIA, was approved by Cabinet in September 2021
	
	• The Council completed and submitted the draft Market Sustainability Plan and Cost of Care exercise to DHSC as required on 14/10/22.
	
	• Subsequent CIAs will be undertaken alongside service reviews
		• The **Strategic Review of the Care Market** will 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 the home care market and accommodation based-market.
		• To ensure access to good quality and affordable care home placements when they are needed, work includes:
		  ○ A phased increase in the number of block booked care home beds in accordance with demand is being undertaken, ensuring providers have a level of financial stability
		  ○ A Cost of Care and Market Sustainability Plan was submitted to the Department of Health and Social Care in October 2022 setting out how we will establish a Staffordshire Fair cost of care rate for older people's care with providers
		  ○ A Review of Older People's Nursing Home Capacity and Demand is going to Cabinet in December 2022 to consider current issues affecting demand and available capacity of nursing care home provision with recommendations for future initiatives to meet need and assure market sustainability
		• It is recommended this remains a MTFS CIA priority and revisited following implementation of the service reviews.

Appendix B – MTFS Community Impact Assessment for 2023/24

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. **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: • Expanding use of block booking of care home beds • Commissioning of care home placements

Area	Programme	Group/Protected characteristics potentially affected	Overall Potential impact rating	Commentary / rationale
				• 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 in place and individual CIAs 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 2023/24. The existing CIA remains in place and has been updated with further updates as appropriate in line with any service change.

Area	Programme	Group/Protected characteristics potentially affected	Overall Potential impact rating	Commentary / rationale
	Rural	All Localities Staff	Medium	The **Review of Countryside Estates & Rights of Way** faced delays due to Covid-19 impacts and the approach to future management of countryside estates was reviewed. Following the review, a new vision has been developed which is being considered by Cabinet. The Rural Review and Reorganisation was also impacted by Covid-19 with a review of the staff structure taking place. Updates to the Community Impact Assessment continue to be undertaken.

HEALTH AND CARE

Appendix 2a

Projected Pressures, Cost Reduction Options and Investments

Description	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Care Commissioning	**Community Impact Assessment Rating - Medium**				
Total Service Spending Pressures Approved in February 2022	**27.252**	**45.484**	**57.044**	**56.694**	**61.966**
Projected Changes to Original Service Spending Pressures					
The council is working in partnership with local NHS partners to help people with Learning Disabilities and Autism to move from being NHS inpatients into the community so that they can live as normal a life as possible. This is creating a financial pressure for the council.	0.700	1.400	2.100	2.800	3.500
Additional Better Care Fund funding from inflationary uplift to CCG cash transfer in 2022/23 onwards	(1.250)	(1.250)	(1.250)	(1.250)	(1.250)
Increased inflationary pressures on home care costs (excl. Fair Cost of Care)	1.870	4.698	5.252	5.624	5.792
2022/23 onwards impact of rising cost of new older people residential and nursing placements	0.000	0.000	0.000	0.000	5.170
Estimate of use of Social Care Support Grant	(1.670)	(5.548)	(7.152)	(8.574)	(9.025)
Delay in new Liberty Protection Safeguards legislation	(0.100)	0.000	0.000	0.000	0.000
Reduction to cover the cost of the of National Insurance levy which is no longer required as the Levy has not been implemented.	(0.084)	(0.084)	(0.084)	(0.084)	(0.084)
Removal of social care reform costs	(14.089)	(22.489)	(22.489)	(22.489)	(22.489)
Reduced estimated use of Social Care Support Grant to fund additional demand arising from the Government's adult social care funding reforms.	(7.292)	(6.637)	(2.393)	(0.551)	(0.100)
Appropriation from reserves to balance the H&C position.	0.000	0.000	0.000	0.000	(5.937)
Total Projected Changes to Service Spending Pressures Approved in February 2022	**(21.915)**	**(29.910)**	**(26.016)**	**(24.524)**	**(24.423)**
New Service Projected Pressures					
The Mental Health Service continues to face increasing costs because of increases in the number of people requiring Mental Health support and the complexity of people's care needs and the need to meet these needs for longer as life expectancies rise.	0.350	0.700	1.050	1.400	1.750
Adult Social Care Discharges Fund - spend against the grant	4.586	7.643	7.643	7.643	7.643
Independent Living Fund - spend against the grant	2.322	2.322	2.322	2.322	2.322
Market Sustainability and Improvement Fund - spend against the grant	4.101	7.430	7.430	7.430	7.430
New Service Projected Pressures Total	**11.359**	**18.095**	**18.445**	**18.795**	**19.145**
Total Service Cost Reductions Approved in February 2022	**(1.895)**	**2.077**	**6.059**	**8.059**	**8.059**
Total Pressures	16.696	33.669	49.473	50.965	56.688
Total Cost Reductions	(1.895)	2.077	6.059	8.059	8.059
Service Total	**14.801**	**35.746**	**55.532**	**59.024**	**64.747**

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

HEALTH AND CARE

Appendix 2a

Projected Pressures, Cost Reduction Options and Investments

Description	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Adult Social Care and Safeguarding	**Community Impact Assessment Rating - Medium**				
Total Service Spending Pressures Approved in February 2022	**0.195**	**0.195**	**0.195**	**0.195**	**0.195**
Projected Changes to Original Service Spending Pressures					
Delay in new Liberty Protection Safeguards legislation	(0.750)	0.000	0.000	0.000	0.000
Additional capacity to deal with increased number of self-funders not required due to delays in social care reform implementation.	(0.100)	(0.100)	(0.100)	(0.100)	(0.100)
Reduction to cover the cost of the of National Insurance levy which is no longer required as the Levy has not been implemented.	(0.284)	(0.284)	(0.284)	(0.284)	(0.284)
Total Projected Changes to Service Spending Pressures Approved in February 2022	**(1.134)**	**(0.384)**	**(0.384)**	**(0.384)**	**(0.384)**
Total Service Cost Reductions Approved in February 2022	**(0.650)**	**(0.650)**	**(0.650)**	**(0.650)**	**(0.650)**
Total Pressures	(0.939)	(0.189)	(0.189)	(0.189)	(0.189)
Total Cost Reductions	(0.650)	(0.650)	(0.650)	(0.650)	(0.650)
Service Total	**(1.589)**	**(0.839)**	**(0.839)**	**(0.839)**	**(0.839)**
Total Health & Care Pressures and Cost Reductions	**13.212**	**34.907**	**54.693**	**58.185**	**63.908**
Inflation	**3.338**	**5.965**	**8.571**	**11.061**	**13.638**
Health & Care Grand Total	**16.550**	**40.872**	**63.264**	**69.246**	**77.546**

CHILDREN AND FAMILIES

Appendix 2b

Projected Pressures, Cost Reduction Options and Investments

Description	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Children's Services	**Community Impact Assessment Rating - Medium**				
New Service Projected Pressures					
Additional staffing pressures - workforce capacity	2.634	2.634	2.563	2.377	2.279
Additional court and counsel fees	0.200	0.200	0.200	0.200	0.200
Recruitment and Retention	2.691	2.691	2.691	2.691	2.691
Inflation on posts	0.426	0.426	0.426	0.426	0.426
Planned reduction in Looked After Children placement costs as result of transformation reprofiled in line with latest estimates	10.700	11.500	11.500	10.000	8.000
New Service Projected Pressures Total	**16.651**	**17.451**	**17.380**	**15.694**	**13.596**
Total Service Cost Reductions Approved in February 2022	**(4.623)**	**(8.247)**	**(10.482)**	**(10.482)**	**(10.482)**
New Service Cost Reduction Options					
Additional partners contribtuions for CiC placements	(1.000)	(1.000)	(1.000)	(1.000)	(1.000)
Reduce temporary agency/project support	(0.145)	(0.145)	(0.145)	(0.145)	(0.145)
New Service Cost Reduction Options Total	**(1.145)**	**(1.145)**	**(1.145)**	**(1.145)**	**(1.145)**
Investment					
Implementation of a Restorative Practice model working with children and their families to encourage more effective working relationships	(0.008)	(0.023)	(0.023)	(0.023)	(0.023)
Adult Specialist workers in District Teams to address the root cause of problems	(0.810)	(0.810)	(0.810)	(0.810)	(0.810)
Total Investments Approved in February 2022	**(0.818)**	**(0.833)**	**(0.833)**	**(0.833)**	**(0.833)**
Total Pressures	16.651	17.451	17.380	15.694	13.596
Total Cost Reductions	(5.768)	(9.392)	(11.627)	(11.627)	(11.627)
Total Investments	(0.818)	(0.833)	(0.833)	(0.833)	(0.833)
Service Total	**10.065**	**7.226**	**4.920**	**3.234**	**1.136**

Appendix 2b

CHILDREN AND FAMILIES

Projected Pressures, Cost Reduction Options and Investments

Description	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Education Services	**Community Impact Assessment Rating - Low**				
Total Service Spending Pressures Approved in February 2022	**0.390**	**0.770**	**0.920**	**1.150**	**1.150**
Projected Changes to Original Service Spending Pressures					
Change in costs of home to school SEN transport relating to number of school days in a financial year.	(0.260)	0.580	(0.040)	(0.440)	0.660
Expected changes in SEN pupil numbers and diversity in destination bases.	0.470	0.600	0.460	0.140	0.000
Total Projected Changes to Service Spending Pressures Approved in February 2022	**0.210**	**1.180**	**0.420**	**(0.300)**	**0.660**
Total Service Cost Reductions Approved in February 2022	**(0.090)**	**(0.090)**	**(0.090)**	**(0.090)**	**(0.090)**
Projected Changes to Original Service Cost Reductions					
Reduced historical pension costs	(0.120)	(0.120)	(0.120)	(0.120)	(0.120)
Total Projected Changes to Service Cost Reductions Approved in February 2022	**(0.120)**	**(0.120)**	**(0.120)**	**(0.120)**	**(0.120)**
New Service Cost Reduction Options					
Reduce budget for temporary agency/project support	0.000	(0.105)	(0.105)	(0.105)	(0.105)
Reduce budget for statutory compliance work and support (e.g. Academisation)	0.000	(0.160)	(0.160)	(0.160)	(0.160)
New Service Cost Reduction Options Total	**0.000**	**(0.265)**	**(0.265)**	**(0.265)**	**(0.265)**
Total Pressures	0.600	1.950	1.340	0.850	1.810
Total Cost Reductions	(0.210)	(0.475)	(0.475)	(0.475)	(0.475)
Service Total	**0.390**	**1.475**	**0.865**	**0.375**	**1.335**
Total Children & Families Pressures and Cost Reductions	**10.455**	**8.701**	**5.785**	**3.609**	**2.471**
Inflation	**13.125**	**18.152**	**22.973**	**27.123**	**31.366**
Children & Families Grand Total	**23.580**	**26.853**	**28.758**	**30.732**	**33.837**

