AGENDA ITEM

REPORT TO CABINET

18 FEBRUARY 2021

REPORT OF CORPORATE MANAGEMENT TEAM

CABINET DECISION

Leader of the Council – Councillor Bob Cook

MEDIUM TERM FINANCIAL PLAN UPDATE AND STRATEGY

SUMMARY

This is the final report in setting the Council's 2021/22 Budget and Council Tax and outlining the Medium Term Financial Plan (MTFP) position to 2025. The report also includes an update on the financial performance for 2020/21.

The 2020/21 financial position has been significantly affected by the Covid Pandemic and the report shows significant financial pressures which have been funded by Government.

There are a range of pressures on the Medium Term Financial Plan for 2021 onwards which are not necessarily related to the pandemic and these have been reflected in the Budget and Medium Term Financial Plan. The financial position over the medium term is extremely uncertain, and as previously outlined to Members, will be affected by a further Government Spending Review, a potential Fair Funding Review and future proposals around Business Rates Retention.

The proposals in the Report would mean that the Council would have a balanced budget in 2021/22 and place the Council in a good financial position heading into a period of financial uncertainty.

REASON FOR RECOMMENDATIONS/DECISIONS

1. The report outlines recommendations to Council to:

   - Approve the 2021/22 budget, MTFP and Capital Programme
   - Approve Council Tax
   - Agree the Pay Policy Statement, Capital Strategy, Treasury Management Strategy and Investment Strategy.
   - Approve borrowing to support investment in Town Centres

RECOMMENDATIONS

<u>COUNCIL DECISIONS</u>

1. That in accordance with the Local Government Act 2003, Members note that the Section 151 Officer confirms that the following recommendations:

   a) represent a robust budget which has been prepared in line with best practice;
   b) provide adequate working balances;
   c) that the controlled reserves and provisions are adequate for their purpose.

General Fund Budget

2. Approve a 2021/22 Council Tax requirement for Stockton-on-Tees Borough Council of £98,166,656.

3. Approve a 2021/22 Council Tax requirement for Stockton-on-Tees Borough Council inclusive of Parish Precepts (£872,636) of £99,039,292.

4. Approve the 2021/22 budget and indicative 2021/25 MTFP as outlined in paragraphs 51 – 52, the level of General Fund Balances set out in paragraphs 31 – 32 and the one-off pressures set out in paragraphs 54 – 58.

5. Approve prudential borrowing of £10m to fund the additional town centres investments in Stockton and Thornaby (£5m in each) as set out in the Report to Cabinet on 18 February 2021.

6. Approve prudential borrowing of up to £10m allow the Council to negotiate the acquisition of Billingham Town Centre and undertake any immediate repairs and remediation work as set out in the Report to Cabinet on 18 February 2021

Business Rate Relief System

7. Note that the Chancellor is expected to make announcements regarding business rates and reliefs in his March Budget.

Taxation

SBC

8. Approve the Council Tax for Stockton-on-Tees Borough Council prior to Parish, Fire and Police Precepts be increased by 3.9%, which includes the Government Levy of 2% in respect of Social Care i.e. to £1,714.98 at Band D (£1,143.32 at Band A).

Fire, Police & Parish

9. The Council note the Police precept of £15,210,571 which equates to a Council Tax of £265.73 at Band D (£177.15 at Band A).

10. The Council note the proposed Fire precept of £4,598,145 which equates to a Council Tax of £80.33 at Band D (£53.55 at Band A).

11. The Council note the Parish precepts as set out in paragraph 78 of the budget report.

Capital

12. Approve the Capital Programme attached at **Appendix A & B**.

Organisational and HR

13. Council approve the Pay Policy Statement including the new pay and grading structure at **Appendix C and C(1)**.

Members Allowances

14. Approve that Members allowances are frozen for 2021/22. This will mean that these allowances have been frozen since 2013/14.

Council Tax - Statutory Requirements

15. Members approve the statutory requirements for Council Tax as shown in **Appendix D**.

16. Cabinet recommend to Council that the current Local Council Tax Support Scheme is retained for the financial year 2021/22 (see paragraphs 81 - 83) and that the Director of Finance, Development and Business Services be given delegated authority, in consultation with the Leader, to make further adjustments should the Government issue revised publications with regards to these matters after 24 February to ensure that the intended alignment is maintained.

Capital Strategy

17. Approve the Capital Strategy as set out at **Appendix E** to the report, including the Flexible Use of Capital Receipts Policy and the MRP Strategy.

Treasury Management/Prudential Code

18. Approve the Treasury Management Strategy as set out in **Appendix F** to the report.

Investment Strategy

19. Approve the Investment Strategy as set out at **Appendix G** to the report.

CABINET DECISIONS

20. Cabinet approve and note the Officer Appointments to outside bodies and governing bodies at **Appendix C(1)**.

DETAIL

1. The MTFP report for 2021/22 to 2024/25 is attached.

2. The report also provides an update on the financial position for 2020/21, and in particular the impact of the Covid pandemic. The Council has incurred significant expenditure supporting the response to the pandemic, including:

   - Covid Community Support Team, organising community response of food parcels, prescriptions and other kinds of help to the vulnerable during lockdown

   - Leading the local public health response including the approach to testing and track and trace.

   - Providing support to care providers

   - PPE and other direct Covid-19 costs

   - Organising grant payments and financial support for businesses

3. There have also been increased costs in maintaining vital services such as waste collection and we have seen significant reductions in income.

4. The Report outlines the Council Tax proposals and Budget for 2021/22 and the indicative MTFP for the next three years.

5. It provides an update on the position from that reported to Cabinet and Council in February 2020 and in particular reflects implications arising from the Spending Round 2020 and the Local Government Finance Settlement for 2021/22.

6. The Provisional and Final Financial Settlements have provided funding allocations for 2021/22 only. This means that the position for 2022/23 onwards, outlined in the report, needs to be treated with some caution.

7. The Council has a long history of providing value for money and delivering strong financial management which has again been reinforced by the External Auditor in his report to the Audit and Governance Committee in January 2021. As part of this approach, there is a strong track record of delivering savings and efficiencies and the Council remains well prepared for the challenges ahead.

8. Section 25 of the Local Government Finance Act 2003 requires that when a local authority is agreeing its annual budget and setting its Council Tax, the Chief Finance Officer (Section 151 Officer) must report to it on the following matters:

- The robustness of the estimates made for the purposes of the Council Tax requirement calculations
- The adequacy of the proposed financial reserves

9. The Council is required to have due regard to this report when making decisions on the budget.

10. The report is attached at **Appendix H**.

COMMUNITY IMPACT IMPLICATIONS

11. As part of the process of making changes to policy or delivery of services, we consider the impact on our communities. No changes to policy or service delivery are proposed as part of this report.

CORPORATE PARENTING IMPLICATIONS

12. None

FINANCIAL IMPLICATIONS

13. To update the MTFP position for 2021/22 – 2024/25 and recommend the budget for 2021/22.

LEGAL IMPLICATIONS

14. None

RISK ASSESSMENT

15. This Medium Term Financial Plan Update Report is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

WARDS AFFECTED AND CONSULTATION WITH WARD/COUNCILLORS

16. N/A

BACKGROUND PAPERS

17. None

Name of Contact Officer: Garry Cummings
Post Title: Director of Finance, Development & Business Services
Telephone No. 01642 527011
Email Address: garry.cummings@stockton.gov.uk

MEDIUM TERM FINANCIAL PLAN

AND BUDGET

2021/22

CONTENTS

SECTION 1 – NATIONAL CHANGES

Funding Position

1. Members will recall that the Council are currently working within a one-year financial settlement from the Government. Previous reports have highlighted the significant uncertainty this brings, with no long-term settlement being in place. The financial implications of the Coronavirus Pandemic adds to this uncertainty.

   On 25 November the Government announced the Spending Review (2021/22), setting out headline funding levels for government departments, again for one year only. This outlined a headline increase in Core Spending Power (CSP) of 4.5% for local government (4.6% for Stockton). However, it should be noted the majority of this increase does not directly translate into additional government funding. Most of the increase is assumed to come from local council tax increases. The increase in spending power without the local tax increases would only be approximately 0.7%.

   The key announcements from the Spending Review were:

   a. The continuation of the £1 billion Social Care Grant for adults and children's services and the addition of a further £300m;

   b. Uprating the 2021/22 Settlement Funding Assessment in line with the small business non-domestic rating multiplier;

   c. A core council tax referendum principle of up to 2% and the ability to levy an adult social care precept of 3% on top of the core principle. It was subsequently clarified that this 3% increase could be profiled over 2021/22 and 2022/23;

   d. Committing to retain the top-slice of the Revenue Support Grant to fund New Homes Bonus in 2021/22 at £900 million;

   e. Maintaining the existing improved Better Care Fund funding at 2020/21 levels.

2. Alongside the core items above, the Spending Review announced some one-off provision to support local authorities with Covid-19 pressures in 2021/22. Nationally a sum of £3bn was allocated, broken down as follows:

   a. £1.55bn to meet additional expenditure pressures as a result of Covid-19;
   b. £670m support for council tax;
   c. £762m to compensate for 75% of irrecoverable losses of council tax and business rates revenues relating to 2020/21;
   d. Extending the existing Sales, Fees and Charges income compensation scheme for a further three months to the end of June 2021.

3. On 17 December 2020 the MHCLG announced the Provisional Local Government Finance Settlement for 2021/22. This expanded on the key aspects from the Spending Review highlighted above and presented information at a local authority level. In particular, further detail was provided on the Council Tax Support funding, the funding to compensate for irrecoverable losses of Council Tax and Business Rates and the extension to the Sales, Fees and Charges Compensation Scheme.

4. The impact of the Spending Review and Provisional Local government Finance Settlement on levels of funding have been factored into the position set out in this report.

5. The one-year spending review and financial settlement leaves significant uncertainty regarding the position from 2022 onwards. This makes financial planning across the duration of the MTFP extremely challenging. The future of the review of local government finance (Fair Funding Review and further Business Rates Retention) is also in question and adds to the future uncertainty.

Government Funding – Final Settlement

6. On 10th February 2021 the Government presented the Final Local Government Finance Settlement to Parliament. There were no changes impacting on Stockton from those published in the Provisional Settlement.

SECTION 2 - FINANCIAL POSITION TO 31 DECEMBER 2020

GENERAL FUND

7. The following table details the projected outturn position for the current financial year. Theis demonstrates the significant financial impact of the Covid pandemic with detail provided in subsequent paragraphs.

Directorate	**Annual Budget £'000**	**Projected Outturn £'000**	**Projected Variance Over / (Under) £'000**
Adults and Health	73,774	75,451	1,677
Children's Services	37,092	42,658	5,566
Community Services & Transport	35,478	37,941	2,463
Environment, Culture, Leisure & Events	9,505	11,243	1,738
Admin/Democratic Services & Xentrall	7,828	7,722	(106)
Finance, Development & Business Services	9,351	9,990	639
HR, Legal and Communications	5,027	4,794	(233)
Town Centres Team	(1,144)	(1,024)	120
Corporate Areas	10,083	9,658	(425)
Directorate Totals	**186,994**	**198,433**	**11,439**
Capital Schemes	0	1,700	1,700
Other Covid Costs	0	2,253	2,253
Government Grants Covid-19 Support – Tranches 1 to 3	0	(12,815)	(12,815)
Funding of Collection Fund Deficits	0	1,527	1,527
Excess General Fund Balances	0	(332)	(332)
Government Grants Covid-19 Support – Tranche 4	0	(3,684)	(3,684)
Government Grants – Covid-19 Income Loss Compensation	0	(1,600)	(1,600)
Revised Total	**186,994**	**185,482**	**(1,512)**

Adults and Health

8. As reported previously, this area has experienced significant changes and challenges due to the Pandemic. While placement and care package activity levels have been below normal

levels the need to support the care market, through supplier relief in the form of a temporary uplift in fees between March and November, has led to an overall increase in costs, although at a lower level than previously reported. The Service is now seeing an increase in referral activity and this is likely to result in an increased uptake in placements and packages.

Children's Services

9. Evidence from the third quarter of the financial year confirms the pressures evident and reported previously. Although the numbers of children in care have remained stable, there have been additional costs for placements associated with additional 1-1 support for some children to stabilise placements, and there has been reduced ability for therapeutic support to be delivered, as well as an increase in mental health concerns. Delivery of planned savings from initiatives such as Going Home/Coming Home has been delayed by the impact of the Pandemic. The ongoing impact of these pressures has been re-assessed and incorporated into the MTFP (see para 34 below)

Community Services and Transport

10. A number of pressures relating to waste collection and disposal have been documented in previous reports, including:
    - Increased collection costs due to increasing housing numbers
    - Increased tonnages and inflationary increases
    - Reduced fee levels from recycling

    These pressures are expected to continue throughout the remainder of 2020/21 and into the medium term. The ongoing impact has been assessed and is incorporated into the MTFP (see para 34).