ECONOMY, INFRASTRUCTURE AND SKILLS

Appendix 2c

Projected Pressures, Cost Reduction Options and Investments

Description	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Economic Development & Strategic Planning	**Community Impact Assessment Rating - Low**				
Total Service Spending Pressures Approved in February 2022	**(0.025)**	**(0.025)**	**(0.025)**	**(0.025)**	**(0.025)**
Total Pressures	(0.025)	(0.025)	(0.025)	(0.025)	(0.025)
Service Total	**(0.025)**	**(0.025)**	**(0.025)**	**(0.025)**	**(0.025)**
Infrastructure & Highways	**Community Impact Assessment Rating - High**				
Total Service Spending Pressures Approved in February 2022	**(0.050)**	**(0.050)**	**(0.600)**	**(0.550)**	**(0.500)**
New Service Projected Pressures					
Highways inflation	2.000	1.000	1.000	1.000	1.000
Street lighting - energy price increase	2.700	1.700	0.850	0.000	0.000
New Service Projected Pressures Total	**4.700**	**2.700**	**1.850**	**1.000**	**1.000**
Total Pressures	4.650	2.650	1.250	0.450	0.500
Service Total	**4.650**	**2.650**	**1.250**	**0.450**	**0.500**
Transport, Connectivity & Waste	**Community Impact Assessment Rating - High**				
Total Service Spending Pressures Approved in February 2022	**(0.154)**	**(0.056)**	**2.206**	**2.506**	**2.806**
Projected Changes to Original Service Spending Pressures					
Change in costs of home to school mainstream transport relating to number of school days in a financial year.	(0.090)	0.150	(0.030)	(0.150)	0.180
Total Projected Changes to Service Spending Pressures Approved in February 2022	**(0.090)**	**0.150**	**(0.030)**	**(0.150)**	**0.180**
New Service Projected Pressures					
Transport inflation - approved (Mainstream and Local Service)					
Transport Inflation - additional (Mainstream)	0.340	0.340	0.340	0.340	0.340
Mainstream Transport - school capacity issue	0.020	0.040	0.060	0.080	0.080
Additional expenditure due to changes in DfT policy.	1.440	1.440	1.440	1.440	1.440
New Service Projected Pressures Total	**1.800**	**1.820**	**1.840**	**1.860**	**1.860**
Total Service Cost Reductions Approved in February 2022	**(0.565)**	**(0.565)**	**0.000**	**0.000**	**0.000**

ECONOMY, INFRASTRUCTURE AND SKILLS

Appendix 2c

Projected Pressures, Cost Reduction Options and Investments

Description	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
New Service Cost Reduction Options					
Funding for additional expenditure due to changes in DfT policy.	(1.440)	(1.440)	(1.440)	(1.440)	(1.440)
New Service Cost Reduction Options Total	**(1.440)**	**(1.440)**	**(1.440)**	**(1.440)**	**(1.440)**
Total Pressures	1.556	1.914	4.016	4.216	4.846
Total Cost Reductions	(2.005)	(2.005)	(1.440)	(1.440)	(1.440)
Service Total	**(0.449)**	**(0.091)**	**2.576**	**2.776**	**3.406**

Culture, Rural and Communities

Community Impact Assessment Rating - Medium

Total Service Spending Pressures Approved in February 2022	**0.196**	**0.196**	**0.196**	**0.196**	**0.196**
New Service Projected Pressures					
Joint Coroners service with S-o-T. Initial pressure whilst disucssions around apportionments are agreed.	0.033	0.033	0.033	0.000	0.000
New Service Projected Pressures Total	**0.033**	**0.033**	**0.033**	**0.000**	**0.000**
Total Service Cost Reductions Approved in February 2022	**(0.050)**	**(0.050)**	**(0.050)**	**(0.050)**	**(0.050)**
Total Pressures	0.229	0.229	0.229	0.196	0.196
Total Cost Reductions	(0.050)	(0.050)	(0.050)	(0.050)	(0.050)
Service Total	**0.179**	**0.179**	**0.179**	**0.146**	**0.146**
Total Economy, Infrastructure & Skills Pressures and Cost Reductions	**4.355**	**2.713**	**3.980**	**3.347**	**4.027**
Inflation	**6.491**	**10.726**	**14.376**	**18.347**	**23.289**
Economy, Infrastructure & Skills Grand Total	**10.846**	**13.439**	**18.356**	**21.694**	**27.316**

CORPORATE SERVICES

Appendix 2d

Projected Pressures, Cost Reduction Options and Investments

Description	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Assets					
Total Service Spending Pressures Approved in February 2022	**0.100**	**0.100**	**0.100**	**0.100**	**0.100**
Total Service Cost Reductions Approved in February 2022	**0.220**	**0.370**	**0.370**	**0.370**	**0.370**
Total Pressures	0.100	0.100	0.100	0.100	0.100
Total Cost Reductions	0.220	0.370	0.370	0.370	0.370
Service Total	**0.320**	**0.470**	**0.470**	**0.470**	**0.470**
Governance					
Total Service Pressures Approved in February 2022	**(0.022)**	**(0.041)**	**(0.041)**	**(0.041)**	**(0.041)**
New Service Projected Pressures					
Capacity review	0.121	0.121	0.121	0.121	0.121
Contracts support	0.060	0.060	0.060	0.060	0.060
New Service Projected Pressures Total	**0.181**	**0.181**	**0.181**	**0.181**	**0.181**
Total Pressures	0.159	0.140	0.140	0.140	0.140
Service Total	**0.159**	**0.140**	**0.140**	**0.140**	**0.140**
Strategy	**Community Impact Assessment Rating - Low**				
Total Service Pressures Approved in February 2022	**0.000**	**0.000**	**0.500**	**0.500**	**0.500**
Total Pressures	0.000	0.000	0.500	0.500	0.500
Service Total	**0.000**	**0.000**	**0.500**	**0.500**	**0.500**
Total Corporate Services Pressures and Cost Reductions	**0.479**	**0.610**	**1.110**	**1.110**	**1.110**
Inflation	**2.028**	**3.593**	**5.014**	**6.169**	**7.355**
Corporate Services Grand Total	**2.507**	**4.203**	**6.124**	**7.279**	**8.465**

Appendix 2e

FINANCE

Projected Pressures, Cost Reduction Options and Investments

Description	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Finance	**Community Impact Assessment Rating - Low**				
Total Service Spending Pressures Approved in February 2022	**0.031**	**0.063**	**0.063**	**0.063**	**0.063**
New Service Projected Pressures					
Increase in audit fees following the PSAA Ltd's procurement process	0.240	0.240	0.240	0.240	0.240
New Service Projected Pressures Total	**0.240**	**0.240**	**0.240**	**0.240**	**0.240**
Total Pressures	0.271	0.303	0.303	0.303	0.303
Service Total	**0.271**	**0.303**	**0.303**	**0.303**	**0.303**
Total Finance Pressures and Cost Reductions	**0.271**	**0.303**	**0.303**	**0.303**	**0.303**
Inflation	**0.504**	**0.895**	**1.238**	**1.512**	**1.793**
Finance Grand Total	**0.775**	**1.198**	**1.541**	**1.815**	**2.096**

Summary of Pressures, Inflation, Savings and Investments

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Health and Care					
Pressures	15.757	33.480	49.284	50.776	56.499
Inflation	3.343	5.974	8.584	11.077	13.657
Savings	(2.545)	1.427	5.409	7.409	7.409
Investments	-	-	-	-	-
Health and Care Total	16.555	40.881	63.277	69.262	77.565
Children and Families					
Pressures	17.251	19.401	18.720	16.544	15.406
Inflation	13.632	18.673	23.508	27.671	31.928
Savings	(5.978)	(9.867)	(12.102)	(12.102)	(12.102)
Investments	(0.818)	(0.833)	(0.833)	(0.833)	(0.833)
Children and Families Total	24.087	27.374	29.293	31.280	34.399
Economy, Infrastructure and Skills					
Pressures	6.410	4.768	5.470	4.837	5.517
Inflation	6.491	10.726	14.376	18.347	23.289
Savings	(2.055)	(2.055)	(1.490)	(1.490)	(1.490)
Investments	-	-	-	-	-
Economy, Infrastructure and Skills Total	10.846	13.439	18.356	21.694	27.316
Corporate Services					
Pressures	0.259	0.240	0.740	0.740	0.740
Inflation	2.028	3.593	5.014	6.169	7.355
Savings	0.220	0.370	0.370	0.370	0.370
Investments	-	-	-	-	-
Corporate Services Total	2.507	4.203	6.124	7.279	8.465
Finance					
Pressures	0.271	0.303	0.303	0.303	0.303
Inflation	0.504	0.895	1.238	1.512	1.793
Savings	-	-	-	-	-
Investments	-	-	-	-	-
Finance Total	0.775	1.198	1.541	1.815	2.096
Grand Total	**54.770**	**87.095**	**118.591**	**131.330**	**149.841**

All figures presented in each year represent a cumulative change from the current 2022/23 budget.