11. The Catering Service has experienced a particularly volatile year with the impact of the pandemic affecting both the type and volume of services delivered and income levels.

12. Pressures on Facilities Management/Heating Ventilation and Electrical (HVE) services are projected to be offset by a higher than budgeted surplus on Highways Services. The longer term position for these services is outlined in para 34.

13. Reduced occupation of Council buildings has resulted in a reduction in the costs of Facilities Management by £150,000.

14. Income from parking charges has reduced significantly (£421,000) as a result of the Pandemic. The impact will be partly offset by funding from the Sales, Fees and Charges Income Compensation Scheme (para 30) and also the recent introduction of the Free Parking Scheme, funded by the TVCA.

Environment, Culture, Leisure and Events

15. The Libraries, Museums and Learning and Skills Services have experienced a loss of income as a result of periods of closure and reduced visitor numbers. Again this loss will be partly offset by funding from the Sales, Fees and Charges income Compensation Scheme and also by savings on staffing costs.

16. The unavoidable cancellation of major events such as SIRF, Fireworks etc will lead to financial savings in 2020/21 (£876,000).

17. The Pandemic has impacted very significantly on the business of Tees Active Ltd (TAL). Their facilities have been required to close on government advice in the March Lockdown and again in January. Opening in the intervening period has been at reduced capacity and as such

attendance numbers and income is significantly below target. As reported previously TAL have made strenuous efforts to reduce costs but despite this will not be able to operate within their normal level of subsidy/management fee. The deficit is expected to be around £2m in line with previous projections. An application for funding has been made to the DCMS National Leisure Recovery Fund and the outcome is awaited which may reduce this pressure. Even if successful the maximum funding would be around £450,000.

Administration, Democratic Services and Xentrall

18. Staff vacancies are projected to result in a saving for 2020/21.

Finance, Development and Business Services

19. Income from Planning fees has improved from the last reported position (by £341,000) as a result of an upturn in major planning applications.

20. The suspension of recovery action for part of the year and the closure of the courts system has had an adverse effect on income. This will be partly compensated by the Sales Fees and Charges Compensation Scheme and by staffing vacancies following recent restructures.

Human Resources, Legal and Governance

21. Expenditure on Marketing and Advertising, including that linked to events, is projected to underspend by £265,000. However the pressure on legal costs related to Children's social care cases remains. The additional costs associated with the significant Covid-19 communications and engagement campaign have been recorded as part of the Contain Outbreak Management Fund.

Town Centres Team

22. No significant variances.

Corporate

23. There is a saving in relation to the Councils costs of borrowing of (£559,000) due to the maximising of low interest rates. The position for future years has also been re-assessed and incorporated in to the MTFP (see para 39).

Capital Schemes

24. The position remains unchanged from that previously reported.

Other Covid Costs

25. The Council's response to the pandemic has been far reaching and included all services. Many activities have incurred additional costs and as well as those outlined above the Council has incurred significant costs of purchasing PPE and adapting Council buildings and services. We have also established the Community Support Team and supported those isolating. Despite receiving some new burdens funding for activities such as administering the Business Support Grants, there is still a pressure of £400,000.

26. The National restrictions have placed significant pressure on the retail, leisure and hospitality industry. Members will note that an update on Town Centres is included within a report on this agenda and this includes the progress around the transition plans including relocations of retailers. The impact of the restrictions and the vacant units will result in a shortfall in Shopping Centre income of £271,000 after being partly offset compensation from the Sales, Fees and Charges Compensation Scheme of £122,000.

27. Despite a hugely successful first year which exceeded expectations, the restrictions brought about by the pandemic have had a significant impact on the operation of the Hotel. Members will be aware from previous briefings that the Hotel continues to be used to support key workers, including colleagues in the NHS, however occupancy levels and income have been inevitably affected. In comparison to others within the industry, the Hotel was performing very well, however the previous report outlined that the Hotel was expected to make a loss and the impact of the latest restrictions from November has had a significant impact. The company have business interruption insurance cover and are expecting to receive a payment to cover some of the interruptions. This will not resolve the issue and there will be an impact of £250,000 on the MTFP. Members will also be aware that there was a deficit being carried forward as a result of pre-opening costs. It had been envisaged that this would be covered by surpluses, however given the impact of the pandemic this is unlikely to be delivered and so it is recommended that this be written off (£215,000).

28. Members will be aware that for much of the year we have not been actively pursuing outstanding debts given the impact on residents and businesses. Whilst we will pursue these in future, there is a risk that we may not be able to collect all income outstanding and it is therefore suggested that we earmark £1m in the likely event that we need to increase our bad debt provision when this is considered at the end of the financial year.

29. As reported previously, the economic impact of the pandemic is causing pressures on receipts of Council Tax and Business Rates. This is due to growth being below that expected and also the increase in Local Council Tax Support Clients. This will result in a deficit position on the Collection Fund in 2020/21, with the share for Stockton estimated at around £2.3m. The Council is required to budget to repay this deficit and the new regulations stipulate that this is repaid in equal instalments over three years, starting in 2021/22. The Government will part-fund this deficit but only where losses are deemed "irrecoverable". Given that this is directly related to Covid it is suggested that the residual balance, after applying the government funding, be addressed from the balance of the Covid Support Grant for 2020/21 as set out in the table below.

	Business Rates £'000	**Council Tax £'000**	**Total £'000**
Forecast Deficit 20-21 (Stockton Share) In Year	843	1,414	2,257
Expected Government Funding	(632)	(97)	(729)
Call on Covid Support Grant 20-21 0 included in table in paragraph 7	(211)	(1,317)	(1,528)
Note - Funding Of In Year 20-21 Deficit Spread Over 3 Years			
Total	**0**	**0**	**0**

30. The Council has access in 2020/21 to the Sales, Fees and Charges Income Compensation Scheme introduced by MHCLG. To date two claims have been made to the Scheme, with a third due in April 2021. It is projected that income for the three claims will amount to £1,600,000 and this has been applied to the projected position for 2020/21.

Overall Revenue Position/General Fund Balances

31. The Council aims to retain General Fund balances at a recommended level, currently £7,400,000. As reported to Cabinet previously, the position at year end 2019/20 exceeded the required amount by £332,000 after accounting for the sum of £281,000 required to offset the increased deficit on the Collection Fund for 2019/20.

32. Previous reports have highlighted the considerable financial uncertainty in the current financial year as a result of the Pandemic. In this context, in July 2020, Council approved the use of General Fund Balances of up to £4.2m to supplement government Covid funding should this be required. Subsequently a fourth tranche of Covid support funding was received (£3.864m) together with support from the Sales, Fees and Charges Income Compensation Scheme (estimated at £1.6m). Taken together with a general improvement in the projected position across a number of services this means that a drawdown from General Fund Balances is not considered likely to be required. This is demonstrated in paragraph 7 which in summary indicates that a total of £1.512m is available. Paragraph 57 identifies one-off pressures of £1.2m and if these are approved would leave of £312,000 to support the MTFP.

SECTION 3 - MEDIUM TERM FINANCIAL PLAN 2021 – 2025

Current Approved MTFP

33. The current approved position in February 2020 was as follows:

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Budget Gap (+) / Surplus (-)	517	136	(543)	(1,932)

Changes to current expenditure plans

34. There are a number of emerging issues which will need to be factored into the 2021/22 budget and considered in the MTFP going forward and these are outlined below.

Recently announced increases in the National Living Wage, will impact upon organisations – principally adult social care providers – who are contracted to carry out functions on behalf of the Council. Information was provided as part of the Spending Review about the level of the National Living Wage proposed for 2021/22. This has been factored into projections of care fee levels for 2021/22 and future years, together with the projected impact of the current review of residential care fee rates. As with future pay awards there is a level of uncertainty around the future trajectory of the National Living Wage and whether Government will maintain their manifesto commitment to increase this to the levels previously announced. This will require to be kept under review.

Adult Social Care is understandably seeing an increase in the number of new referrals it is receiving and it is anticipated that this increase in demand will continue as time progresses due to an increase in caring responsibilities, alongside a loss in social contact, an increase in Mental Health Act assessments and an increase in requests for support around mental health generally. The service has been required to operate differently during the Pandemic in a number of areas and it is currently unclear how long these changes will last for.

Children in our Care and Pressures in Children's Services – Recent reports have highlighted the considerable ongoing pressures on Children's Social Care, particularly relating to the costs of Children in Our Care, which is an issue facing the majority of Local Authorities. Although the number of children in care has stabilised in 2020, due to the difficulties in recruiting new foster carers, and the issues face by some foster carers in being able to accommodate children due to the pandemic, it has been necessary to place more children in residential care at additional cost. Additional agency staff have also been required to ensure there is sufficient capacity to respond to the additional issues associated with the increased isolation and neglect of a number of vulnerable children and young people, as well as escalating behavioural and mental health needs. As previously reported, significant work is ongoing around reducing costs of children in our care but this has been delayed due to the impact of the pandemic. The ongoing financial impact of these pressures and the savings programme has been re-assessed and incorporated into the MTFP.

Building Maintenance – Members will be aware of the strategy to improve our office accommodation which was approved in February 2020 and included in the MTFP. We do however operate a significant number of other buildings including libraries, social care facilities and children's homes. The maintenance of these buildings has been supported by a reserve over the last few years and this is nearing depletion. It is suggested that the core budget is increased to ensure that we maintain the spending levels. This will include undertaking detailed condition surveys to inform future asset plans.

Waste and Recycling pressures – A number of significant financial pressures relating to waste collection and disposal have been identified. These include:

- Increased collection costs due to increasing housing numbers
- Increased tonnages and inflationary increases
- Reduced fees from recycling

The current pandemic is certainly having an impact on the position and whilst there could be a change in the future many of these costs are anticipated to continue.

Grounds Maintenance/Street Cleansing – As part of the Council's savings programme in recent years significant savings were made in these front-line services leading to service reductions. Temporary funding was allocated two years ago to support targeted interventions to mitigate the impact, which has proved successful and funding is required to ensure this continues.

Facilities Management/HVE – These services have been impacted in recent years by the changing environment for traded services. In the case of HVE the service has also been impacted by rising demand for facilities management services, particularly reactive maintenance. The Service is undertaking a fundamental review and savings have been identified to mitigate some of the pressures, however further funding is required.

35. A report updating members on progress and options for all of our Town Centres is included on the agenda for Cabinet. This proposes:

- Additional borrowing of £10m to support investment in Thornaby and Stockton Town Centres (£5m in each) to supplement Government funding. The borrowing costs would be £386,000 per year, however given the timing of the developments and borrowing, the costs are not expected to be incurred until 2023/24.

- Borrowing of up to £10m to allow the Council to negotiate the acquisition of Billingham Town Centre and undertake any immediate repairs and remediation work. This will enable the Council to consider future regeneration and development. This will be funded by income generated from rental income and so will not be a call on the Medium Term Financial Plan.

- Should the recommendations of that Report be agreed then it is recommended that this borrowing is approved and the costs be incorporated into the MTFP.

Collection Fund Issues (Council Tax and Business Rates)

36. Council Tax – The tax base has increased by a lower amount than included in the current MTFP, largely due to the impact of increased eligibility for the Local Council Tax Support Scheme and Council Tax base growth being below expected.

Business Rates – Projections of business rates income have been updated and incorporated into the MTFP.

37. The changes to current expenditure plans can be summarised as follows:

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Minor Adjustments				
Minor Pressures & Savings	46	15	122	(74)
Pressures identified				
Adults Social Care	2,147	3,647	5,147	6,647
Children's Social Care	3,900	3,900	3,200	3,200
Planned Maintenance/Condition Surveys	400	450	450	450
Waste & Recycling	1,000	1,250	1,500	1,750
Grounds Maintenance & Street Cleansing	250	250	250	250
FM, HVE & Lighting	600	600	600	600
Town Centres Borrowing Costs	0	0	180	386
Insurance Fund	0	0	0	650
Business Rates & Council Tax	1,007	1,059	1,097	1,228
Pressures	**9,350**	**11,171**	**12,546**	**15,087**

Income and Resources

38. Given the lack of clarity around government funding at the time of the 2020/21 Budget Report, the MTFP was based on the assumption that the additional government funding allocated in 2020/21 would be retained at only 50% in 2021/22 and future years. The Spending Review and Provisional Settlement have confirmed that funding will actually be retained at 100% of the 2020/21 level in most cases.

Social Care Grant (Adults and Children's) – The continuation of the 2020/21 grant into 2021/22 has been confirmed, together with announcement of a new grant of £300m nationally for 2021/22 (£898,000 for Stockton).

Revenue Support Grant (RSG) – Levels have been maintained at 2021/22 levels.

New Homes Bonus – The future of this significant funding stream has been under review for some time and it is anticipated that this source of income will cease altogether with effect from 2023/24. Government have indicated that this will be recycled back to local government but no further details are available. In 2021/22 an additional grant (Lower Tier Grant) was funded from New Homes Bonus and we are assuming that funding continues in the future.