Appendix 4

Major Assumptions Used in MTFS
Year-on-Year Increases

	2023/24	2024/25	2025/26	2026/27	2027/28
Staffing costs					
Pay	4.0%	3.0%	2.5%	2.5%	2.5%
Local Government Pension Scheme increases	1.0%	1.0%	1.0%	-	-
General running costs					
Prices (including internal recharges from trading services)	4.0%	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	£1.9m	-£1.2m	-£0.05m	-	-
Gas	£2.3m	-£1.0m	-£0.5m	-£0.4m	-
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	10.0%	2.0%	2.0%	2.0%	2.0%
Diesel	10.0%	2.0%	2.0%	2.0%	2.0%
Interest Rates					
Interest on investments	4.19%	3.38%	2.44%	2.25%	2.25%
Interest on debt	4.95%	4.65%	4.51%	4.56%	4.64%
General Funding					
Revenue Support Grant	£12.4m	£12.4m	£12.4m	£12.4m	£12.4m
Council Tax	2.99%	2.99%	1.99%	1.99%	1.99%
Social Care Precept	2.00%	2.00%	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)

	2022/23	2023/24
Cannock Chase	29,458.15	29,851.05
East Staffordshire	39,059.20	40,060.00
Lichfield	39,695.10	40,534.40
Newcastle	37,668.00	38,099.00
South Staffordshire	39,066.18	39,609.00
Stafford	48,490.39	48,863.55
Staffordshire Moorlands	33,510.00	33,374.00
Tamworth	22,968.00	23,376.00
Totals	**289,915.02**	**293,767.00**

Estimated Council Tax Collection Fund Surplus / (Deficit)

	2022/23 £	2023/24 £
Cannock Chase	1,945,825	(814,397)
East Staffordshire	837,201	1,297,271
Lichfield	(245,101)	366,738
Newcastle	200,873	237,221
South Staffordshire	919,585	1,234,927
Stafford	383,151	1,923,972
Staffordshire Moorlands	392,753	657,998
Tamworth	547,685	440,463
Totals	**4,981,972**	**5,344,193**

Key: Surplus / (Deficit)

Precepts

	2022/23 £	2023/24 £
Cannock Chase	41,279,706	43,917,760
East Staffordshire	54,733,657	58,937,474
Lichfield	55,624,744	59,635,425
Newcastle	52,784,168	56,052,392
South Staffordshire	54,743,438	58,273,949
Stafford	67,949,584	71,889,521
Staffordshire Moorlands	46,957,563	49,100,830
Tamworth	32,185,058	34,391,472
Totals	**406,257,918**	**432,198,823**

Review of Earmarked Reserves / Provisions

Appendix 6

Reserve Name	Reason for Reserve	Forecast Balance 31st March 2023 £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.	5.806	0.000	5.806
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.	4.120	0.000	4.120
Trading Services	The trading services reserves are earmarked sums set aside for trading services activity. The balance mainly represents vehicle replacement programmes managed by County Fleet Care but also includes balances that the trading service will draw down on in years when the service creates a deficit.	2.761	0.000	2.761
Conservation and Archaeology	To meet the county's obligation towards the Extensive Urban Survey scheme, which is being run in partnership with English Heritage.	0.028	0.000	0.028
Elections	To meet the cost of the next County Council elections.	0.796	0.000	0.796
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.	2.782	0.000	2.782

Review of Earmarked Reserves / Provisions

Appendix 6

Reserve Name	Reason for Reserve	Forecast Balance 31st March 2023 £m	Transfer into General Balances £m	Forecast Balance after Transfer £m
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.	18.303	0.000	18.303
Inflation Reserve	To support services with the significant increases in costs due to rising inflation. Utilised during 22/23 and may still be required during 2023/24.	8.994	0.000	8.994
General Funding Smoothing Reserve	Amounts held against the risk of reductions in government grant funding and reductions in income from business rates. Required for the risk of funding reductions in the forthcoming Spending Review for 2025/26 onwards.	38.282	2.108	36.174
Revenue Carry Forward Earmarked Reserves	To hold revenue grants which remain unspent at year end and do not have any conditions attached, including sums set aside against the risk of care market pressures. As the grants are unconditional these funds could be available to support the MTFS.	67.934	0.000	67.934
Total Earmarked Reserves		**149.806**	**2.108**	**147.698**

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.

2022/23 Provision £m	Area of Expenditure	Level of Risk	Explanation of risk/justification of balances
Treatment of inflation and interest rates			
8.0	**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.
1.0	**Recruitment and Retention issues**	Medium	Difficulties with recruitment and retention may lead to more reliance on agency workers.
1.0	**Treasury Management**	Low	1% point increase in interest rate on borrowing against capital programme.
1.0	**Investments**	Low	0.5% point drop in interest on balances will reduce the income by £0.5m.
Estimates of the level and timing of capital funding			
3.0	**Capital Receipts / Developer contributions**	Medium	The council anticipates using capital receipts and developer contributions to fund the capital programme, however where these are not received an alternative funding source must be used which could increase borrowing levels.
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.
2.0	**Other areas**	Medium	Risks of overspend in other budget areas.
5.0	**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			
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	**55.0**

Appendix 8

SCC Capital Programme

2023/24 to 2027/28 Capital Programme Forecast

Service	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000
Economy, Infrastructure & Skills					
Highways Schemes	40,952	16,818	16,818	16,818	16,818
Economic Planning & Future Prosperity	8,664	650	650	450	450
Connectivity	721				
Tourism & Cultural County	4,444	760	279		
Rural County	394	345	336		
Waste & Sustainability	975				
	56,150	**18,573**	**18,083**	**17,268**	**17,268**
Families and Communities					
Maintained Schools	45,274	19,505	6,088	6,088	6,088
Vulnerable Childrens Projects	197				
	45,471	**19,505**	**6,088**	**6,088**	**6,088**
Health and Care					
Care & Independence	5,907	14,085	1,002		
	5,907	**14,085**	**1,002**		
Corporate Services					
Finance, Resources & ICT	450				
Strategic Property	2,305	2,305	2,305	2,305	2,305
Trading Services - County Fleet Care	630	630	440	850	400
	3,385	**2,935**	**2,745**	**3,155**	**2,705**
Capital Programme	**110,913**	**55,098**	**27,918**	**26,511**	**26,061**

Appendix 9a

Capital and Minimum Revenue Provision Strategy 2023/24

Recommendation of the Cabinet Member for Finance

Report of the Director of Finance

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 2023/24, the Council is planning capital expenditure of £111m, 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

	2023/24 budget	2024/25 budget	2025/26 budget	2026/27 budget	2027/28 budget
TOTAL	£111m	£55m	£28m	£27m	£26m

4. The main capital projects include:

- Schools: Delivery of a new 1 FE (Form Entry) Primary School in Tamworth (c£4.5m anticipated spend in 23/24); completion of a 1 FE Primary at Deanslade, Lichfield (c£1.85m spend in 23/24); relocation of St Leonard's Primary to the former Kingston Centre site (c£1.3m in 23/24) and new Sports Hall and Teaching Spaces at Oldfields Hall Middle School (c£3m in 23/24). All of these developments have been commissioned in response to rising pupil numbers in their respective locations.

- EED: Completion of the i54 and i54 Western Extension schemes (c£1.6m in 23/24); continuation to completion of Chatterley Valley project which 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 (c£2.6m in 23/24).

- Newcastle Enterprise Centre Extension. is contingent upon approval of £1.14m funding from the Newcastle Town Deal with anticipated spend of c£1.5m in 23/24. The development will create an additional 4,500 Ft2 of workshop space for letting to small and start up businesses. The £440k of approved borrowing will be paid back by Business and Enterprise from the additional rental income generated.

- Communities: Ongoing work to deliver the 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. Revised anticipated total budget of c£6.3m, with £4.4m anticipated spend in 23/24 funded by £1.650m SCC borrowing and £2.444m Heritage Lottery grant and a number of other smaller grants.

- Social Care: Extension and refurbishment of Hawthorne House with anticipated total cost of c£5.8m with c£2m projected spend in 23/24.

- Highways: Currently anticipated spend of c£19.6m on Carriageway Maintenance in 23/24 (part of a total Highways programme of £36.249m) with a contribution from SCC of £1m 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 –

	2023/24 budget	**2024/25 budget**	**2025/26 budget**	**2026/27 budget**	**2027/28 budget**
External sources	£88m	£37m	£24m	£23m	£23m
Capital resources	£0m	£0m	£0m	£0m	£0m
Revenue resources	£3m	£3m	£1m	£1m	£0m
Debt	£20m	£15m	£3m	£3m	£3m
TOTAL	**£111m**	**£55m**	**£28m**	**£27m**	**£26m**

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

	2023/24 budget	**2024/25 budget**	**2025/26 budget**	**2026/27 budget**	**2027/28 budget**
Revenue resources	£18.8m	£18.3m	£18.1m	£17.6m	£17.2m

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

8. The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP. The CFR is expected to decrease by £0.6m during 2023/24. The CFR will increase in 2024/25 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

	2023/24 budget	**2024/25 budget**	**2025/26 budget**	**2026/27 budget**	**2027/28 budget**
TOTAL CFR	**£575.9m**	**£571.2m**	**£554.4m**	**£538.9m**	**£521.9m**

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 £8.2m of capital receipts in the coming financial year as follows:

Table 5: Capital receipts in £ millions

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
Asset sales	£13.4m	£11.2m	£8.2m	£9.6m	£0.0m
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

	2023/24 budget	2024/25 budget	2025/26 budget	2026/27 budget	2027/28 budget
External loans	**£449m**	**£439m**	**£423m**	**£413m**	**£408m**
Capital Financing Requirement	**£576m**	**£571m**	**£554m**	**£539m**	**£522m**

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

	2023/24 budget	2024/25 budget	2025/26 budget	2026/27 budget	2027/28 budget
Authorised limit – borrowing	621	616	599	584	567
Authorised limit – Other liabilities	118	110	102	93	86
Authorised limit – total	739	726	701	677	653
Operational boundary – borrowing	525	521	515	500	489
Operational boundary – Other liabilities	118	110	102	93	86
Operational boundary – total	643	631	617	593	575

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 8: Prudential Indicator: Proportion of financing costs to net revenue stream

	2023/24 budget	2024/25 budget	2025/26 budget	2026/27 budget	2027/28 budget
Financing costs (£m)	22.9	25.2	27.6	28.1	27.5
Proportion of net revenue stream	3.6%	3.8%	4.0%	4.0%	3.8%

Conclusion

17. There is a planned capital programme amounting to £111m in 2023/24. 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 2023/24

The County Council implemented the new MRP guidance in 2009/10, and will assess their MRP for 2023/24 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 2023/24 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 2023 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.

Treasury Management Strategy 2023/2024

Recommendations of the Cabinet Member for Finance and Corporate Matters

Report of the Director of Finance (S151)

1. That Cabinet approve the 2023/2024 Treasury Management Strategy, based on the 2021 CIPFA Codes (Prudential Code and Treasury Management Code), and 2018 MHCLG (now DLUHC) Guidance (on Local Government Investments and on Minimum Revenue Provision).

2. That, in accordance with Regulations, Cabinet recommends to the Council, at its meeting on the 9 February 2023, the adoption of the Annual Investment Strategy (AIS) 2023/24 detailed in **paragraphs 63 to 109,** and **Annex A** and **Annex B** of this report.

3. That Cabinet approve the proposed Borrowing Strategy for 2023/2024 laid out in **paragraphs 41 to 62** 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 110 to 120** 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 2021 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.*

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 2023/24 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*.

9. Attached at **Annex E** of this report is a comprehensive glossary of treasury terms to provide definitions and background for treasury reports.

Link to the Medium-Term Financial Strategy (MTFS)

10. 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.

11. 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 this report which is included in 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. CIPFA released a revised prudential code in December 2021 for formal adoption in 2023/24.The updated code, whilst tightening regulation, has not had a material effect on the Council, as no additional borrowing has been taken to fund commercial or treasury investments.

12. 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 41** onwards.