Increases in the Better Care Fund and allocations of Winter Pressures funding have been maintained at 2020/21 levels and uplifted for inflation.

Public Health Grant – The additional inflationary uplift will be added to the resources available to Adults and Public Health in 2021/22 and are largely committed.

39. In addition to Government funding, the following changes can be made:

Treasury Management (AMRA) – The Council's income from investments and costs of borrowing have been reassessed and the impact applied to the MTFP.

Funding was identified in the current MTFP for the projected cost implications of a review of the Local Council Tax Support Scheme (LCTS). A scrutiny review was undertaken and made recommendations to Cabinet that this review be deferred due to the impact of Covid. This will now be considered in the lead up to the 2022/23 budget and the resources of £1m identified for 2021/22 will not therefore be required. It was however recommended that a sum of £200,000 be retained to be used to provide additional support to those in most need and this will be added to the Council's hardship funds.

40. Government funding allocations 2022/23 onwards – As highlighted above, there is considerable uncertainty regarding government funding from 2022/23. For the purposes of this report a working hypothesis is put forward that the additional funding to be received in the one-year settlement for 2021/22 continues into 2022/23 and beyond (with the exception of the new Lower Tier Grant where an estimate has been made). This assumption is made based on the fact that income has stayed at this level for a number of years and so we would expect that this is the base level of funding considered as part of any spending review.

	2021/22 £'000	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**
Savings Identified				
Treasury Management (AMRA) - Lower Interest Payments	(592)	(352)	(353)	(353)
Council Tax Support Scheme Review Delayed to 22-23	(800)			
Government Funding Assumptions				
Revenue Support Grant	(1,206)	(2,009)	(2,828)	(3,846)
New Homes Bonus	677	1,504	2,649	2,649
Lower Tier Services Grant / New Homes Bonus replacement	(272)	(1,000)	(2,000)	(2,000)
Improved Better Care Fund	(1,019)	(1,019)	(1,019)	(1,019)
Social Care Grant 20-21	(2,434)	(2,434)	(2,434)	(2,434)
Social Care Grant 21-22	(898)	(898)	(898)	(898)
Public Health Grant Additional Allocation	(783)	(783)	(783)	(783)
Total	**(7,327)**	**(6,991)**	**(7,666)**	**(8,684)**

Summary Position

41. A summary of the resulting position is outlined below:

	2021/22 £'000	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**
Approved Budget Position	517	136	(543)	(1,932)
Expenditure Pressures	9,350	11,171	12,546	15,087
Additional Income and Resources	(7,327)	(6,991)	(7,666)	(8,684)
Budget Gap (+) / Surplus (-)	**2,540**	**4,316**	**4,337**	**4,471**

42. The above table summarises the overall position and highlights the pressures in future years which shows a pressure of £2.5m in 2021/22 rising to £4.5m.

2021/22 COUNCIL TAX AND SOCIAL CARE PRECEPT

Core Council Tax

43. Members will be aware in previous years, the decisions taken around Council Tax increases considered the long-term impact of decisions and reflected the commitment to a planned and managed approach of the Council's financial position.

44. As highlighted at paragraph 1, the Government have announced that the Council Tax Referendum Threshold will be 2% for 2021/22 and has assumed this level of increase in their spending power calculation. The MTFP above assumes a 1.9% increase in each year.

45. Given the financial pressures facing the Council over the medium term it is recommended that the Council confirm the increase the core Council Tax by 1.9% for 2021/22. The impact of the increase of 1.9% in 2021/22 would be £0.40 per week (Band A) and £0.60 per week (Band D).

Levy for Social Care

46. Members will be aware that in the period 2016/17 to 2018/19 and in 2020/21 the Council reluctantly implemented the Governments Adult Social Care Levy to fund the growing demands and pressures in Social Care. As set out in paragraph 1 above, the Government have announced that local authorities should again levy a precept of up to 3% to support Social Care and have factored take up of this increase in their Core Spending Power assumptions. This can be applied as a one-off increase or be spread over 2 years.

47. Given that the Government have not indicated any long term solution to the pressures faced over the medium and long term and given the overall financial position across the Medium Term Financial Plan it is recommended that the Council adopt the Government levy. In recognition of the impact on residents it is recommended that this applied across two years at 2% in 2021/22 and 1% in 2022/23 (the position for 2022/23 will be approved as part of the 2022/23 Budget). The total increase of 3.9% in 2021/22 will be £0.82 per week (Band A) and £1.24 (Band D).

48. This will generate £1.9m per year to support the Medium Term Financial Plan.

Support for Council Taxpayers on low incomes

49. Members will be aware that in the financial year 2020/21 the Government supported residents through temporary changes to the scheme to provide support to clients in receipt of Local Council Tax Support. This was in respect of a one off payment of £150 per working age household. Additional funding of £2.79m has been provided for 2021/22 only, however it is a discretionary fund and it can be used to either support pressures associated with Council Tax collection or to replicate a scheme similar to 2020/21.

50. If we were to replicate this scheme, it would mean that £150 would be allocated to each eligible household and would mean approximately 12,000 working age taxpayers on low incomes would be provided support. This would cost approximately £1.8m and leave £949,000 which would be available to support the shortfall in paragraph 41 in 2021/22 or future years. It is therefore recommended that £150 is allocated to each eligible household in receipt of Local Council Tax Support in 2021/22.

Summary Medium Term Financial Plan

51. The Medium Term Financial Plan can be summarised as follows and this takes into account the Council Tax proposal and assumptions above, the use of the balance of the Council Tax Support funding and the surplus balances available (as explained in para 32 above).

	2021/22 £'000	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**
Budget Gap (+) / Surplus (-) Before Social Care Precept	2,540	4,316	4,337	4,471
CT Social Care Precept 2% 21/22 & 1% 22/23	(1,890)	(2,941)	(3,033)	(3,129)
Surplus General Fund Balances	(312)	0	0	0
21-22 Council Tax Support Grant	(338)	(611)	0	0
Budget Gap (+) / Surplus (-) After Social Care Precept	0	764	1,304	1,342

52. The updated Medium Term Financial Plan can be re-presented in the format below assuming an increase in Core Council Tax of 1.9% and Adult Social Care Precept of 2%.

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Income				
Revenue Support Grant	(5,105)	(5,105)	(5,105)	(5,105)
Business Rates (incl any Deficit/Surplus & s31 grants)	(46,697)	(47,845)	(48,784)	(50,007)
New Homes Bonus	(2,075)	(1,145)	0	0
Lower Tier Services Grant	(272)	(1,000)	(2,000)	(2,000)
Better Care Fund (incl Pooled Budget)	(17,280)	(17,280)	(17,280)	(17,280)
Adult & Children's Social Care Grant	(5,766)	(5,766)	(5,766)	(5,766)
Public Health Grant	(14,327)	(14,327)	(14,327)	(14,327)
Council Tax (incl any Deficit/Surplus)	(97,406)	(100,728)	(103,931)	(107,692)
Council Tax Support Grant	(2,138)	(611)	0	0
Previous Approvals to Support MTFP	(2,555)	(752)	(752)	0
Carry forward 20-21 underspend	(312)	0	0	0
Total Income	**(193,933)**	**(194,559)**	**(197,945)**	**(202,177)**
Expenditure				
Adults & Health	76,247	78,080	79,920	81,766
Children's Services	40,394	39,873	39,202	39,202
Community Services & Transport	37,297	37,597	37,847	38,097
Environment, Culture, Leisure & Events	9,302	9,185	9,272	9,177
Town Centre Development	(1,267)	(1,284)	(1,296)	(1,311)
Admin, Democratic Services & Xentrall	8,400	8,494	8,733	8,513
Finance, Development & Business Services	9,955	10,134	10,250	10,900
HR, Legal & Communications	5,189	5,189	5,189	5,189
Corporate Areas incl Pay Award Provision	6,616	8,055	10,132	11,986
Council Tax Support	1,800	0	0	0
Total Expenditure	**193,933**	**195,323**	**199,249**	**203,519**
Revised Budget Position	**0**	**764**	**1,304**	**1,342**

53. This demonstrates that the Council would have a balanced budget for 2021/22 and then a gap of around £0.7m rising to £1.3m. The position will be reassessed once there is clarity of future funding for local government but this would mean that the Council is in a good financial position heading into a period of financial uncertainty. Should members decide not to implement the Levy, then the Council would need to commence a savings programme to resolve the pressures across the Medium term Financial Plan, not least the increase in Adult Social Care costs.

One-Off Costs

54. Members will be aware of the Joint Venture with Spark of Genius which was established in 2013 to deliver services for Children in Care. The arrangement has delivered savings of over £800,000 and has resulted in bringing children back to the Borough. The school is extremely successful and the homes are rated Good or Outstanding by Ofsted. With three houses and the School the initial financial targets have been met. We have some funding remaining and to support the ongoing challenges around children's services work is underway to explore

opportunities for further developments. This is anticipated to require additional funding of approximately £300,000.

55. There are significant outstanding maintenance costs associated with Leisure facilities and it is recommended that £500,000 is earmarked to support this investment.

56. There have been long running maintenance problems with the public toilets at Preston Park. In addition the small bungalow adjacent to the main Park entrance, built in the 1930's, is in extremely poor condition and requires demolition. The cost associated with improvements to the toilets, demolition of the bungalow and sympathetic landscaping of the site is estimated to be £150,000.

57. Members will be aware of the Council's commitment to the significant challenge associated with climate change and officers are exploring opportunities for intervention and funding opportunities. It is likely that any such funding will require match funding and it is recommended that we earmark £250,000 to support this agenda.

Summary

	£
Joint Venture	300,000
Leisure facilities	500,000
Preston Park	150,000
Climate Change	250,000
	1,200,000

58. Paragraph 32 outlined that there were £1.512m available in revenue balances which could fund the above and release £312,000 to support the MTFP.

SPECIFIC COVID FUNDING

59. In addition to the pressures on the Medium Term Financial Plan, the Council have incurred additional costs funded from specific funding allocations. The table below summarises Covid related funding received in 2020/21.

Scheme	**2020/21 Allocation £'000**
Re-Opening High Streets Safely	(175)
Covid Compliance & Enforcement	(110)
Contain Outbreak Mgmt Fund (Inc Test & Trace)	(3,679)
Community Testing Programme – Initial funding allocation	(699)
Hardship Fund	(2,440)
Winter Grant Scheme	(679)
Clinically Extremely Vulnerable People (Shielding)	(132)
Emergency Assistance Grant	(239)
Emergency Active Travel Fund	(96)
Well Being For Education Return	(28)
Social Care Workforce Capacity Fund	(423)
Home to School Transport	(154)
Total	(8,854)

60. Given that the funding streams identified in the table above are specifically for use in addressing one-off Covid pressures, where any of these funding streams remain unspent the balance will be carried forward and earmarked for Covid related pressures in 2021/22.

61. It should also be recognised that there is still significant uncertainty around the financial impact of Covid-19 and associated recovery in 2021/2. As highlighted earlier, the Provisional Local Government Finance Settlement has identified one-off funding of £5.623m for Covid-19 support in 2021/22. Whilst details are yet be determined, it is likely that there will be additional costs and it is therefore recommended that this funding is earmarked for this purpose and further details will be provided in future reports.

62. The Sales, Fees and Charges Income Compensation Scheme will also continue for first three months of 2021/22 and this will also mitigate impact of Covid next year.

SECTION 4 - CURRENT CAPITAL PROGRAMME

63. The current Capital Programme is set out at **Appendix A** and summarised in the table below:

Capital Programme December 2020

CAPITAL PROGRAMME Up to 2023	Current Approved Programme £'000	Programme Revisions £'000	Revised Programme £'000
Schools Capital	37,055	0	37,055
Housing, Regeneration & Town Centres Schemes	72,760	0	72,760
Transportation	11,560	285	11,845
Other Schemes	20,891	850	21,741
Total Approved Capital MTFP	**142,266**	**1,135**	**143,401**

Reasons for Movements over £100,000

New Schemes

There are currently insufficient secondary Autism Spectrum Disorder places across the Borough. This is resulting in high cost placements in independent special schools and other out of Borough provision. Abbey Hill Academy Special School caters for children and young people aged 11 to 19 with learning difficulties and disabilities including provision for ASD. Horizons Trust have been awarded a CIF bid to address condition issues within an existing building on the school site. There is an opportunity to work with the Trust to contribute to this project and enable the remodelling and refurbishment of vacant space to create additional teaching space for up to 32 ASD places. It is recommended the Council contribute £326,000 to the scheme funded by the balance of basic need funding earmarked for future projects and the funding agreement between the council and the trust is delegated to the Director of Finance, Development and Business Services.

£360,000 to provide a cycleway provision at Acklam Road, Thornaby, funded by £242,000 from TVCA and by £118,000 from LTP has been added to the capital programme.

£475,000 has been added to the Capital Programme (£175,000 2020/21, £300,000 2021/22) fully funded via RCCO to provide financial assistance to Children's Carers for extensions/ adaptations to their homes to meet the needs of children and young people to live in a family environment.