External Context

Economic background

13. Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies; UK interest rates were volatile for most of 2022.

14. 2022/23 has seen large increases in the bank base rate by the Bank of England, the Federal Reserve in the US and European Central Bank (ECB). UK base rates rose from 0.75% in March 2021 to 3.50% in December 2022. It is expected that UK interest rates may peak around 4.5% in June 2023, as forecast by Link, the Council's independent treasury advisor, and reduce in 2024, after the Bank of England has brought inflation under control.

15. UK Consumer Price Inflation (CPI) for October 2022 registered +11.1%, this decreased to +10.7% in November 2022 and is forecast to reduce further in 2023, as the peak is considered to have passed. The Monetary Policy Committee (MPC) of the Bank of England saw this level of inflation as transitory, as it was principally driven by gas prices and demand and supply chain issues, although it has lasted longer than initially forecast.

16. The UK unemployment rate fell to a 48-year low of 3.6% during 2022, and this was despite a net migration increase of circa 500,000. With an increase in people registered as long-term sick, the UK labour force shrunk by circa 500,000 in the year to June 2022, making it more difficult for the UK economy to grow.

17. Gross Domestic Product (GDP) - Q2 2022 saw UK GDP revised upwards to +0.2% quarter on quarter, but this was quickly reversed in Q3 2022, with some of the fall in GDP attributed to the extra Bank Holiday for the late Queen's funeral. In the Bank of England's November projection, which was based on the elevated path of market interest rates, GDP is projected to continue to fall throughout 2023 and the first half of 2024, as high energy prices and tighter financial conditions weigh on spending. GDP growth is then forecast increase by around 0.75% towards the end of 2024. Although there is judged to be a significant margin of excess demand currently, continued weakness in spending is forecast to lead to an increasing amount of economic slack emerging from the first half of next year.

18. Globally all the major economies are expected to struggle in the short term. The Purchasing Manager Indices for the US, EZ and China all point to at least one if not more quarters of GDP contraction.

19. GBP Sterling strengthened towards the end of 2022, recovering from a record low of $1.035 versus the US Dollar, following the Truss government's "fiscal event" in September 2022, to $1.22. Notwithstanding GBP's better

performance in the latter part of the year, 2023 is likely to see a housing correction as some fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

Credit outlook

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

21. Significant levels of downgrades to short and long-term credit ratings have not materialised from Credit Agencies, since the on-set of the Covid-19 crisis in March 2020. In the main, where they have changed, alterations have been limited to outlooks. However, more recently the UK sovereign debt rating has been placed on negative outlook by the three major rating agencies in the wake of the Truss/Kwarteng unfunded tax-cuts policy. Although the Sunak/Hunt government has calmed markets, the outcome of the rating agency reviews is unknown at present, but it is possible the UK sovereign debt rating will be downgraded. When setting minimum sovereign debt ratings, the Council does not set a minimum rating for the UK due to the unavoidable exposure.

22. Looking forward, potential for bank losses still remains a risk and a cautious approach to bank deposits in 2023/24 is advisable. The Council, as a local authority, is exposed to bail-in risk, as the 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

23. The Council's treasury management advisor, Link, is forecasting the Bank of England Base Rate to rise to 4.50% by June 2023 and remain at that level until the end of the year. It is then expected that rates will fall away incrementally from March 2024 and settle around 2.50% by December 2025. As with all projections there are major risks to this forecast, such as the performance of the economy versus expectations, labour and supply shortages, trade agreements and the geopolitical climate.

24. Gilt yields have become less volatile under the Sunak/Hunt government. PWLB 5 to 50 years Certainty Rates are currently in the range of 3.75% to 4.50% and the medium to longer part of the yield curve is inverted to a small degree (yields are lower at the longer end of the yield curve compared to the short to medium end). Link, the Council's treasury advisors, see the markets as having already built in nearly all the effects on gilt yields of the likely increases in Bank Rate and the poor inflation outlook. Markets are, however, volatile, and further movement of gilt yields across the whole spectrum of the curve is possible.

25. 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

26. On 30 November 2022, the Council held £458.5 million of external borrowing and had £415.9 million temporarily invested. The Council's forecast future requirements for borrowing and investments can be considered in the context of its balance sheet forecasts described in the following paragraphs.

Balance sheet

27. 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.

28. The Council's Treasury Advisors, Link, performed an independent reconciliation of the CFR calculation using the 2021/22 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 is required. .

29. 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:

	31.03.22 Actual £m	31.03.23 Estimate £m	31.03.24 Forecast £m	31.03.25 Forecast £m	31.03.26 Forecast £m
Loans CFR	562.8	576.4	575.9	571.2	554.4
Less: External borrowing	(463.6)	(458.5)	(448.5)	(438.5)	(423.0)
Internal / (over) borrowing	**99.3**	**117.9**	**127.4**	**132.7**	**131.4**

30. The previous table shows that the Council's Loans CFR is due to increase in 2023/24 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.

31. 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 previous table shows the Council will comply with this recommendation during 2023/24 and going forward.

32. 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:

	31.03.22 Actual £m	31.03.23 Estimate £m	31.03.24 Forecast £m	31.03.25 Forecast £m	31.03.26 Forecast £m
Usable reserves	457.2	395.0	353.0	324.0	325.0
Working capital surplus	0	0	0	0	0
Less Internal borrowing	(99.3)	(117.9)	(127.4)	(132.7)	(131.4)
Advance Pension contributions	16.0	19.0	(23.0)	11.0	12.0
Investment / (New borrowing)	**373.9**	**296.1**	**202.6**	**202.3**	**205.6**

33. The table above demonstrates that the Council's recent strategy of using internal borrowing to reduce the need for external borrowing also reduces temporary investment levels. It also indicates that the Council will have sufficient internal resources to cover the internal borrowing requirement in 2023/24 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 contributions monthly, for the 3-year period.

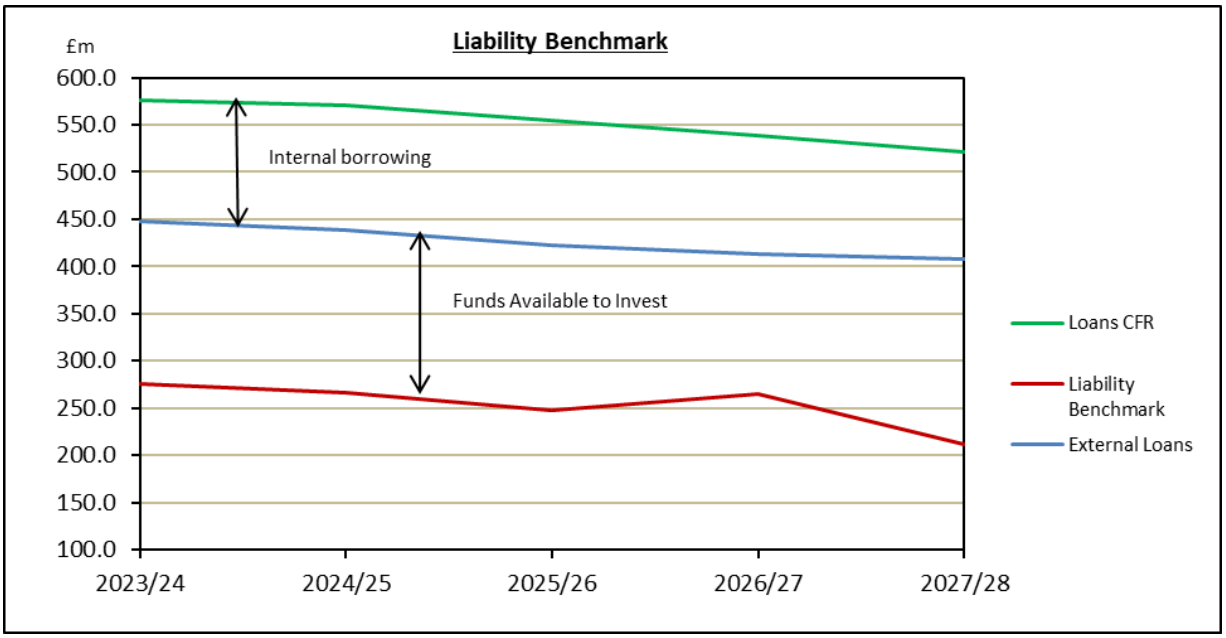
Liability benchmark

34. 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.

35. 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:

	31.03.22 Actual £m	31.03.23 Estimate £m	31.03.24 Forecast £m	31.03.25 Forecast £m	31.03.26 Forecast £m
External loans	463.6	458.5	448.5	438.5	423.0
(Less Investments) / Add New borrowing	(373.9)	(296.1)	(202.6)	(202.3)	(205.6)
Net borrowing requirement	**89.6**	**162.4**	**245.9**	**236.2**	**217.4**
Add: Minimum investments*	30.0	30.0	30.0	30.0	30.0
Liability benchmark	**119.6**	**192.4**	**275.9**	**266.2**	**247.4**

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



36. The chart shows that the Council's 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).

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

Policy framework

38. 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.

39. 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 shape of the short-term yield curve* • Forecast changes in interest rates

	• 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	• 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.

40. 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 2023/2024

41. In 2023/24, the Council will hold £458.5 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 £739 million, as disclosed in **Annex C** and as part of the capital strategy which includes liabilities for PFI schemes.

Objectives

42. 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

43. Given the ongoing financial pressures on 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.

44. The current economic environment still continues to favour using cash in lieu of borrowing as:
    - there is a normal yield curve up to around 25 years, 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 in lieu of borrowing reduces investment balances;
- using cash in lieu of borrowing 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 expected to remain above the average debt rate for the next year and beyond. Continuing to use cash in lieu of borrowing 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.

45. 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 35** indicates that this is set to continue into 2023/24.

46. 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;
    - changes in the Council's cash funding because of structural changes; or
    - LOBO (Lender Option, Borrower Option) loan options being called.

47. 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.

48. It is important to understand that when raising loans, the whole of any funding gap does not need to be closed with the new loans. A gap should be retained that continues to use available cash for the reasons outlined at **paragraph 43**. The proposed borrowing 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.

49. The Council will monitor the benefits of using cash in lieu of borrowing, via the Treasury Management Panel, chaired by the Director of Finance (S151 Officer), on a regular basis. The strategy of using cash in lieu of 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 2023/24, 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.

<u>Sources of borrowing</u>

50. 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

51. 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 their borrowing powers.

52. HM Treasury have also put measures in place to prevent public bodies using PWLB funding to finance any commercial investments and there are mechanisms to recall such funding if this is found to be the case. In addition, the latest Prudential Code explicitly prevents local authorities borrowing to fund commercial ventures.

53. The Council currently holds £51 million of long-term borrowing in the form of LOBO 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. £33 million of these LOBO loans have such call options during 2023/24. Although the Council understands that lenders are still unlikely to exercise their options in the current interest rate environment, there does remain an element of refinancing risk.

54. 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 59**).

55. 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 medium term loans would rebalance the portfolio; and
    - as stated already, apart from being marginally inverted over 25-30 years, the yield curve is normal, so shorter-term loans are relatively cheaper.

56. Any decision to borrow long term will be taken by the Treasury Management Panel, chaired by the Director of Finance (S151), and reported to the Cabinet Member for Finance and Corporate Matters. 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

57. Short term loans raised from money markets are typically under 12 months in 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.

58. 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

59. 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.

60. Market conditions have shifted in the last 12 months and whilst Gilt yields are still relatively low, they have risen from the historic lows seen over the last 3 years. This rise in Gilt yields means that there is a possibility that PWLB premiums may be lower than the last year and could be offset by interest savings on extinguished loans. The Treasury Team will continue to monitor the market and identify possible savings arising during 2023/24.

61. 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 without notice; or
    - market conditions allow economically beneficial repayment.

62. 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 Director of Finance (S151), and reported to the Cabinet Member for Finance and Corporate Matters.

Annual Investment Strategy (AIS) 2023/24

63. It is the Council's Borrowing Strategy that determines its Investment Strategy. In the current economic environment, where short term investment rates are lower than borrowing rates, this still favours the use of cash instead of external borrowing, hence balances available for temporary investments are likely to be less.

64. 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 £358 million and £484 million.

MiFID II

65. 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.

66. 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 2023/24.

Objectives

67. 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.

68. 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. In addition, this value shall be reported and compliant with revised CIPFA codes regarding treasury and commercial investments.

Strategy

69. 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.

70. The Council has taken a low-risk approach to investment and the AIS for 2023/24 will continue to do so. The Council will continue to concentrate its short-term investments in secure money market funds, short term commercial deposits in banks as recommended by the Council's treasury advisor, Link, and government investments. In addition, the use of Ultra Short Dated Bond Funds (USDBF's) and Short Dated Bond Funds (SDBF's) will be used as diversifiers, as these are considered appropriate vehicles in which to securely invest funds.

71. DLUHC 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

72. The Council considers 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

73. 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 may be lower than those received from elsewhere.

74. The Council can invest in term deposits with local authorities, which may 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 authority investments are not subject to bail in risk. However, the 'locals' market has reduced since the pandemic due to a lack of local authority borrowers. The Council has set a limit of investing £5m with any one local authority.

75. 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 well documented in the press; the Council will continue to monitor such developments and seek advice from its treasury advisors where necessary.

ii) Money Market Funds (MMFs)

76. 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.

77. EU regulation, introduced in January 2019, meant that 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.

78. 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.

79. 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.

iii) Bank and building society accounts

80. The Council can make investments with approved banks and building societies by using call accounts, term deposits or Certificates of Deposit (CD's). CDs 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) Operational bank account

81. The Council's banking provider is Lloyds Bank. Cash is retained with Lloyds Bank each night earning interest at below market rate; the maximum amount that can be retained for operation purposes will be set in line with the diversification policy set out at **paragraph 84** onwards.

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

83. Should the Lloyds credit rating fall below the Council's minimum threshold, then minimum balances will 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 Director of Finance (S151).

Standard Investments diversification

84. Risks to investments, such as those discussed for MMFs in **paragraph 79**, 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.

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

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

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

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

88. 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.

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

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

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

90. Due to bail-in regulations 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.

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

Non-Standard Investments

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

93. 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. Ultra-Short and Short dated Bond funds with a longer term outlook also fall into this category.
vi) Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

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

Non-Standard Investment diversification

95. Diversification of Non-Standard Investments is equally important, and the 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 £100 million (up to 10 years duration) with an overall cap of £200 million for this group.

96. This means a total of £245 million can be invested in Non-standard Investments in 2023/24 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 Director of Finance (S151).

97. **Annex A** sets out the investment categories authorised for use in 2023/24 and **Annex B** lists the Council's Lending List at the time of writing this report.

Credit Management Strategy 2023/24

98. 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 advisor, Link, where available.

99. 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.

100. For 2023/24, the minimum credit-rating thresholds are set at a long-term rating of 'A-' where applicable. Counterparties that are rated below this level are excluded. However, credit ratings are not the only aspect of how creditworthiness is assessed by Link.

101. 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.

102. 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 (and at the end of **Annex B**) which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments
    - Yellow – up to 5 years
    - Dark Pink - up to 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
    - Light Pink - up to 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
    - Purple - up to 2 years
    - Blue - up to 1 year (only applies to nationalised or semi nationalised UK Banks)
    - Orange - up to 1 year
    - Red - up to 6 months
    - Green - up to 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.

103. Typically, the minimum credit rating criteria the Council uses will be a short-term rating (Fitch or equivalents) of F1 and a long-term rating of A-, as stated in **paragraph 100**. 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.

104. 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.

105. 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.

106. 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.

107. As mentioned previously, the Council retains the ultimate responsibility for its investment decisions. The Treasury Management Panel chaired by the Director of Finance (S151) meets monthly 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. 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.

108. 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.

Non-treasury investments

109. These are discussed as part of a separate investment strategy report titled '(Non-Treasury) Commercial Investment Strategy 2023/24'.

Review of strategy

110. 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.

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

Policy on the use of external service providers

112. 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.

113. 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 always remains with itself.

114. An annual review of service quality is carried out by the Treasury Management Panel. Treasury Advisors are expected to attend meetings bi-annually to discuss strategy and how well they are assisting the Council to discharge its responsibilities.

Investment management training

115. 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.

116. Officers who attend the Treasury Management Panel are senior qualified finance professionals. Treasury practitioners 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 Treasury Team and its processes are also subject to regular audit and independent checks.

117. 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

118. 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).

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

120. 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
Director of Finance

<u>Background Documents</u>

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

Cabinet – 25 January 2023 - Investment categories authorised for use 2023/24

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 £100m per investment category and £200m 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 – 25 January 2023
Staffordshire County Council Lending List

Counterparty by Country	Current Maximum Investment Duration
Australia	
Australia and New Zealand Banking Group Ltd.	12 months
Commonwealth Bank of Australia	12 months
Macquarie Bank Ltd.	6 months
National Australia Bank Ltd.	12 months
Westpac Banking Corp.	12 months
Belgium	
BNP Paribas Fortis	6 months
KBC Bank N.V.	12 months
Canada	
Bank of Montreal	12 months
Bank of Nova Scotia	12 months
Canadian Imperial Bank of Commerce	12 months
National Bank of Canada	6 months
Royal Bank of Canada	12 months
Toronto-Dominion Bank	12 months
Denmark	
Danske A/S	6 months
Finland	
Nordea Bank Abp	12 months
France	
BNP Paribas	12 months
Credit Agricole Corporate and Investment Bank	12 months
Credit Agricole S.A.	12 months
Credit Industriel et Commercial	12 months
Societe Generale	6 months
Germany	
Bayerische Landesbank	6 months
DZ BANK AG Deutsche Zentral-Genossenschaftsbank	12 months
Landesbank Baden-Wuerttemberg	6 months
Landesbank Berlin AG	12 months
Landesbank Hessen-Thueringen Girozentrale	12 months
Landwirtschaftliche Rentenbank	24 months
Norddeutsche Landesbank Girozentrale	100 days
NRW.BANK	24 months
Netherlands	
ABN AMRO Bank N.V.	6 months
Bank Nederlandse Gemeenten N.V.	24 months
Cooperatieve Rabobank U.A.	12 months
ING Bank N.V.	12 months
Nederlandse Waterschapsbank N.V.	24 months
Singapore	
DBS Bank Ltd.	12 months

United Overseas Bank Ltd.	12 months
Sweden	
Skandinaviska Enskilda Banken AB	12 months
Svenska Handelsbanken AB	12 months
Swedbank AB	12 months
Switzerland	
UBS AG	12 months
United Kingdom	
Collateralised LA Deposit	60 months
Debt Management Office	60 months
Multilateral Development Banks	60 months
Supranationals	60 months
UK Gilts	60 months
Bank of Scotland PLC (RFB)	6 months
Barclays Bank PLC (NRFB)	6 months
Barclays Bank UK PLC (RFB)	6 months
Goldman Sachs International Bank	6 months
Handelsbanken Plc	12 months
HSBC Bank PLC (NRFB)	12 months
HSBC UK Bank Plc (RFB)	12 months
Lloyds Bank Corporate Markets Plc (NRFB)	6 months
Lloyds Bank Plc (RFB)	6 months
NatWest Markets Plc (NRFB)	6 months
Santander Financial Services plc (NRFB)	6 months
Santander UK PLC	6 months
SMBC Bank International Plc	6 months
Standard Chartered Bank	6 months
Coventry Building Society	6 months
Leeds Building Society	100 days
Nationwide Building Society	6 months
Skipton Building Society	6 months
Yorkshire Building Society	100 days
National Westminster Bank PLC (RFB)	12 months
The Royal Bank of Scotland Plc (RFB)	12 months
United States	
Bank of America N.A.	12 months
Bank of New York Mellon, The	24 months
Citibank N.A.	12 months
JPMorgan Chase Bank N.A.	12 months
Wells Fargo Bank, NA	12 months
Money Market Funds	
Aberdeen	Overnight
Black Rock	Overnight
Insight	Overnight
Federated	Overnight
State Street	Overnight