Additional Funding

Following an announcement from MHCLG on 3rd December a further £214,000 in respect of 2020/21 DFG funding has been added to the Capital programme.

As per the Cabinet report on Town Centres on 18th February 2021 an additional £20,000,000 has been added to the capital programme to support investment in Billingham, Stockton and Thornaby Town Centres.

SECTION 5 - BUSINESS RATE RELIEF SCHEME

64. It is anticipated that the Chancellor will make announcements relating to business rates and reliefs in his March Budget Statement.

SECTION 6 – PAY POLICY AND MEMBERS ALLOWANCES

Pay Policy

65. The 2020 national pay award was a one year agreement and it is expected that the 2021 pay award will also be a one year agreement however, this has not yet been agreed. The 2020 pay rates have therefore been used for the purposes of the Pay Policy Statement.

The grading structure begins at scp 3 Grade C, which currently is £9.62 per hour (pay award pending from 1 April 2021). This is well above the current National Living Wage which will be £8.91 per hour from 1 April 2021 and still above the Foundation (“Real”) Living Wage which was increased to £9.50 per hour on 9 November 2020.

The Council is therefore still achieving its stated objective of paying the Foundation Living Wage for Council employees and is in keeping with the Council’s commitment to The Great Jobs Agenda.

The Council’s Pay Policy Statement is attached at **Appendix C**.

The Council’s median hourly rate and pay multiple, both calculated as at 31 December 2020 are as follows:

- Median Hourly rate is £12.45 (£11.64 at 31 December 2019); and
- Pay multiple is 6.40 (6.65 at 31 December 2019).

Both the median hourly rate and pay multiple have positively changed predominantly due to the second year of the two year pay deal in April 2020 and also the change from Chief Executive to Managing Director in May 2019. The pay multiple is well under the Council’s target of 10.

Apprentices

66. In 2019 the Council supported an ambitious Apprentice recruitment programme resulting in a cohort of 40 new apprentices joining the Council in a variety of job roles across the Council’s Directorates. The majority of these Apprentices are continuing to work within the Council, and some have been appointed to permanent positions. It was intended to similarly run a further programme in 2020 to continue to support succession planning, skill gaps and vacancies within hard to recruit job roles. Due to the COVID pandemic this was not possible however, we have continued to appoint Apprentices on an ad hoc basis and hope to be in a position to consider a further programme later in 2021.

The Council continues to pay its apprentices at least the national minimum wage for age being currently at £4.55 per hour for 16 and 17 year olds rising to £8.72 per hour for those aged 25 or over rather than the national apprentice rate of £4.15 per hour. For apprentices undertaking a Level 4 apprenticeship or above the Council currently pays a minimum of Grade C being £9.62 per hour.

Headcount and FTE

67. Headcount and FTE as at 31 December 2020 remains relatively stable:

	31 December 2020	31 December 2019	31 December 2018
Headcount	3,218	3,226	3195
FTE	2,551.4	2,531	2498

68. The reductions in headcount that have been needed to meet the MTFP challenge have been significant in recent years. Overall, there has been a reduction in the headcount of the workforce over the last 10 years from 4,260 at 31 March 2011 to 3,218 as at 31 December 2020. Total FTE has reduced by 590.6 (18.8%) from 3,142 at 31 March 2011 to 2,551.4 at 31 December 2020.

69. The Council will continue to manage any service changes, including minimising redundancies, sensitively, proactively and in accordance with our policies.

70. We continue to maintain strong relationships with the Trade Unions, including regular update meetings being held with the Trade Unions and the Managing Director and Director of Human Resources, Legal & Communications. We will continue to provide opportunities for employees to put forward ideas and suggestions for service changes and improvements and that employees are supported through change.

Officer Appointments to Outside Bodies and Governing Bodies

71. All officer appointments to any Body, including a Governing Body, as a Local Authority representative need to be approved by Cabinet where that Body is concerned with functions which are a Cabinet responsibility, for example education, social care, regeneration.

72. Attached at **Appendix C(1)** is a list of appointments that have been made to external bodies where officers are acting in a Local Authority capacity. It is intended that this list is kept updated and reported to Cabinet annually as part of the MTFP reporting process.

73. It should be noted that the Council's insurance and indemnity arrangements will apply to these appointments as the officer is acting on behalf of the Local Authority. In addition, the external Body may have indemnity arrangements in place for its Directors, Trustees or Governors.

Members Allowances

74. Members will be aware that allowances have been frozen since 2013/14 and it is proposed that this continues for 2020/21 to support the Council's difficult financial position.

SECTION 7 – PRECEPT LEVELS

Stockton Precept

75. Stockton's current tax level for 2020/21 at Band A (the biggest percentage of its properties) is £1,100.41 (£21.10 per week).

	Band A £	Band D £
2020/21	1,100.41	1,650.61
2021/22	1,143.32	1,714.98

Police Precept

76. The Police & Crime Commissioner has indicated a Council Tax Increase of £5.19 per year at Band D, equivalent to 1.99%.

	Band A £	Band D £
2020/21	173.69	260.54
2021/22	177.15	265.73

Fire Authority

77. A report to the Fire Authority on 12th February 2021 outlines a proposed Council Tax increase of 1.9%.

	Band A £	Band D £
2020/21	52.55	78.83
2021/22	53.55	80.33

Parishes

78. Details of the Parish precepts are given below:

Parish	2020/21 Precept £	2021/22 Precept £	Precept Increase/ Decrease £	Precept Increase/ Decrease %	Band D Increase/ Decrease %	LCTS Grant Both Years £	2021/22 TOTAL £
Aislaby & Newsham	0	0	0	0.00%	0.00%	0	0
Carlton	7,000	8,000	1,000	14.29%	13.17%	22	8,022
Castlelevington / Kirklevington	18,000	20,000	2,000	11.11%	2.34%	348	20,348
Egglescliffe & Eaglescliffe	55,925	38,979	(16,946)	-30.30%	-29.71%	5,446	44,425
Elton	0	0	0	0.00%	0.00%	0	0
Wynyard	40,000	20,000	(20,000)	-50.00%	-53.02%	0	20,000
Grindon & Thorpe Thewles	9,518	9,518	0	0.00%	-6.76%	0	9,518
Hilton	2,421	2,621	200	8.26%	7.76%	129	2,750
Ingleby Barwick	180,300	180,300	0	0.00%	-0.09%	3,445	183,745
Long Newton	11,764	13,764	2,000	17.00%	17.53%	236	14,000
Maltby	3,504	3,504	0	0.00%	-12.02%	138	3,642
Preston	5,279	5,279	0	0.00%	1.04%	471	5,750
Redmarshall	4,100	4,100	0	0.00%	1.40%	118	4,218
Stillington & Whitton	9,157	9,157	0	0.00%	-3.37%	1,243	10,400
Thornaby	160,861	160,861	0	0.00%	-0.73%	36,050	196,911
Wolviston	12,754	13,148	394	3.09%	2.81%	533	13,681
Yarm	117,859	117,859	0	0.00%	0.03%	6,141	124,000
Billingham	267,466	265,546	(1,920)	-0.72%	0.00%	23,509	289,055
Total	**905,908**	**872,636**	**(33,272)**	**-3.67%**	**-3.91%**	**77,829**	**950,465**

Overall Tax Position

79. Stockton Borough Council is required to collect tax on behalf of 4 independent organisations:

The Council
Police
Fire
Parishes

The position assuming Stockton Borough Council sets its Council Tax requirement at £98,166,656 is given below:

Tax 2021/22			
	Current 2020/21 (Band A) £	Proposed 2021/22 (Band A) £	Increase %
Police	173.69	177.15	1.99
Fire	52.55	53.55	1.90
Stockton BC	1,100.41	1,143.32	3.90

Formal Tax Recommendations

80. The Council must approve precept/tax in line with statutory guidelines. These are contained at **Appendix D**.

Local Council Tax Support Scheme

81. The Local Council Tax Support (LCTS) scheme was introduced in 2013/14 and a scrutiny review of the scheme commenced in 2019/2020 by the People Select Committee. The People Select Committee concluded that whilst there is a need to review the current LCTS scheme, there are many variables which affect the forecasting of costs and Coronavirus has introduced an extra layer of complexity. Further time therefore is needed to understand the impact on customers, their ability to pay a minimum contribution, the rise in caseload and any wider welfare reforms that may come through as part of the government's response to Coronavirus.

82. The Council must set its scheme annually by 11 March of the preceding financial year. Cabinet therefore recommend to Council that the current Local Council Tax Support Scheme is retained for the financial year 2021/22 updated in line with the prescribed legislative amendments and all relevant DWP benefit uprating figures effective from April 2021.

83. That the Director of Finance, Development and Business Services be given delegated authority, in consultation with the Leader, to make further adjustments should the government issue revised publications with regards to these matters after 24 February to ensure that the intended alignment is maintained.

SECTION 8 – CAPITAL STRATEGY

84. The Capital Strategy required to be approved under the relevant code, including the Flexible Use of Capital Receipts Policy and the MRP Policy, is attached at **Appendix E**.

SECTION 9 - TREASURY MANAGEMENT STRATEGY

85. The Council's Treasury Management Strategy required to be approved is shown at **Appendix F**.

SECTION 10 – INVESTMENT STRATEGY

86. The Investment Strategy required to be approved by statutory guidance is attached at **Appendix G**

Appendix A

Capital Programme – December 2020

CAPITAL PROGRAMME Up to 2023	Current Approved Programme	Programme Revisions	Revised Programme	Expenditure on Capital programme to 31 Dec 2020
SCHOOL CAPITAL				
School Investment Programme	37,054,599	0	37,054,599	6,910,494
SCHOOLS CAPITAL	**37,054,599**	**0**	**37,054,599**	**6,910,494**
HOUSING REGENERATION & TOWN CENTRES SCHEMES				
Housing Regeneration	1,850,769	0	1,850,769	21,489
Stockton Town Centre Schemes	29,349,447	0	29,349,447	23,004,611
Reshaping Town Centres	7,662,960	0	7,662,960	0
Towns Fund	750,000	0	750,000	0
Growth Fund	10,000,000	0	10,000,000	26,307
Stockton Town Centre Redevelopment	20,000,000	0	20,000,000	0
Infrastructure Enhancements, Regeneration & Property Acquisitions	3,146,919	0	3,146,919	1,019,748
HOUSING, REGENERATION & TOWN CENTRES SCHEMES	**72,760,095**	**0**	**72,760,095**	**24,072,155**
TRANSPORTATION				
Local Transport Plans	6,744,251	(140,083)	6,604,168	3,174,942
Other Transport Schemes	3,645,229	425,500	4,070,729	791,494
Developer Agreements	1,170,298	0	1,170,298	545,799
TRANSPORTATION	**11,559,778**	**285,417**	**11,845,195**	**4,512,235**
OTHER SCHEMES				
Private Sector Housing	1,989,321	236,273	2,225,594	1,145,166
Building Management & Asset Review	1,107,510	55,000	1,162,510	282,658
Parks, Museums & Cemeteries	351,936	0	351,936	193,867
Energy Efficiency Schemes	340,000	83,319	423,319	13,394
Leisure Facility Ingleby Barwick	13,800,000	0	13,800,000	13,786,282
Other Schemes	3,302,122	475,000	3,777,122	588,917
OTHER SCHEMES	**20,890,889**	**849,592**	**21,740,481**	**16,010,284**
Total Approved Capital MTFP	**142,265,361**	**1,135,009**	**143,400,370**	**51,505,168**

Capital Programme **Appendix B**

CAPITAL PROGRAMME	Approved Programme	New Approvals (Part of Report)	Total
SCHOOL CAPITAL			
School Investment Programme			
Planned Maintenance	2,946,979	0	2,946,979
SEN Investment	0		
Ash Trees Academy	550,000	0	550,000
Myton Park Primary School	653,000	0	653,000
Egglescliffe School	109,000	0	109,000
Tees Valley Free Special School	61,500	0	61,500
Loose Furniture	67,853	0	67,853
	1,441,353	0	1,441,353
Early Years			
Redhill Childrens Centre	207,000	0	207,000
Early Years Capital Grant	406,366	0	406,366
	613,366	0	613,366
Secondary Expansion Programme			
All Saints Academy - Expansion	3,194,000	0	3,194,000
Northfield School - Expansion	57,162	0	57,162
Our Lady & St Bedes School Expansion	5,603,499	0	5,603,499
Egglescliffe School - Partial Rebuild	9,379,275	0	9,379,275
Outwood Academy Expansion - Bishopsgarth Toilet Remodelling	99,617		99,617
	18,333,553	0	18,333,553
Healthy Pupils Capital Fund	127,165	0	127,165
Abbey Hill Expansion	0	326,000	326,000
Retained Future Investment Fund	13,592,183	(326,000)	13,266,183
	13,719,348	0	13,719,348
	37,054,599	**0**	**37,054,599**
HOUSING REGENERATION & TOWN CENTRES SCHEMES			
Housing Regeneration			
Victoria Estate Regeneration	940,769	0	940,769
Affordable Housing	910,000	0	910,000
	1,850,769	0	1,850,769
Stockton Town Centre			
Stockton Town Centre - Infrastructure Projects	237,825	0	237,825
Townscape Heritage	2,544,934	0	2,544,934
Globe Theatre Refurbishment	26,566,688	0	26,566,688
	29,349,447	0	29,349,447
Reshaping Town Centres			
Town Centre Developments	7,662,960	0	7,662,960
Stockton Town Centre	0	5,000,000	5,000,000
Thornaby Town Centre	0	5,000,000	5,000,000
Billingham Town Centre	0	10,000,000	10,000,000
	7,662,960	20,000,000	27,662,960

Towns Fund			
Thornaby	750,000	0	750,000
	750,000	0	750,000
Growth Fund			
Feasibility	223,693	0	223,693
Indigenous Growth Fund	9,776,307	0	9,776,307
	10,000,000	0	10,000,000
Stockton Town Centre Redevelopment			
Demolition	15,000,000	0	15,000,000
Relocation	5,000,000	0	5,000,000
	20,000,000	0	20,000,000
Other Regeneration Schemes			
Infrastructure Enhancements & Property Acquisition	646,919	0	646,919
Glam Post Office Demolition	2,500,000	0	2,500,000
	3,146,919	0	3,146,919
	72,760,095	**20,000,000**	**92,760,095**
TRANSPORTATION			
LTP - Integrated Transport	1,373,222	0	1,373,222
LTP Structural Maintenance			
Structural Maintenance	1,821,772	0	1,821,772
Mandale Bridge	955,468	0	955,468
Carriageway Re-surfacing	2,453,706	0	2,453,706
	5,230,946	0	5,230,946
LTP Programme	**6,604,168**	**0**	**6,604,168**
Other transport schemes			
Preston Park Additional Car Parking	158,195	0	158,195
TVCA A689 Wynyard Feasibility	259,384	0	259,384
TVCA Fuji Film	1,000,000	0	1,000,000
Developer Agreements	1,170,298	0	1,170,298
A66 Yarm Road Cycleway	140,000	0	140,000
Acklam Cycleway	353,000	0	353,000
Event Security	100,000	0	100,000
Sandgate Shops	50,000	0	50,000
Eaglescliffe Station Western Access	722,938	0	722,938
Elton Interchange	387,212	0	387,212
Portrack Relief Road	900,000	0	900,000
	5,241,027	0	5,241,027
	11,845,195	**0**	**11,845,195**
OTHER SCHEMES			
Private Sector Housing			
Disabled Adaptations	1,923,953	0	1,923,953
Regional Loan Scheme	301,641	0	301,641
	2,225,594	**0**	**2,225,594**
Building Management & Asset Review			
Building Maintenance Programme	862,510	0	862,510
Stockton Town Hall Renovation	200,000	0	200,000
Travellers Site Maintenance	100,000	0	100,000
	1,162,510	**0**	**1,162,510**

Parks, Museums & Cemeteries			
Parks Improvement Programme	227,737	0	227,737
Cemeteries	124,199	0	124,199
	351,936	**0**	**351,936**
Energy Efficiency Schemes			
District Heating Schemes	340,000	0	340,000
Cowpen Depot - Installation of Electric Charging Points	83,319	0	83,319
	423,319	**0**	**423,319**
Other Schemes			
Independent Living LD Bid	202,000	0	202,000
Joint Venture Investments	492,580	0	492,580
Children's Carer adaptation/ extension	475,000	0	475,000
Vehicle Replacement Fund	2,367,542	0	2,367,542
Leisure Facility Ingleby Barwick	13,800,000	0	13,800,000
22 Sandown Road - Refurbishment Works	240,000	0	240,000
	17,577,122	**0**	**17,577,122**
Total Approved Capital MTFP	**143,400,370**	**20,000,000**	**163,400,370**

CAPITAL PROGRAMME	**Approved Programme**	**New Approvals (Part of Report)**	**TOTAL**
Government Support	86,152,400	0	86,152,400
Earmarked Resources / Receipts	8,454,315	0	8,454,315
Earmarked Housing Regeneration Receipts	175,913	0	175,913
Prudential Borrowing	34,752,080	20,000,000	54,752,080
Other Contributions	2,728,597	0	2,728,597
Corporate One-Off Resources	11,137,065	0	11,137,065
Total Approved Funding Capital MTFP	**143,400,370**	**20,000,000**	**163,400,370**

Appendix C

Stockton on Tees
Borough Council

Pay Policy Statement
2021/22

CONTENTS

1. INTRODUCTION

1.1 This document sets out the Council's Pay Policy in relation to the remuneration of its employees (excluding local authority school employees) in accordance with section 38 of the Localism Act 2011. The policy is subject to annual review which must be approved by Full Council before 31 March each year. Any amendments during the course of the year must also be considered and approved by Full Council. The policy will be published on the Council's website as soon as reasonably practicable after approval or amendment.

1.2 The Localism Act 2011 does not require the Council to consider individual schools therefore the arrangements set out in this document do not extend to members of staff employed by schools.

1.3 The Council is committed to ensuring fairness, transparency and equality of pay in the remuneration of its employees and will comply with all relevant employment legislation. The Council aims to deliver high quality services to residents of the Borough and in this regard aims to be an employer of choice recruiting and retaining high quality employees who are valued by their employer.

2. DEFINITIONS

2.1 The following definitions will apply throughout this policy statement.

2.2 All of the posts below are collectively referred to as **Chief Officer** and are defined within the Localism Act.

Statutory Chief Officers – which in this authority are:

Head of Paid Service - Managing Director.

Monitoring Officer – Director of HR, Legal & Communications.

Section 151 Officer – Director of Finance, Development & Business Services.

Statutory Director of Adult Social Service - Director of Adults & Health.

Statutory Director of Children's Services - Director of Children's Services.

Director of Public Health – Director of Public Health

Statutory Officers – which in this authority are:

Council's Senior Information Risk Officer - Director of Finance, Development & Business Services

Data Protection Officer – DPO and Information Governance Lead

Non Statutory Chief Officer and Deputy Chief Officers - which in this authority are:

All other Directors and Assistant Directors and as defined in section 2(7) of the Local Government Act 1989.

3. NATIONAL AND OTHER CONDITIONS OF SERVICE

3.1 The appropriate National Conditions of Service are detailed in the table below and are automatically incorporated into employee's contracts of employment.

Negotiating Body	Employees

Joint Negotiating Committee (JNC) for Local Authority Chief Executives	Managing Director
Joint Negotiating Committee (JNC) for Chief Officers of Local Authorities	Directors Assistant Directors
The Soulbury Committee	Educational Improvement Professionals Educational Psychologists Virtual School Head Teacher
Conditions of Service for School Teachers in England and Wales	Centrally employed Teachers
National joint Council (NJC) for Local Government Services	All other employees

3.2 For legal and other reasons, some employees are employed on other conditions of service, for example as a result of TUPE transfers into the Council and apprentices.

3.3 The Council's Single Status Agreement which was introduced in 2008 is automatically incorporated into the employment contract of NJC employees, Chief Officers and Soulbury employees as applicable.

3.4 The allowances within the Single Status Agreement are updated by either the national pay award or the retail price index. Details are included in the Agreement.

4. PAY STRUCTURE

4.1 The Council has established pay and grading structures, using the national pay spine and National Joint Council Job Evaluation scheme for jobs graded up to O and Local Government Association Senior Management Job Evaluation Scheme for jobs graded P and above, which ensures a fair and transparent approach to pay.

4.2 Nationally negotiated pay awards are automatically applied to employee rates of pay under the applicable national conditions of service.

5. CHIEF OFFICERS

Remuneration of Chief Officers

5.1 Under the definitions set out above the Chief officers are as follows:

Job Title	**Grade**
Managing Director	MD
All Directors	Director Level 1
Director of Public Health	Assistant Director Level 1
Assistant Director (Xentrall Shared Services)	Assistant Director Level 1
Assistant Director (Adult Social Care)	Assistant Director Level 2
Assistant Director (Safeguarding & LAC)	Assistant Director Level 2
Assistant Director - Children's Help & Support	Assistant Director Level 2
Assistant Director (Systems, Information & Improvement)	Assistant Director Level 2
Assistant Director (Administration, Democratic & Electoral Services)	Assistant Director Level 2

5.2 As the 2021 pay award has not been agreed, the salaries relating to the above grades from 1 April 2020 are:

Grade	**Salary**
Managing Director	£153,611
Director – Level 1	£122,680
Director – Level 2	£111,231
Director – Level 3	£100,326
Assistant Director – Level 1	£95,419
Assistant Director – Level 2	£89,966
Assistant Director – Level 3	£82,333

5.3 Chief Officers do not receive bonus payments or performance related pay, as it is assumed that they will perform to the highest level, nor do they receive any benefits in kind paid for by the employer.

5.4 Increases in pay for Chief Officers will occur only as a result of:

- Pay awards agreed by way of national/local collective pay bargaining arrangements; or
- Significant changes to a Chief Officer's role which result in a higher salary being appropriate as confirmed by the outcome of an appropriate job-evaluation process.
- Recruitment and/or retention payments which, in all the given circumstances at the relevant time, are deemed necessary in the best interests of the Council and which are determined under the relevant policy relating to such payments.

5.5 In accordance with the requirements of the Localism Act 2011, in respect of new appointments, an offer of a salary package of £100,000 or higher will not be made in respect of any post without the prior approval of the Council.

Election Duties undertaken by Chief Officers

5.6 Fees for election duties undertaken by chief officers are not included in their salaries.

For Parliamentary elections the Council receive a Parliamentary Election Order from central government which has already set the fee for each constituency. In respect of local elections fees are determined separately in consultation with the other Tees Valley Councils. For contested elections the fees are based on an agreed sum for the first 1000 electors and a further sum for each additional 1000 electors or fraction thereof, and a set agreed sum for uncontested elections

6. PAYMENTS TO EMPLOYEES UPON TERMINATION OF THEIR EMPLOYMENT (INCLUDING CHIEF OFFICERS)

6.1 Chief Officers who cease to hold office or be employed by the Council will receive payments calculated using the same principles as any other member of staff, based on entitlement within their contract of employment, their general terms and conditions, and existing policies.

6.2 In the case of termination of employment by way of early retirement, redundancy (voluntary or otherwise) or on the grounds of efficiency of the service, the Council's policies sets out provisions which apply to all staff regardless of their level of seniority.

6.3. The Council's Pensions and Retirement Policy also sets out the applicable provisions in respect of awarding additional pension entitlement by way of augmentation or otherwise.

6.4 Under the Localism Act 2011, where a severance package is to be paid, where taken as a whole, has a cost to the authority of £100,000 or more (subject to paragraph 6.5 below), the Council will be given an opportunity to vote before the package is approved.

6.5 The Government has also introduced a cap on Public Sector Exit Payments of £95,000 on all payment costs relating to the termination of employees with effect from 4 November 2020. These costs and payments include the employee's redundancy payment and the payment that the authority has to make to Teesside Pension Fund for the early release of their pension.

6.6 There are discretions to allow for the relaxation of the cap in exceptional circumstances however, these require approval of full Council, the Secretary of State for Housing, Communities and Local Government and HMT Ministers.

6.7 The Ministry of Housing, Communities & Local Government are also currently consulting on changes to pension regulations linked to the exit payment .

6.8 The Council will amend its policy and payments made on termination to reflect all changes in legislation once they are known.

7. EMPLOYMENT OF INDIVIDUALS ALREADY IN RECEIPT OF A LOCAL GOVERNMENT PENSION

7.1 The approach to the employment of individuals already in receipt of a local government pension is set by the Teesside Pension Fund. The Fund has resolved not to abate pensions on re-employment, having regard to the enactment of regulations introducing flexible retirement, unless an enhanced ill-health retirement has been awarded.

8. EMPLOYMENT OR ENGAGEMENT OF FORMER EMPLOYEES

8.1 The Council will generally not re-employ or engage any individual under a contract of service or a contract for services whom has previously been employed by the Council and left that employment with the benefit of a severance such as flexible retirement early retirement or redundancy payment under voluntary arrangements, unless it is in the best interests of the Council to do so or there are exceptional circumstances which would justify doing so.

8.2 In addition the Government is proposing to introduce legislation to enable the recovery of exit payments for higher paid employees returning to the public sector. The Council will amend its policy and seek to recover the required proportion of any exit payment to reflect any change in legislation once it is known.

9. THE COUNCIL'S APPROACH TO THE PAY OF ITS LOWEST PAID EMPLOYEES

9.1 The Council reaffirmed its commitment to the Real Living Wage and with the introduction of the new pay and grading structure. From 1 April 2020 the lowest paid employee, grade C, SCP 3 is paid £9.62 per hour which exceeds the current Real Living Wage hourly rate which was increased to £9.50 with effect from 9 November 2020. The National minimum wage is expected to be £8.91 with effect from 1 April 2021. The NJC pay award for 1 April 2021 is yet to be agreed.