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

Annex C

Cabinet – 25 January 2023

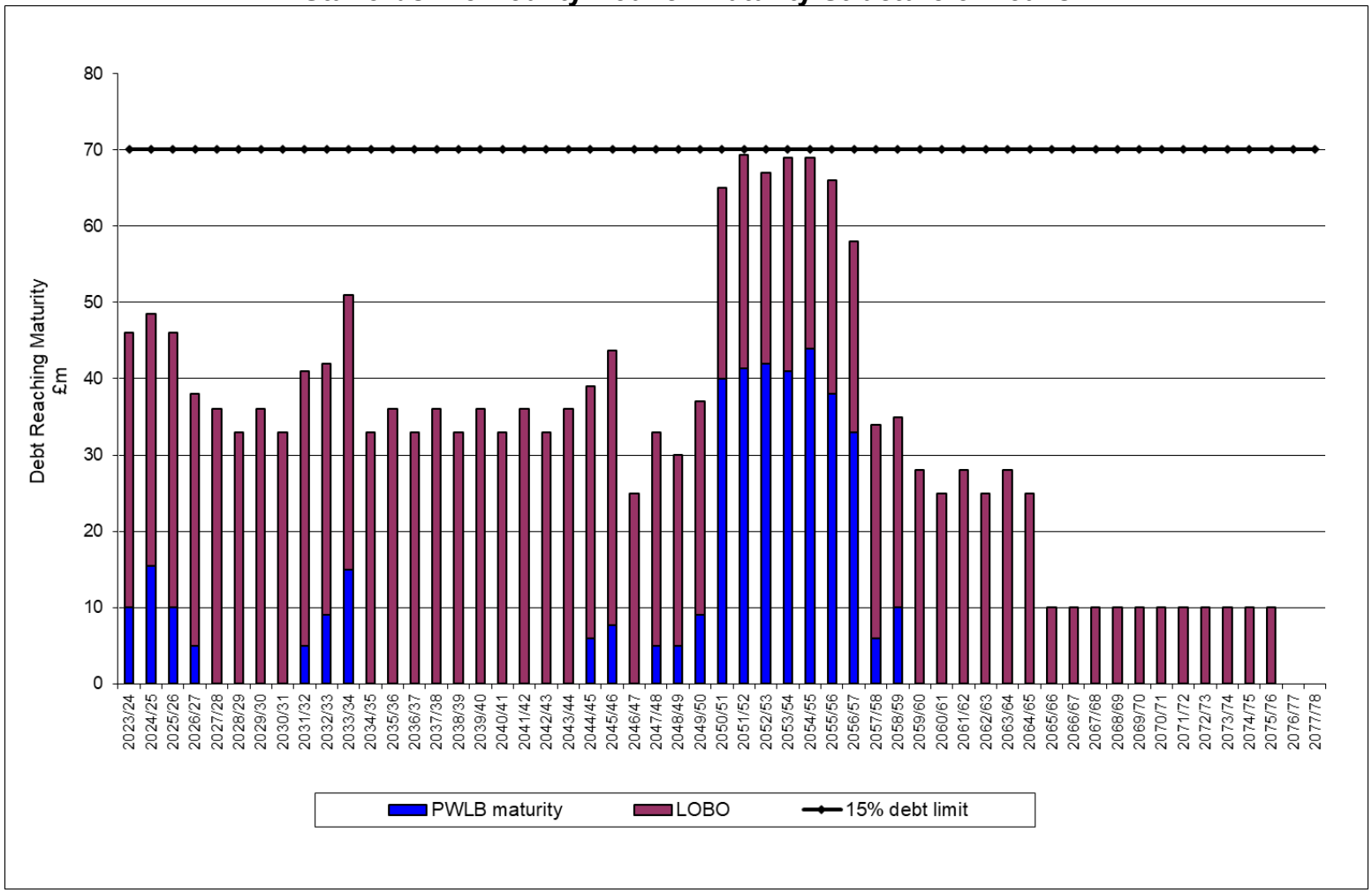
Prudential Indicators for Treasury Management

Indicator	Estimate 2023/24	Estimate 2024/25	Estimate 2025/26	Estimate 2026/27	Estimate 2027/28
1. External Debt	£m	£m	£m	£m	£m
Authorised Limit for borrowing	621	616	599	584	567
Authorised Limit for other liabilities	118	110	102	93	86
TOTAL	**739**	**726**	**701**	**677**	**653**
Operational Boundary for borrowing	525	521	515	500	489
Operational Boundary for other liabilities	118	110	102	93	86
TOTAL	**643**	**631**	**617**	**593**	**575**
External Loans	596.5	573.9	543.6	518.8	499.3
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 Council's accounts.*					
2.Interest Rate Exposures					
a. Upper Limit (Fixed)	546.4	545.9	542.2	525.4	509.9
b. Upper Limit (Variable)	(470.0)	(428.0)	(399.0)	(400.0)	(403.0)
The 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 Council will manage its exposure to fixed and variable rates of interest. Negative figures are shown in brackets; these relate to the 'high- point' of investments at a variable rate which are not offset by variable borrowings. The exposure to variable rate movements has been reduced by the use of cash in lieu of borrowing.					
3.Maturity Structure of Borrowing	Upper Limit	Lower Limit			
See **Annex D**					
This indicator relates to the amount of loans maturing in specified periods. The overarching principle is that steps should be taken from a risk management point of view to limit exposure to significant refinancing risk in any short period of time. The 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 Council, involving PWLB loans, LOBO loans with uncertain call dates and the use of internal cash, specific indicators have not been set. Instead, the 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 Council's policy (see **paragraph 101**) which is the maximum that could be invested for 1 year or over.*	£245m	£245m	£245m	£245m	£245m

Annex D

Cabinet – 25 January 2023

Staffordshire County Council Maturity Structure of Loans



Annex E

Cabinet 25 January 2023

Treasury Management Glossary

CFR: capital financing requirement - the Council's annual underlying borrowing need to finance capital expenditure and a measure of the Council's total outstanding indebtedness.

CIPFA: Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

CPI: consumer price index – the official measure of inflation adopted as a common standard by countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

DLUHC: the Department for Levelling Up, Housing and Communities - the Government department that is responsible for local authorities in England.

ECB: European Central Bank - the central bank for the Eurozone.

EU: European Union.

EZ: Eurozone - those countries in the EU which use the euro as their currency.

Fed: the Federal Reserve System, often referred to simply as "the Fed," is the central bank of the United States. It was created by the Congress to provide the nation with a stable monetary and financial system.

FOMC: the Federal Open Market Committee – this is the branch of the Federal Reserve Board which determines monetary policy in the USA by setting interest rates and determining quantitative easing policy. It is composed of 12 members--the seven members of the Board of Governors and five of the 12 Reserve Bank presidents.

GDP: gross domestic product – a measure of the growth and total size of an economy.

G7: the group of seven countries that form an informal bloc of industrialised democracies--the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom--who meet annually to discuss issues such as global economic governance, international security, and energy policy.

Gilts: gilts are bonds issued by the UK Government to borrow money on the financial markets. Interest paid by the Government on gilts is called a coupon and is at a rate that is fixed for the duration until maturity of the gilt, (unless a gilt is index linked to inflation); while the coupon rate is fixed, the yields will change inversely to the price of gilts i.e., a rise in the price of a gilt will mean that its yield will fall.

HRA: housing revenue account.

IMF: International Monetary Fund - the lender of last resort for national governments which get into financial difficulties.

MPC: the Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing.

MRP: minimum revenue provision - a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

PFI: Private Finance Initiative – capital expenditure financed by the private sector i.e., not by direct borrowing by a local authority.

PWLB: Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

QE: quantitative easing – is a form of monetary policy where a central bank creates new money electronically to buy financial assets, such as government bonds, (but may also include corporate bonds). This process aims to stimulate economic growth through increased private sector spending in the economy and return inflation to target. These purchases increase the supply of liquidity to the economy and this policy is employed when lowering interest rates has failed to stimulate economic growth to an acceptable level and to lift inflation to target. QE is reversed by selling the bonds the central bank had previously purchased, or by not replacing debt which matures.

RPI: the Retail Price Index is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation – Consumer Price Index. The main differences between RPI and CPI is in the way that housing costs are treated and that the former is an arithmetical mean whereas the latter is a geometric mean. RPI is often higher than CPI for these reasons.

SONIA: the Sterling Overnight Index Average. Generally, a replacement set of indices (for LIBID and LIBOR) for those benchmarking their investments. The benchmarking options include using a forward-looking (term) set of reference rates and/or a backward-looking set of reference rates that reflect the investment yield curve at the time an investment decision was taken.

TMSS: the annual treasury management strategy statement reports that all local authorities are required to submit for approval by the full council before the start of each financial year.

VRP: a voluntary revenue provision to repay debt, in the annual budget, which is additional to the annual MRP charge, (see above definition).

Commercial Investment Strategy 2023/2024

Recommendation of the Cabinet Member for Finance and Resources

Report of the Director of Finance (S151)

1. That Cabinet approves:

   (a) the Commercial Investment Strategy for 2023/24 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 2023/24;

   (d) a maximum limit for an individual Service Investment Loan of £10 million in 2023/24; and

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

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 2023/24, 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 2021 Edition* (the CIPFA Code).

4. The Commercial Investment Strategy 2023/24 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 activity (including to replace 'internal borrowing').

6. CIPFA released a new version of the Prudential Code in December 2021 and the provisions in the code applied 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 and be reported as part of the Treasury Management and Capital Strategies;
    - Definition of Investment – separate categories for Treasury Management Investment, Service Investment and Commercial Investment.

    The 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 2023/24 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 an innovative, ambitious and sustainable county, where everyone has 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 2023/24, 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 2023/24 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 primarily 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 2022; 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 2023/24, 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 2023/24, 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 not 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. HM Treasury have 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 Director of Finance. 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 40**).

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 2023/24 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 is also 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

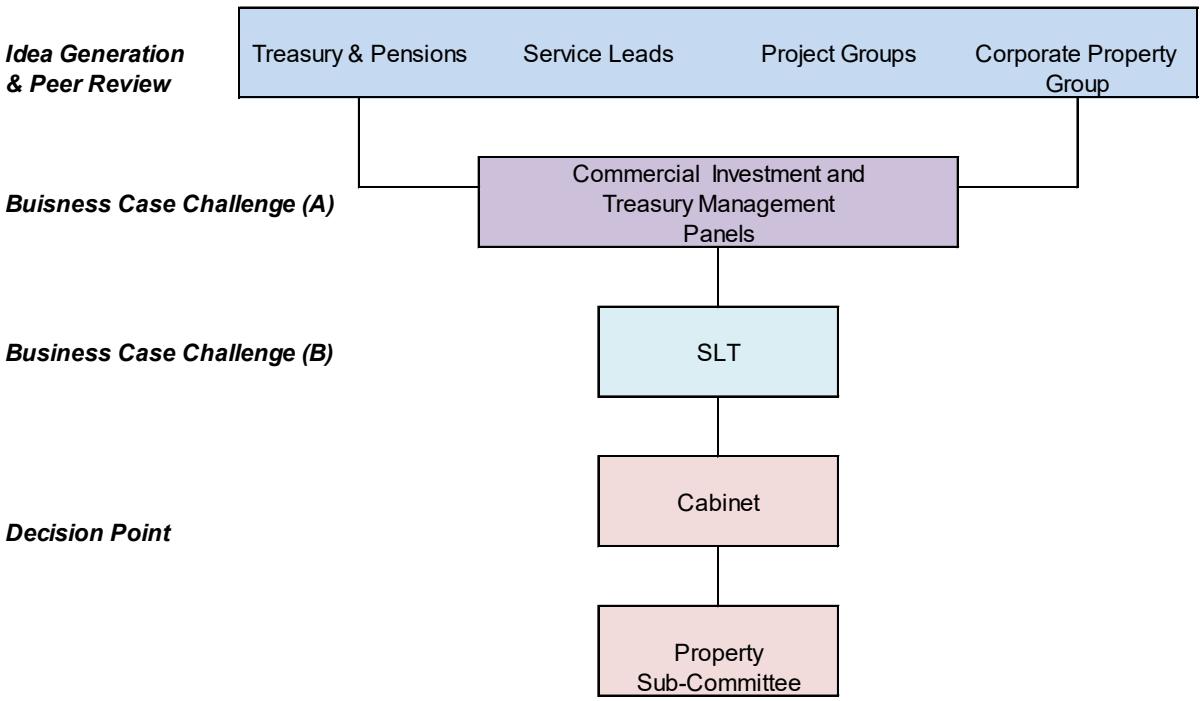
40. The Council will ensure that Elected Members and Senior Officers involved in the investment decision making process have the appropriate capacity, skills and information. Those involved in the investment decision making process should;
    - take informed decisions about whether to enter into a specific 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 A** will need to be submitted by the initiator of the Investment to facilitate peer review and challenge. As well as a descriptor of the Commercial Investment opportunity, the Business Case will need to demonstrate its alignment to the Council's Vison and Priorities as well as any service delivery considerations. Key areas of the Business Case will include and demonstrate:

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

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 should the Council's Commercial Investment activities gain momentum. An illustration of how these Indicators might be constructed is provided in **Annex B**.