9.2 The Council has also agreed that apprentices, undertaking level 1, 2 and 3 apprenticeships, will be paid the National Living Wage for age. From 1 April 2020 these started at £4.55 per hour for 16 and 17 year olds, rising to £8.72 for those who are aged 25 and over. For those apprentices undertaking a level 4 apprenticeship or above they will be paid at grade C which is currently £9.62 per hour.

10. RELATIONSHIP BETWEEN CHIEF OFFICER AND OTHER EMPLOYEES' REMUNERATION

10.1 The 'pay multiple' for the Council is determined by comparing the pay of the highest paid employee (Managing Director) against the median average pay, using hourly rates as at 31 December, for employees within the scope of this statement.

10.2 The Council will aim to maintain a pay multiple of less than 10.

10.3 The Council's current Median Hourly Rate is £12.45 as at 31 December 2020 (£11.64 at 31 December 2019) and the Pay Multiple is 6.40 as at 31 December 2020 (6.65 at 31 December 2019). This is an improvement of 0.25 and means that the pay multiple is well within the stated aim of less than 10.

11. GENERAL PRINCIPLES REGARDING THE RECRUITMENT OF EMPLOYEES

11.1 All employees are recruited in accordance with the Council's Recruitment Policy and are appointed on the minimum of the grade unless there are exceptional circumstances which would warrant appointment above the minimum of the grade. However, where an employee is redeployed because of redundancy or ill health into a lower graded job they will generally be appointed to the highest spinal column point of the lower grade, where appropriate, with salary protection to minimise the financial loss for a maximum of two years.

11.2 The Council will consider all applicants on merit during the recruitment process and will not discount any applicant on the basis of previous public sector employment and/or the terms of that employment ending save as detailed in paragraph 8.1 above.

12. PUBLICATION OF AND ACCESS TO INFORMATION RELATING TO REMUNERATION OF EMPLOYEES

12.1 The Council will publish their Pay Policy Statement, following approval of Full Council, on the Council's website. In addition remuneration related data associated with the Pay Policy Statement and Code of Recommended Practice for Local Authorities on Data Transparency will be published on the Council's website no later than 31 March, Gender Pay Gap report by 30 March, and information related to the public sector equality duty no later than 30 June.

Appendix C(1)

Body	Role	Officer
Spark of Genius NE LLP	Board Member	Garry Cummings Director of Finance ,Development and Business Services, Martin Gray Director of Children Services
Stockton Borough Holding Company Limited and Stockton Hotels Company Limited	Director Company Secretary	Richard McGuckin, Director of Town Centres Investment Chris Renahan, Inclusive Growth, Planning and Development Manager Tony Montague, Deputy Chief Financial Officer Jill Douglas (Winship), HR and Legal Services Manager Jill Douglas (Winship), HR and Legal Services Manager
North East Culture Partnership	Board Member	Reuben Kench, Director of the Environment, Culture, Leisure and Events
Saltburn Artists Project	Director	Reuben Kench, Director of the Environment, Culture, Leisure and Events
Tees River Trust	Board Member	Margie Stewart-Piercy, Consultation and Corporate Affairs Manager
Education Training Collective	Co-opted Member of the Standards Committee	Vanessa Housley
Bishopton Management Board	Governor	Sharon Stevens, Attendance Officer
Share the Vision	Trustee	Mark Freeman, Libraries and Information Services Manager
Libraries Connected	Trustee	Mark Freeman, Libraries and Information Services Manager
Oliver and Norman Field Charity	Trustee	Sarah Runnacles, Senior Occupational Therapist
Achieving Real Change In Communities CIC (ARCC)	Board Member	Jamie McCann, Director of Community Services and Transport
Tees Valley LEP Area ESI Funds Local Sub-Committee	Board Member	Julie Danks, Managing Director
Stockton BID Company limited	Board Member	Julie Danks, Managing Director

Appendix D
To follow

Appendix E

CAPITAL STRATEGY REPORT 2021/22

Introduction

This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

Decisions made this year on capital and treasury management will have financial consequences for the Council for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

Capital Expenditure and Financing

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

In 2021/22, the Council is planning capital expenditure of £43.4726m as summarised below:

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

	2019/20 actual	**2020/21 forecast**	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**
Schools Capital	8.528	4.094	10.826	4.449	12.772
Housing Regeneration & Town Centres	32.934	25.839	26.072	19.079	7.460
Transportation	5.544	7.975	3.156	0.000	0.000
Other Schemes	15.925	5.167	3.672	0.000	0.000
TOTAL	**62.931**	**43.075**	**43.726**	**23.528**	**20.232**

The main General Fund capital projects in 2021/22 include the School Capital Programme £10.8m and regeneration including Town Centre Developments of £18.2m. The Council at the moment has no plans to incur capital expenditure on investments.

Governance: All capital projects are fully appraised and Cabinet approval is required before a project or programme can be included in the approved Capital Programme. Projects are monitored from business case appraisals through to project delivery and completion via individual Directorate governance arrangements and overseen to ensure strategic fit with overall priorities by the Strategic Development & Initiatives Group, which includes Senior Officers from all Directorates, with updates to CMT and approvals by Cabinet/Council as required.

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. The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2019/20 actual	**2020/21 forecast**	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**
Capital receipts	3.891	1.725	3.427	0.000	0.634
Capital grants	13.348	14.587	32.460	14.537	14.468
Capital contributions	6.852	1.757	0.523	0.000	0.000
Revenue	3.541	3.885	3.285	0.160	0.130
Borrowing	35.299	21.120	4.031	8.831	5.000
TOTAL	**62.931**	**43.074**	**43.726**	**23.528**	**20.232**

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance but capital receipts are not being used for this purpose within the current financial plan. Planned MRP is as follows:

Table 3: Replacement of debt finance in £ millions

	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
Own resources	0.946	1.273	1.476	1.712	1.860

Ministry of Housing Communities and Local Government (MHCLG) Guidance requires the Council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. **The recommended statement is attached at schedule 1 for approval.**

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, loans fund repayments and capital receipts used to replace debt. The CFR is expected to increase by £2.0m during 2021/22. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
General Fund services	171.0	189.2	191.2	197.8	200.9
Capital investments	0.0	0.0	0.0	0.0	0.0
TOTAL CFR	**171.0**	**189.2**	**191.2**	**197.8**	**200.9**

Asset management: Asset Management is a systematic process of lifecycle management; developing, operating, maintaining, upgrading, and rationalizing of assets in a cost effective manner. To ensure that capital assets continue to be of long-term use, the Council provides successful Asset Management Planning by maintaining up to date condition information and applying an agreed criteria to enable informed decisions regarding maintenance programmes and capital spending on council premises. Management of this is delivered in partnership with the Asset Strategy, Finance and Facilities Management functions.

This approach maintains the investment in the asset and addresses required improvement, to ensure an appropriate, safe environment and continual operation in line with local and statutory obligations.

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects until 2022/23. Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive £0.862m of capital receipts and loan repayments in the coming financial year as follows:

Table 5: Capital receipts receivable in £ millions

	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
Asset sales	4.392	3.449	0.776	1.350	2.802
Loans repaid	0.006	0.086	0.086	1.421	0.086
TOTAL	**4.398**	**3.535**	**0.862**	**2.771**	**2.888**

Flexible Use of Capital Receipt's Strategy

MHCLG permit local authorities to treat revenue expenditure "incurred on projects designed to reduce future revenue costs and/or transform service delivery" as capital expenditure until 2022/23.

As part of this local authorities are required to approve a "flexible use of capital receipts strategy" each year, as part of the revenue budget setting process. This strategy must include details of:

- each project that plans to make use of the capital receipts flexibility
- the expected savings and service transformation to be achieved
- actual savings being achieved on projects approved in previous strategies.

Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners.

Presently the Council has not used these powers previously and has not planned to use this across the medium term. The flexible use of capital receipts will be considered for all appropriate projects going forward and reported accordingly. **This strategy is presented for approval.**

Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Due to decisions taken in the past, at the 31st December 2020 the Council had £91.0m debt and £55.5m treasury investments.

Borrowing strategy: The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.10%) and long-term fixed rate loans where the future cost is known but higher (currently 1.5% to 2.5%).

Projected levels of the Council's total outstanding debt (which comprises borrowing, PFI liabilities and leases) are shown below, compared with the capital financing requirement (see above).

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

	31.3.2020 actual	31.3.2021 forecast	31.3.2022 budget	31.3.2023 budget	31.3.2024 budget
Debt (incl. PFI & leases)	107.9	138.1	162.9	177.1	194.0
Capital Financing Requirement	171.0	189.2	191.2	197.8	200.9

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

Liability benchmark: To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £10m at each year-end. This benchmark is currently estimated to be £106.1m at 31st March 2021 and is forecast to rise to £149.0m over the next three years.

Table 7: Borrowing and the Liability Benchmark in £ millions

	31.3.2020 actual	31.3.2021 forecast	31.3.2022 budget	31.3.2023 budget	31.3.2024 budget
Outstanding borrowing	101.8	133.5	158.7	173.5	190.7
Liability benchmark	73.5	120.1	145.3	160.1	177.3

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

	2020/21 limit	2021/22 limit	2022/23 limit	2023/24 limit
Authorised limit	219.2	221.2	227.8	230.9
Operational boundary	189.2	191.2	197.8	200.9

- Further details on borrowing are included in the Treasury Management Strategy included at Appendix F.

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

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

Table 9: Treasury management investments in £millions

	31.3.2020 actual	31.3.2021 forecast	31.3.2022 budget	31.3.2023 budget	31.3.2024 budget
Near-term investments	24.9	10.0	10.0	10.0	10.0
Long-term investments	13.9	13.9	13.9	13.9	13.9
TOTAL	**38.8**	**23.9**	**23.9**	**23.9**	**23.9**

- Further details on treasury investments are included in the Treasury Management Strategy included at Appendix F.

Risk management: The effective management and control of risk are prime objectives of the Council's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Finance, Development and Business Services and staff, who must act in line with the treasury management strategy and treasury management practices approved by Council. A mid-term and annual report on treasury management activity are presented to the Audit and Governance Committee for scrutinising treasury management decisions.

Investments for Service Purposes

The Council makes investments to assist local public services, including making loans to the Council's subsidiaries. In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to break even after all costs.

Governance: Decisions on service investments are made by the relevant service manager in consultation with the Director of Finance, Development and Business Services and must meet the criteria and limits laid down in the Investment Strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme and or via Cabinet / Council.

- Further details on service investments are included within the Investment Strategy included at Appendix G.

Commercial Activities

MHCLG defines property to be an investment if it is held primarily or partially to generate a profit. The Council has for a number of years owned investment properties that meet this definition and these make profits which are spent on local public services.. Total commercial investments as at 31st March 2020 were valued at £16.268m across a range of properties such as estate shops, garages, ground leases and the Hotel.

Governance: Decisions on commercial investments are made by the Director of Finance, Development and Business Services in line with the criteria and limits approved by Council in the Investment Strategy. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme and or via Cabinet / Council.

- Further details on service investments are included within the Investment Strategy included at Appendix G.

Liabilities

In addition to debt detailed in Table 6, the Council is committed to making future payments to cover its pension fund deficit valued at £313.214m as at the 31st March 2020. The Council has also agree to guarantee the performance of the ARCC (Achieving Real Change in Communities) under the service agreement pursuant to a guarantee with the Secretary of State.

Governance: Decisions on incurring new discretional liabilities are taken by service managers in consultation with the Director of Finance, Development and Business Services. The risk of liabilities crystallising and requiring payment is monitored by Corporate Accounts and reported appropriately. New liabilities are reported to full Council for approval as appropriate.

- Further details on liabilities and guarantees are on page 51 of the 2019/20 Statement of Accounts. Pension information is covered in pages 47 – 50 of the same document.

Revenue Budget Implications

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

	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
Financing costs (£m)	3.3	4.1	4.5	4.6	4.6
Proportion of net revenue stream	2.2%	2.6%	3.0%	3.0%	3.0%

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

Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions The Council pays for staff to study towards relevant professional qualifications including CIPFA, they undertake continuous professional development (CPD) and attend courses on an ongoing basis to keep abreast of new developments and skills.

The Council establishes project teams from all the professional disciplines from across the Council as and when required to develop and implement major schemes. Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. As an example the Council currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

Internal and external training is offered to members to ensure they have up to date knowledge and expertise to understand and challenge capital and treasury decisions taken by the Director of Finance and Business Services.

Schedule 1 – Annual Minimum Revenue Provision Statement 2021/22

Where the Council finances capital expenditure by debt, the Capital Financing Requirement (CFR), it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Council to have regard to the Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in 2012.