Rob Salmon
Director of Finance

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

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. Minimum Revenue Provision implications
10. International Financial Reporting Standard 9 – Financial Instruments
11. Fees

E **Environmental, Social and Governance Implications**

1. Positive / Negative factors
2. Legality

F **Risk & Risk Management**

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

G **Legal Implications**

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

H **Procurement Implications**

1. Procurement Route followed
2. Exemptions received

Governance

Peer Review undertaken:

Comments:

Business Case Challenge (A) TMP / CIP undertaken:

Comments:

Business Case Challenge (B) SLT undertaken:

Comments:

Recommendation to Cabinet / Property Sub- Committee:

Annex B

COMMERCIAL INVESTMENT INDICATORS

Total Risk Exposure

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

Total investment exposure	**31 March 23 Actual £m**	**31 March 24 Forecast £m**	**31 March 25 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	**2022/23 Actual**	**2023/24 Forecast**	**2024/25 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 of at least 2% of the council's current net revenue budget	G
Aged Debt (quarterly indicator) Organisations need to ensure that money owed to them is collected in a timely manner. This indicator shows how well we are managing to collect money owed to us.	
*Level of outstanding general debtors more than 6 months old does not exceed £14.7m**	R
Working Capital (annual indicator) It is essential that working capital is well managed. This indicator shows how well our debtors and creditors are being managed.	
Current debtors divided by current creditors is in the acceptable range of 1 - 3	G
Payments to suppliers (quarterly indicator) By paying suppliers quickly we are supporting the Staffordshire economy. It also means businesses are more likely to want to do business with us and offer us competitive rates which will improve our financial health in the medium term.	
At least 90% of invoices have been paid within 30 days of us receiving them during the last quarter	G
Financial Monitoring (quarterly indicator) Effective financial monitoring is essential in any organisation. Monitoring provides organisations with early information of potential issues enabling them to take corrective action to avoid future financial difficulties.	
Quarterly financial monitoring reports have been issued to Cabinet during the last 12 months	G
The council's most recent revenue outturn forecast did not vary by more than +/-2% when compared to the overall revenue budget	G
Financial Reporting (annual indicator) Preparing timely and accurate accounts is vital to demonstrate to interested parties that we have sound financial controls. They also provide detailed information which shows our overall financial health.	
The council's most recent Statement of Accounts were produced on time and were issued with an unqualified opinion by our external auditors	A

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

*Target to be updated in the Integrated Performance Report, Quarter 1 2023/24 when more data is available regarding the change from net to gross invoicing of social care clients.

Appendix 11

Proposed Net Budget 2023/24 Planning Forecasts 2024/25 to 2027/28

	Proposed Net Budget 2023/24	Planning Forecast 2024/25	Planning Forecast 2025/26	Planning Forecast 2026/27	Planning Forecast 2027/28
	£m	£m	£m	£m	£m
Health and Care					
Public Health and Prevention	31.090	31.090	31.090	31.090	31.090
Public Health Ring Fenced Grant	(31.090)	(31.090)	(31.090)	(31.090)	(31.090)
Adult Social Care and Safeguarding	41.846	44.520	46.429	48.240	50.119
Care Commissioning	219.047	240.699	261.186	265.360	271.784
Improved Better Care Fund	(32.709)	(32.709)	(32.709)	(32.709)	(32.709)
Sub Total	*228.184*	*252.510*	*274.906*	*280.891*	*289.194*
Children and Families					
Children's Services	132.471	132.939	133.787	134.961	135.787
Children's Public Health	10.151	10.151	10.151	10.151	10.151
Public Health Ring Fenced Grant	(10.151)	(10.151)	(10.151)	(10.151)	(10.151)
Education Services	33.241	35.730	36.493	37.041	39.063
Wellbeing and Partnerships	8.263	8.593	8.901	9.166	9.437
Sub Total	*173.975*	*177.262*	*179.181*	*181.168*	*184.287*
Economy, Infrastructure and Skills					
Eonomic Development & Strategic Planning	3.050	2.812	2.833	2.855	2.913
Infrastructure & Highways	40.239	39.637	39.643	40.230	41.726
Transport, Connectivity & Waste	45.395	48.346	52.781	55.177	58.870
Skills	7.349	7.398	7.442	7.477	7.513
Culture, Rural & Communities	13.257	13.644	14.011	14.283	14.596
EI&S Business Support	1.200	1.246	1.290	1.316	1.342
Sub Total	*110.490*	*113.083*	*118.000*	*121.338*	*126.960*
Corporate Services					
Assets	12.241	12.892	13.364	13.772	14.192
Business Support and Compliance	10.914	11.358	11.752	12.054	12.363
Comms & Marketing	0.838	0.880	0.918	0.948	0.979
People	3.335	3.594	3.827	4.021	4.220
Law	6.099	6.225	6.355	6.458	6.564
Corporate Services	0.532	0.571	0.603	0.621	0.640
Strategy	3.402	3.537	4.159	4.259	4.361
Sub Total	*37.361*	*39.057*	*40.978*	*42.133*	*43.319*
Finance Total	**11.767**	**12.190**	**12.533**	**12.807**	**13.088**
Service Total	**561.777**	**594.102**	**625.598**	**638.337**	**656.848**
Capital Financing					
Capital Financing	23.880	26.550	29.869	31.849	30.906
Capital Investment Fund	2.500	2.500	2.500	2.500	2.500
Centrally Controlled	32.259	26.065	26.822	27.615	30.908
Care Market Pressures	15.000	15.000	15.000	15.000	15.000
Traded Services / Business Partner	(0.753)	(0.751)	(0.749)	(0.747)	(0.745)
Contingency	15.000	15.000	15.000	15.000	15.000
Net Revenue Budget	**649.663**	**678.466**	**714.040**	**729.554**	**750.417**
Use of Reserves	(2.108)	-	(7.184)	(0.000)	(0.000)
Budget Requirement	**647.555**	**678.466**	**706.856**	**729.554**	**750.417**
Revenue Support Grant	(12.438)	(12.438)	(12.438)	(12.438)	(12.438)
Retained Business Rates	(122.820)	(124.855)	(127.001)	(129.178)	(131.012)
Settlement Funding Assessment	**(135.258)**	**(137.293)**	**(139.439)**	**(141.616)**	**(143.450)**
New Homes Bonus	(1.187)	-	-	-	-
Council Tax Collection Fund Surplus / Deficit	(5.344)	-	-	-	-
Services Grant	(3.931)	(3.931)	(3.931)	(3.931)	(3.931)
Social Care Grant	(56.759)	(64.634)	(64.634)	(64.634)	(64.634)
ASC Capacity and Discharge Fund	(4.586)	(7.643)	(7.643)	(7.643)	(7.643)
ASC Market Improvement & Sustainability Fund	(8.294)	(12.471)	(12.471)	(12.471)	(12.471)
Council Tax	(432.196)	(459.207)	(478.738)	(499.304)	(520.698)
Financing Total	**(647.555)**	**(685.179)**	**(706.856)**	**(729.599)**	**(752.827)**
(Headroom) / Shortfall	-	*(6.713)*	-	*(0.045)*	*(2.410)*

Appendix 12

Summary of Budget Changes

Proposed Net Budget 2023/24	2022/23 Revised Base Budget £m	Inflation £m	Other Service Movements £m	Total Spending Pressures £m	Total Pressures £m	Investments £m	Service Savings £m	2023/24 Draft Budget £m
Health and Care	**210.561**	3.343	1.068	15.757	**20.168**	0.000	(2.545)	**228.184**
Children and Families	**147.660**	13.632	2.228	17.251	**33.111**	(0.818)	(5.978)	**173.975**
Economy, Infrastructure and Skills	**98.662**	6.491	0.982	6.410	**13.883**	0.000	(2.055)	**110.490**
Corporate Services	**32.665**	2.030	1.434	0.259	**3.723**	0.000	0.220	**36.608**
Finance	**10.641**	0.504	0.351	0.271	**1.126**	0.000	0.000	**11.767**
Service Total	***500.189***	***26.000***	***6.063***	***39.948***	***72.011***	***(0.818)***	***(10.358)***	***561.024***
Centrally Controlled Items	**23.492**	5.065	2.081	0.000	**7.146**	0.000	0.000	**30.638**
Capital Financing	**32.979**	0.000	(6.599)	0.000	**(6.599)**	0.000	0.000	**26.380**
Care Market Pressures	**0.000**	0.000	0.000	0.000	**0.000**	15.000	0.000	**15.000**
Investment Fund	**1.164**	0.000	0.457	0.000	**0.457**	0.000	0.000	**1.621**
Contingency	**10.000**	0.000	5.000	0.000	**5.000**	0.000	0.000	**15.000**
Net Revenue Budget	***567.824***	***31.065***	***7.002***	***39.948***	***78.015***	***14.182***	***(10.358)***	***649.663***