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

The MHCLG Guidance requires the Council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

For capital expenditure incurred before 1st April 2008 and for supported capital expenditure incurred on or after that date, MRP will be determined on an annuity method.

For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset determined on an annuity method.

For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

Capital expenditure incurred during 2021/22 will not be subject to a MRP charge until the year following the year in which the relevant assets become operational.

APPENDIX F

STOCKTON ON TEES TREASURY MANAGEMENT STRATEGY 2021/22

Introduction

Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

The CIPFA Code requires the setting out of the responsibilities and duties of members and officers, allowing a framework for reporting and decision making on all aspects of treasury management. The Code identifies twelve areas where statements of Treasury Management Practices (TMP's) should be developed to implement the full requirements of the Code.

These responsibilities were approved by Council in March 2018 but there is a requirement to update Treasury Management Practice Number 5 due to a change in job titles following a service review. The updated practice is included at **Schedule 3** for approval.

Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy presented at **Appendix G** of this report.

External Context

Arlingclose, Stockton's Treasury Management advisors have provided us with the following commentary on the external environment.

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

The Bank of England (BoE) maintained Bank Rate at 0.10% in December 2020 and Quantitative Easing programme at £895 billion having extended it by £150 billion in the previous month. The Monetary Policy Committee (MPC) voted unanimously for both, but no mention was made of the potential future use of negative interest rates. In the November Monetary Policy Report (MPR) forecasts, the Bank expects the UK economy to shrink -2% in Q4 2020 before growing by 7.25% in 2021, lower than the previous forecast of 9%. The BoE also forecasts the economy will now take until Q1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast. By the time of the December MPC announcement, a COVID-19 vaccine was approved for use, which the Bank noted would reduce some of the downside risks to the economic outlook outlined in the November MPR.

UK Consumer Price Inflation (CPI) for November 2020 registered 0.3% year on year, down from 0.7% in the previous month. Core inflation, which excludes the more volatile components, fell to 1.1% from 1.5%. The most recent labour market data for the three months to October 2020 showed the unemployment rate rose to 4.9% while the employment rate fell to 75.2%. Both measures are expected to deteriorate further due to the ongoing impact of coronavirus on the jobs market, particularly when the various government job retention schemes start to be unwound in 2021, with the BoE forecasting unemployment will peak at 7.75% in Q2 2021. In October, the headline 3-month average annual growth rate for wages were 2.7% for total pay and 2.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up by 1.9% while regular pay was up 2.1%. GDP growth rebounded by 16.0% in Q3 2020 having fallen by -18.8% in the second quarter, with the annual rate rising to -8.6% from -20.8%. All sectors rose quarter-on-quarter, with dramatic gains in construction (41.2%), followed by services and production (both 14.7%). Monthly GDP estimates have shown the economic recovery slowing and remains well below its pre-pandemic peak. Looking ahead, the BoE's November MPR forecasts economic growth will rise in 2021 with GDP reaching 11% in Q4 2021, 3.1% in Q4 2022 and 1.6% in Q4 2023.

GDP growth in the euro zone rebounded by 12.7% in Q3 2020 after contracting by -3.7% and -11.8% in the first and second quarters, respectively. Headline inflation, however, remains extremely weak, registering -0.3% year-on-year in November, the fourth successive month of deflation. Core inflation registered 0.2% y/y, well below the European Central Bank's (ECB) target of 'below, but close to 2%'. The ECB is expected to continue holding its main interest rate of 0% and deposit facility rate of -0.5% for some time but expanded its monetary stimulus in December 2020, increasing the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.

The US economy contracted at an annualised rate of 31.4% in Q2 2020 and then rebounded by 33.4% in Q3. The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% and announced a change to its inflation targeting regime to a more flexible form of average targeting. The Fed also provided strong indications that interest rates are unlikely to change from current levels over the next three years.

Former vice-president Joe Biden won the 2020 US presidential election. Mr Biden is making tackling coronavirus his immediate priority and will also be reversing several executive orders signed by his predecessor and take the US back into the Paris climate accord and the World Health Organization.

Credit outlook: After spiking in late March as coronavirus became a global pandemic and then rising again in October/November, credit default swap (CDS) prices for the larger UK banks have steadily fallen back to almost pre-pandemic levels. Although uncertainly around COVID-19 related loan defaults lead to banks provisioning billions for potential losses in the first half of 2020, drastically reducing profits, reported impairments for Q3 were much reduced in some institutions. However, general bank profitability in 2020 and 2021 may be significantly lower than in previous years.

The credit ratings for many UK institutions were downgraded on the back of downgrades to the sovereign rating. Credit conditions more generally though in banks and building societies have tended to be relatively benign, despite the impact of the pandemic.
Looking forward, the potential for bank losses to be greater than expected when government and central bank support starts to be removed remains a risk, suggesting a cautious approach to bank deposits in 2021/22 remains advisable.

Interest rate forecast: The Authority's treasury management adviser Arlingclose is forecasting that BoE Bank Rate will remain at 0.1% until at least the first quarter of 2024. The risks to this forecast are judged to be to the downside as the BoE and UK government continue to react to the coronavirus pandemic and the new EU trading arrangements. The BoE extended its asset purchase programme to £895 billion in November while keeping Bank Rate on hold and maintained this position in December. However, further interest rate cuts to zero, or possibly negative, cannot yet be ruled out but this is not part of the Arlingclose central forecast.

Gilt yields are expected to remain very low in the medium-term while short-term yields are likely remain below or at zero until such time as the BoE expressly rules out the chance of negative interest rates or growth/inflation prospects improve. The central case is for 10-year and 20-year to rise to around 0.60% and 0.90% respectively over the time horizon. The risks around the gilt yield forecasts are judged to be broadly balanced between upside and downside risks, but there will almost certainly be short-term volatility due to economic and political uncertainty and events.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at **Schedule 1**.

Local Context

On 31st December 2020, the Authority held £91.0m of borrowing and £55.5m of treasury investments. This is set out in further detail at **Schedule 2**. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.20 Actual £m	31.3.21 Forecast £m	31.3.22 Forecast £m	31.3.23 Forecast £m	31.3.24 Forecast £m
General Fund CFR	171.0	189.2	191.2	197.8	200.9
Less: Other debt liabilities	6.1)	(4.7)	(4.1)	(3.6)	(3.3)
Loans CFR	**164.8**	**184.6**	**187.0**	**194.2**	**197.6**
Less: External borrowing	(101.8)	(133.5)	(158.7)	(173.5)	(190.7)
Internal (over) borrowing	**63.1**	**51.1**	**28.3**	**20.7**	**6.9**
Less: Usable reserves	(101.5)	(75.2)	(53.2)	(46.5)	(33.5)
Less: Working capital	0.2	0.7	1.5	2.3	3.2
(Investments) / New borrowing	**(38.3)**	**(23.4)**	**(23.4)**	**(23.4)**	**(23.4)**

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

The Authority has an increasing CFR due to the capital programme, but limited investments and will potentially be required to increase borrowing up to a total of £190.7m over the forecast period. CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation across the periods shown.

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

Table 2: Liability benchmark

	31.3.20 Actual £m	31.3.21 Estimate £m	31.3.22 Forecast £m	31.3.23 Forecast £m	31.3.24 Forecast £m
Loans CFR	164.8	184.6	187.0	194.2	197.6
Less: Usable reserves	(101.5)	(75.2)	(53.2)	(46.5)	(33.5)
Less: Working capital	0.2	0.7	1.5	2.3	3.2
Plus: Minimum investments	10.0	10.0	10.0	10.0	10.0
Liability Benchmark	**73.5**	**120.1**	**145.3**	**160.1**	**177.3**

Borrowing Strategy

The Authority currently holds £91.0m of loans, an increase of £14.1m on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Authority expects borrowing to increase to £158.7m in 2021/22. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £221.2m.

Objectives: The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Authority will be able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2021/22 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Authority has previously raised all of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield.

Alternatively, the Authority may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Authority may borrow short-term loans to cover unplanned cash flow shortages.

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Teesside Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

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

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

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

LOBOs: The Authority holds £37m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. Although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

Short-term and variable rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Investment Strategy

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £24m and £87m, but levels are estimated to reduce due to planned expenditure on the capital programme and use of reserves.

Objectives: The CIPFA Code requires the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative interest rates: The COVID-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy: The Authority has diversified into higher yielding asset classes over the last couple of years investing £15m with the CCLA Property Fund. This diversification along with a reduction in cash balances related to funding the capital programme means that the Authority's remaining surplus cash will be invested in short-term unsecured bank deposits, with other local authorities and in money market funds.

Approved counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the cash limits (**per counterparty**) and the time limits shown.

Table 3: Approved investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£5,000,000	Unlimited
Secured investments *	25 years	£5,000,000	Unlimited
Banks (unsecured) *	13 months	£2,500,000	Unlimited
Building societies (unsecured) *	13 months	£2,500,000	£5,000,000
Registered providers (unsecured) *	5 years	£2,500,000	£12,500,000
Money market funds *	n/a	£5,000,000	Unlimited
Strategic pooled funds	n/a	£15,000,000	£25,000,000
Real estate investment trusts	n/a	£5,000,000	£12,500,000
Other investments *	5 years	£2,500,000	£5,000,000

*** Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £15m per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

Government: Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured): Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds: Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

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.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

Operational bank accounts: The Authority may incur operational exposures, for example though current accounts, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £2m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

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.

Other information on the security of investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.
When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those

organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Investment limits: The Authority's revenue reserves available to cover investment losses are forecast to be £41.0 million on 31st March 2021. In order that no more than 25% of available reserves will be put at risk in the case of a single default, the future maximum that will be lent to any one organisation (other than the UK Government) will be £10 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes.
Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Additional Investment limits

	Cash limit
Any group of pooled funds under the same management	£20m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£5m per country

Liquidity management: The Authority uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.
The Authority will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider
.

<u>Treasury Management Indicators</u>

The Authority measures and manages its exposures to treasury management risks using the following indicators.

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

Liquidity risk indicator	**Target**
Total cash available within 3 months	£10m

Interest rate exposures: This indicator is set to indicate the Authority's exposure to interest rate risk. The one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	**£m**
One-year revenue impact of a 1% <u>rise</u> in interest rates	-£0.002m
One-year revenue impact of a 1% <u>fall</u> in interest rates	£0.002m

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates. A 1% rise in all interest rates would have a £0.002m negative impact on the councils revenue account as the increase in borrowing costs would exceed the amount we could generate in investment income.

Maturity structure of borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

	Upper	Lower
Under 12 months	50%	0%
12 months and within 24 months	60%	0%
24 months and within 5 years	70%	0%
5 years and within 10 years	80%	0%
10 years and above	100%	0%

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

Principal sums invested for periods longer than a year: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2020/21	2021/22	2022/23
Limit on principal invested beyond year end	£60m	£50m	£40m

<u>**Related Matters**</u>

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

Financial Derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).
The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.
In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Markets in Financial Instruments Directive: The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Director of Finance, Development and Business Services believes this to be the most appropriate status.

Financial Implications

The budget for investment income in 2021/22 is £0.605m, based on an average investment portfolio of £25m. The budget for debt interest to be paid in 2021/22 is £3.476m. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance, Development and Business Services, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below and will be considered if circumstance significantly change.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Schedule 1 – Arlingclose Economic & Interest Rate Forecast December 2020
Underlying assumptions:

- The medium-term global economic outlook has improved with the distribution of vaccines, but the recent upsurge in coronavirus cases has worsened economic prospects over the short term.
- Restrictive measures and further lockdowns are likely to continue in the UK and Europe until the majority of the population is vaccinated by the second half of 2021. The recovery period will be strong thereafter, but potentially longer than previously envisaged.
- Signs of a slowing UK economic recovery were already evident in UK monthly GDP and PMI data, even before the second lockdown and Tier 4 restrictions. Employment is falling despite an extension to support packages.
- The need to support economic recoveries and use up spare capacity will result in central banks maintaining low interest rates for the medium term.
- Brexit will weigh on UK activity. The combined effect of Brexit and the after-effects of the pandemic will dampen growth relative to peers, maintain spare capacity and limit domestically generated inflation. The Bank of England will therefore maintain loose monetary conditions for the foreseeable future.
- Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid longer-term inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation, or the deployment of vaccines.

Forecast:

- Arlingclose expects Bank Rate to remain at the current 0.10% level.
- Our central case for Bank Rate is no change, but further cuts to zero, or perhaps even into negative territory, cannot be completely ruled out, especially with likely emergency action in response to a no-deal Brexit.
- Gilt yields will remain low in the medium term. Shorter term gilt yields are currently negative and will remain around zero or below until either the Bank expressly rules out negative Bank Rate or growth/inflation prospects improve.
- Downside risks remain, and indeed appear heightened, in the near term, as the government reacts to the escalation in infection rates and the Brexit transition period ends.

	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Official Bank Rate													
Upside risk	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	0.30	0.40	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3-month money market r													
Upside risk	0.05	0.05	0.10	0.10	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.15	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Downside risk	0.30	0.40	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
1yr money market rate													
Upside risk	0.05	0.05	0.10	0.10	0.15	0.20	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	0.15	0.15	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Downside risk	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
5yr gilt yield													
Upside risk	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.00	0.00	0.05	0.10	0.15	0.20	0.20	0.20	0.25	0.25	0.25	0.25	0.25
Downside risk	0.40	0.45	0.50	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
10yr gilt yield													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.25	0.30	0.35	0.35	0.40	0.40	0.45	0.45	0.50	0.55	0.55	0.55	0.60
Downside risk	0.50	0.50	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55
20yr gilt yield													
Upside risk	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.70	0.70	0.75	0.75	0.75	0.80	0.80	0.85	0.85	0.85	0.85	0.90	0.90
Downside risk	0.30	0.30	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
50yr gilt yield													
Upside risk	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.60	0.60	0.65	0.65	0.65	0.70	0.70	0.75	0.75	0.75	0.75	0.80	0.80
Downside risk	0.30	0.30	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Schedule 2 – Existing Investment & Debt Portfolio Position

	31/12/2020 Actual Portfolio £m	31/12/2020 Average Rate %
External borrowing:		
Public Works Loan Board	33.0	2.19%
Local authorities	15.0	1.65%
LOBO loans from banks	37.0	4.79%
Other loans	6.0	9.83%
Total external borrowing	**91.0**	
Other long-term liabilities:		
Private Finance Initiative	4.7	
Finance Leases	0.0	
Total other long-term liabilities	**4.7**	
Total gross external debt	**95.7**	
Treasury investments:		
Banks & building societies	1.7	0.00%
Government (incl. local authorities)	4.0	0.00%
Money Market Funds	36.5	0.10%
Other pooled funds	13.3	4.20%
Total treasury investments	**55.5**	
Net Debt	**40.2**	

APPENDIX G

INVESTMENT STRATEGY REPORT 2021/22

Introduction

The Authority invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

Treasury Management Investments

The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of the Police, Fire, Parishes and Central Government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy.

Contribution: The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

Further details: Full details of the Council's policies and its plan for 2021/22 for treasury management investments are covered in a separate document, the Treasury Management Strategy, attached at Appendix F of this report.

Service Investments: Loans

Contribution: The Council can lend money to its subsidiaries, its suppliers, local businesses, local charities, housing associations, local residents and its employees to support local public services and stimulate local economic growth. Details of the loans provided as at 31st March 2020 are shown in table 1 below.

Security: The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Council, statutory government guidance requires us to set upper limits on the outstanding loans to each category of borrower. **It is recommended that the limits are set as follows**;

Table 1: Loans for service purposes in £ millions

Category of borrower	31.3.2020 actual			2021/22
	Balance owing £m	Loss allowance £m	Net figure in accounts £m	Approved Limit £m
Subsidiaries / Joint Ventures	0.713	0.001	0.714	**5.000**
Local businesses	1.065	-0.008	1.057	**2.000**
Local residents	0.216	0.000	0.215	**1.000**
Employees	0.004	0.000	0.004	**0.050**
TOTAL	**1.998**	**-0.007**	**1.991**	**8.050**

Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts from 2020/21 onwards will be shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment: In making loans the Council is exposing itself to the risk that the borrower defaults on repayments. The Council therefore ensures they are prudent and fully considers the risk implications, with regard to both the individual loan and that the cumulative exposure of the Council is proportionate and prudent.

The Council will ensure that a full due diligence exercise is undertaken and adequate security is in place. The business case will balance the benefits and risks. All loans are approved in line with the constitution and approved policies. All loans will be subject to close, regular monitoring.

Service Investments: Shares

Contribution: The Council can invest in the shares of its subsidiaries, its suppliers, and local businesses if required to support local public services and stimulate local economic growth. The Council has limited shareholdings at present. The only shareholdings are SITA Waste Management (Teesside) (value in the accounts £377k), Teesside Airport (value in the accounts £0), Hotel Company (Value in the accounts £1) Stockton Holding Company (Value in the accounts £1).

Security: One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, and ensure that total exposure to any fall in values remains proportionate to the size of the Council, statutory government guidance requires us to set upper limits on the sum invested. **It is recommended that the limits are set as follows**;

Table 2: Shares held for service purposes in £ millions

Category of company	**31.3.2020 actual**			**2021/22**
	Amounts invested £m	**Gains or losses £m**	**Value in accounts £m**	**Approved Limit £m**
Subsidiaries / Joint Ventures	0	0	0	**5.000**
Local businesses	0.377	0	0.377	**2.000**
TOTAL	**0.377**	**0**	**0.377**	**7.000**

Risk assessment: The Council will assess the risk of loss before entering into a purchase and whilst holding shares by

- Assessing the market that we will be competing in, the nature and level of competition, how the market will evolve over time, the barriers to entry and exit and any ongoing investment requirements,
- utilise external advisors be they treasury management advisors, property investment advisors or any other relevant persons,
- utilise credit ratings to assess risk and monitor these ratings on a regular basis.

Liquidity: Where the financial commitment is linked to a contractual arrangement then the contract period will determine the length of the financial commitment.

Non-specified Investments: Shares are the only investment type that the Council has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Council's upper limits on non-specified investments. The Council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

Commercial Investments: Property

Contribution: MHCLG defines property to be an investment if it is held primarily or partially to generate a profit. The Council has for a number of years owned investment properties that meet this definition and these make profits which are spent on local public services. Details of these are included in table 3 below.

Table 3: Property held for investment purposes in £ millions

Property	31.3.2020 Value £m
Estate Shops	0.607
Hampton by Hilton Hotel	9.900
Town Centre	2.309
Ground Leases	2.424
Garages	0.088
Agricultural	0.900
Advertising Hoardings	0.040
TOTAL	**16.268**

During 2019/20 the Council purchased Wellington Square and Castlegate shopping centres. These properties do not meet MHCLG definition of investment properties as they were purchased for regeneration purposes. Therefore these are not included within the figures in the table above.

Security: In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs. Some of the Investment Properties have been held by the Council for a number of years and it is prudent to assume that current valuations exceed original purchase price.

A fair value assessment of the Council's investment property portfolio has been made by the Council's Valuer and a specialist external valuer as at 31st March 2020. These assets are valued at the end of every year as part of the closure of accounts process.

Risk assessment: The Council assesses the risk of loss before entering into and whilst holding property investments by ensuring they are prudent and has fully considered the risk implications, with regard to both the individual property and that the cumulative exposure of the council is proportionate and prudent.

The Council will ensure that a full due diligence exercise is undertaken and adequate security is in place, before entering into any commercial property investment and the business case will balance the benefits and risks. All investments of this type are agreed by Cabinet / Council.

Liquidity: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions.

Proportionality

The Council is not materially dependent on profit generating investment activity to achieve a balanced revenue budget. Table 4 below shows the extent to which the expenditure planned to meet the service delivery objectives of the Council is dependent on achieving the expected net profit from investments over the lifecycle of the Medium Term Financial Plan.

Table 4: Proportionality of Investments

	2019/20 Actual £m	2020/21 Forecast £m	2021/22 Budget £m
Gross service expenditure	426.692	393.406	
Investment income	1.920	1.633	1.754
Proportion	**0.45%**	**0.42%**	**#DIV/0!**

Borrowing in Advance of Need

Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Council has not borrowed and has no plans to borrow in advance of need.

Capacity, Skills and Culture

Elected members and statutory officers: The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The responsible officer will recommend and implement the necessary arrangements.

The responsible officer will ensure that Cabinet members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

Staff employed in the treasury management function will be qualified to the level that is appropriate to their post (as per the job description). All staff are required to undertake basic training prior to undertaking day to day treasury business and will, in addition, be expected to undertake continuous training as appropriate to enable them to keep up to date with all aspects of treasury management within their responsibility.

Training courses run by CIPFA and other training providers such as our Treasury Advisors will form the major basis of ongoing staff training. Records will be kept of all courses and seminars attended by staff as part of their annual appraisal. The authority will take all reasonable steps to ensure that staff are adequately trained.

CIPFA members are required to abide by CIPFA's Ethics Standard on Professional Practice (SOPP) which includes a section in relation to treasury management.

Commercial deals: The Council's in-house Land & Property team is represented by chartered surveyors who have the necessary knowledge and skills to undertake commercial transactions and they undertake this work in accordance with internal procedures as well as compliance with Local Government Act 1972 and RICS Practice Statements.

Corporate governance: The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council had adopted and has implemented the key recommendations of the CIPFA Prudential Code. This, together with the other arrangements such as the production of Treasury Management

Practices and Treasury Management Strategy are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

Investment Indicators

The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the Council's total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn down and guarantees the Council has issued over third party loans.

Table 5: Total investment exposure in £millions

Total Investment Exposure	2019/20 Actual £m	2020/21 Forecast £m	2021/22 Budget £m
Treasury management investments	38.761	23.330	23.330
Service investments: Loans	1.991	2.255	0.834
Service investments: Shares	0.377	0.377	0.377
Commercial investments: Property	16.268	16.268	16.268
TOTAL INVESTMENTS	**57.397**	**42.230**	**40.809**

How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

Table 6: Investments funded by borrowing in £millions

Investments funded by borrowing	31.03.2020 Actual £m	31.03.2021 Forecast £m	31.03.2022 Forecast £m
Treasury management investments	0	0	0
Service investments: Loans	0.985	1.335	0.000
Service investments: Shares	0	0	0
Commercial investments: Property	17.000	17.000	17.000
TOTAL FUNDED BY BORROWING	**17.985**	**18.335**	**17.000**

Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

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

Investments net rate of return	2019/20 Actual	2020/21 Forecast	2021/22 Forecast
Treasury management investments	1.8%	1.0%	2.6%
Service investments: Loans	2.4%	2.1%	5.8%
Service investments: Shares	0.0%	0.0%	0.0%
Commercial investments: Property	2.8%	2.7%	3.0%
ALL INVESTMENTS	**2.0%**	**1.4%**	**2.8%**

APPENDIX H

SECTION 151 OFFICERS STATEMENT ON THE ROBUSTNESS OF THE BUDGET AND ADEQUACY OF BALANCES –YEAR 2021/22

1. Section 25 of the Local Government Finance Act 2003 requires that when a local authority is agreeing its annual budget and the Council Tax precept, the Chief Finance Officer (Section 151 Officer) must report to it on the following matters:

    - The robustness of the estimates made for the purposes of the Council Tax requirement calculations

    - The adequacy of the proposed financial reserves

    - The Council is required to have due regard to this report when making decisions on the budget.

2. In determining the opinion, the Section 151 Officer has considered the financial management arrangements and control frameworks that are in place, the underlying budget assumptions, the adequacy of the business planning process, the financial risks facing the Council and the level of reserves.

3. The external auditors gave an unqualified opinion on the accounts for the Council for 2019/20. This reflects the fact that the authority had proper and robust financial management and controls in place for that year. Further to this, the external auditors gave an unqualified value for money conclusion for 2020/21. These conclusions are based upon whether the organisation has proper arrangements in place for securing financial resilience and for challenging how it secures economy, efficiency and effectiveness.

4. The Director of Finance, Development and Business Services has responsibility for ensuring that an effective system of internal control is in place and identify any areas for improvement where appropriate. The Audit and Governance Committee receives regular updates on internal controls as well as the Annual Governance Statement which clearly identifies the strength of the governance arrangements in place on an annual basis.

5. There is a rigorous system for budget monitoring and reporting, with Cabinet receiving regular reports throughout the financial year.

6. The MTFP has been reviewed in full and updated for future years. It includes all known changes to funding levels as well as estimates for those funding streams for which we have not received confirmation.

7. All current savings have been tested for deliverability and where adjustments have been required these have been made.

8. Financial risks have been quantified where appropriate and either provision has been made or mitigations have been identified. The key risks in the budget are mainly in relation to demand led budgets, in particular Children's Social Care, all of which are under significant pressure in the current year. There are mitigation plans in place to manage these pressures.

9. The construction of the budget for 2021/22 and examination and validation of the budget proposals has been subject to challenge by the Council's Corporate Management Team.

10. The Local Government Finance Act 1992 requires a local authority to have due regard to the level of balances and reserves needs for meeting future estimates of future expenditure when calculating the Council Tax requirement.

11. Balances and reserves are held for three primary purposes:

- A working balance to help cushion the impact of cash flows
- A contingency to cushion the impact of unexpected events and emergencies
- Earmarked reserves to meet known and predicted liabilities

12. As part of the budget setting process, the levels of balances and reserves have been reviewed to ensure that the level is appropriate in the context of local circumstances. The Section 151 Officer (Director of Finance, Development and Business Services) has reviewed the level in order to ensure a prudent level of balances that reflects a risk assessment commensurate with the level of risk that the Council faces and the context within which the authority operates. The level of general balances will be approved by Council alongside the level of Council Tax. Earmarked reserves are held to provide resources for specific, identified purposes.