Health and Care
BUDGET SUMMARY

	2022/23 Original Budget **£m**	2022/23 Revised Budget **£m**	2023/24 Draft Budget **£m**
Public Health and Prevention	31.090	31.090	31.090
Public Health Ring Fenced Grant	(31.090)	(31.090)	(31.090)
Adult Social Care and Safeguarding	45.429	40.179	41.846
Care Commissioning	197.744	203.090	219.047
Better Care Fund	(32.708)	(32.708)	(32.709)
TOTAL	**210.465**	**210.561**	**228.184**
Centrally Controlled Items	3.691	3.697	3.787
Total Including Centrally Controlled Items	214.156	214.258	231.971

Appendix 13b

Children and Families
BUDGET SUMMARY

	2022/23 Original Budget **£m**	2022/23 Revised Budget **£m**	2023/24 Draft Budget **£m**
Children's Services	111.883	112.725	132.471
Childrens Public Health	10.151	10.151	10.151
Public Health Ring Fenced Grant	(10.151)	(10.151)	(10.151)
Education Services	28.383	27.396	33.241
Wellbeing and Partnerships	7.392	7.539	8.263
TOTAL	**147.658**	**147.660**	**173.975**
Centrally Controlled Items	(1.119)	2.611	2.723
Total Including Centrally Controlled Items	146.539	150.271	176.698

Appendix 13c

Economy, Infrastructure and Skills
BUDGET SUMMARY

	2022/23 Original Budget **£m**	2022/23 Revised Budget **£m**	2023/24 Draft Budget **£m**
Eonomic Development & Strategic Planning	2.328	2.307	3.050
Infrastructure & Highways	32.090	33.090	40.239
Transport, Connectivity & Waste	42.628	42.770	45.395
Skills	6.941	7.258	7.349
Culture, Rural & Communities	12.102	12.091	13.257
EI&S Business Support	1.146	1.146	1.200
TOTAL	**97.235**	**98.662**	**110.490**
Centrally Controlled Items	3.960	3.083	1.721
Total Including Centrally Controlled Items	101.195	101.745	112.211

Appendix 13d

Corporate Services
BUDGET SUMMARY

	2022/23 Original Budget **£m**	2022/23 Revised Budget **£m**	2023/24 Draft Budget **£m**
Assets	10.311	11.009	12.241
Business Support and Compliance	9.868	9.582	10.914
Comms & Marketing	0.758	0.758	0.838
People	3.121	2.893	3.335
Law	5.946	5.579	6.099
Corporate Services	0.472	0.448	0.532
Strategy	3.292	3.151	3.402
Traded Services	(0.755)	(0.755)	(0.753)
TOTAL	**33.013**	**32.665**	**36.608**
Centrally Controlled Items	3.489	2.687	4.045
Total Including Centrally Controlled Items	36.502	35.352	40.653

Appendix 13e

Finance
BUDGET SUMMARY

	2022/23 Original Budget **£m**	2022/23 Revised Budget **£m**	2023/24 Draft Budget **£m**
Finance	9.797	10.641	11.767
TOTAL	**9.797**	**10.641**	**11.767**
Centrally Controlled Items	0.798	0.009	0.027
Total Including Centrally Controlled Items	10.595	10.650	11.794

Appendix 14

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

	Comments and Recommendations of the Corporate O&S Committee	**Cabinet Member** Accept/ accept in part /Do not accept	**Cabinet's Response - Comments** Further detail: Current position, plans and timeline Resource implication
	Capital Programme and Assets		
R1	The Cabinet Member for Commercial Matters give consideration for a review of the assets disposal strategy to assist prioritisation of financial receipts.	Cabinet Member for Commercial Matters Accept in part	The current disposal strategy does prioritise receipts but it will be reviewed and if necessary, a revised version will be presented to the Property Sub Committee for approval.
R2	The Cabinet Members for Commercial Matters and Finance and Resources consider if selling all surplus land is the most suitable approach, could the Council hold onto some land for longer to increase its value?	Cabinet Members for Commercial Matters and Finance and Resources Accept in part	Financial considerations are a vital part of the disposal strategy and this will continue to be considered as part of any updated strategy. If updated, the strategy will be presented to the Property Sub Committee for approval.
R3	That the Cabinet Member for Finance and Resources consider closer working with the Districts and Boroughs to get information needed to gather the Section 106 monies in	Cabinet Member for Finance and Resources	This will be investigated to find the best way of taking this forward, with officers from Legal and Planning taking the lead on finding a way of improving working with the Districts and Boroughs.

	a timely manner to not incur costs in having to finance projects by other means.	Accept	
R4	That the Cabinet Members for Commercial Matters and Finance and Resources give consideration to closer partnership working with Districts and Boroughs to maximise value of property across the County.	Cabinet Members for Commercial Matters and Finance and Resources Accept	This is already underway with the Leaders' Board which is encouraging closer working across all areas.
R5	The Leader considers lobbying the government for an Urban area traffic scheme.	The Leader Accept in part	The relevant portfolio holder and senior officers would welcome a discussion with the Chairman of the MTFS working group to obtain a better understanding of the problem that is solved by having an 'urban area traffic scheme'.
	Reserves		
R6	That the Cabinet Member for Finance and Resources consider if the time is right to invest in projects due to the high level of general and earmarked reserves.	Cabinet Member for Finance and Resources Accept in part	The Cabinet Member for Finance and Resources considers current level of general reserves to be insufficient given the level of risk currently facing the County Council. The MTFS report includes an assessment of general balances showing that the County Council is currently a little short of the amount required to meet the High and Medium risks on the horizon. The review of earmarked reserves have been reviewed and an amount has been released to balance the budget in 2023/24.
R7	That the Cabinet Member Finance and Resources consider if the time is	Cabinet Member for	The Treasury Management Strategy (Appendix 9b) sets out the approach taken to reviewing loans and making

	right to review long term loans due to interest rate rises, after due consideration of risks and inflationary pressures.	Finance and Resources Accept	any repayments deemed necessary. Any potential savings identified from repayment of a loan will be reported to the Director of Finance and the Cabinet Member for Finance and Resources.
R8	That the Cabinet Member Finance and Resources develop a reporting mechanism for review of larger project delivery. The Working Group has not seen evidence of past project review or monitoring and suggest that the Council may be able to invest in more projects if the allocation of funding is tighter from monitoring and learning from the past.	Cabinet Member for Finance and Resources Accept in part	It is agreed that reviews of completed, large projects will be made available to the Corporate Overview & Scrutiny Committee as appropriate.
R9	That all members be offered training to better understand General Balances and Reserves.	Cabinet Member for Finance and Resources Accept	Training will be provided and the Director of Finance will liaise with Member Services to identify appropriate dates and times for such training to take place.
	SEND Transport		
R10	That the Cabinet Member for Education (and SEND) prioritise the SEND Transport review and consider if timelines can be moved forward. This should be a priority and addressed early in the financial year.	Cabinet Member for Education (and SEND) Accept	Where changes to policy are proposed or significant changes to custom and practice, an appropriate consultation period is required. Exploring the option to bring in changes - for those requiring transport for the first time - from September 2023.

R11	That there is a need to work with early help and SEND transformation to reduce the EHCPs which would reduce the transport required.	Cabinet Member for Education (and SEND) Accept in part	Continue to embed the SEND & Inclusion district hub model which provides opportunity for early help. Agree and implement new EHCNA pathway which seeks to provide help and support pre statutory request for an EHCP to provide the right support at the right time. The strategy for special provision should also support the reduction in EHCPs by supporting CYP to remain in education in their mainstream setting (with the right support). This in turn should reduce transport needs.
R12	That consideration be given to a review of allocating SEND transport provision on an annual basis to reduce the number of single route taxis. We questioned whether the system used by SCC for route calculation was best in class or whether a more modern system may be beneficial. Routing reviews should also be carried out on a regular and frequent basis e.g. each academic year.	Cabinet Member for Education (and SEND) Accept	Q Routes is now being used to identify most cost-efficient transport routes for those schools where contracts are being reviewed. It is intended that routes contracted will be reviewed at least annually where new children start or children leave the school.
R13	The SEND Transport supporting guidance should set out an expectation that total parent choice is unaffordable. Norfolk and Nottinghamshire seem to start with 'an educate the parent first' approach.	Cabinet Member for Education (and SEND) Accept	The review will look to identify good practice in other local authorities. EHCP annual review will also include a review of the transport offer. Revised processes are being developed during the Spring term which will include offering a personal transport budget in the first instance. Exploring the option to bring in 'pick up' locations, rather than from the home, except in exceptional circumstances.

R14	That the Cabinet Member for Education (and SEND) review guidance and training for SEND parents and carers taking into consideration best practice in Nottingham and Norfolk, to encourage parents to use travel allowance and encourage independent travel which is beneficial for a child's long-term development.	Cabinet Member for Education (and SEND) Accept	EHCP annual review will also include a review of the transport offer. Training for SEND keyworkers will include the prioritisation of Personal Travel Budgets as the offer of choice.
R15	Welcome the work being done to provide more mainstream education provision for SEND pupils, what are the SMART metrics here as to when we will see some benefits to the budget and the rate payers of Staffordshire.	Cabinet Member for Education (and SEND) Accept	Currently undertaking a review of specialist provision. Implementation is planned from September 2023 – September 2024. The implementation plan will be developed during summer 2023 which will include timeline for expected impact.
R16	That consideration be given to the feasibility of making more efficient use of Council owned vehicles in SEND Transport.	Cabinet Member for Education (and SEND) Accept	Currently in the process of recruiting capacity to enable the review of options available – going through a tender process to recruit consultants. Once a consultant is approved, work will commence with a report expected by September 2023.
	Draft MTFS report - Children in Care		
R17	We recommend work is prioritised to review of closure of Children in Care cases in a more timely fashion to	Cabinet Member for Children and Families	Work is underway to review Children in Care plans and progress them towards appropriate closure to ensure children's safety and wellbeing is given utmost priority. We are engaging in developing good practice guidance

	address the significant pressure placed on the MTFS.	Accept	and governance to ensure going forward, our thresholds for bringing children in care, and their time/journey through the care system is consistently monitored. This will also ensure that a child remains in LA care only for as long as necessary for their safety and well-being.
	Priority area discussed at Corporate O&S - post settlement		
R18	In view of the £37.8m additional government settlement announcement, which may allow for the £20m draw on reserves to no longer be needed, along with the Government scheme delay affecting £4.2m in the 'budget for market sustainability and cost of care' in Social Care, there were options to invest. A sum could be committed as investment in Highway/Capital improvements (in the same way as that proposed last year), as this would save money in the long term.	Cabinet Member for Finance and Resources and Cabinet Member for Highways and Transport Accept	Reserves will still be required to ensure a balanced MTFS, albeit at a lower level than originally estimated. The Cabinet report includes reference to an investment, amount to be determined, pending receipt of final business rates figures from District and Borough Councils. Cabinet Members will shortly be considering where any investment would be best made.