AGENDA ITEM

REPORT TO CABINET

17 FEBRUARY 2022

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 2022/23 Budget and Council Tax and outlining the Medium Term Financial Plan (MTFP) position to 2026. The report also includes an update on the financial performance for 2021/22.

The financial position over the medium term continues to be extremely uncertain in the context of a one-year financial settlement for local government and will be affected by a potential Funding Review and future proposals around Business Rates Reset and Retention.

The proposals in the Report would mean that the Council would have a balanced budget in 2022/23 and 2023/24 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 Cabinet in respect of Cabinet and Council decisions in relation to:

   - 2022/23 budget, MTFP and Capital Programme
   - Council Tax
   - Organisational and HR, Capital Strategy, Treasury Management Strategy and Investment Strategy and officer appointments to outside bodies, appointment of auditors and member allowances.

RECOMMENDATIONS TO CABINET IN RESPECT OF COUNCIL DECISIONS

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 2022/23 Council Tax requirement for Stockton-on-Tees Borough Council of £102,685,563.

3. Approve a 2022/23 Council Tax requirement for Stockton-on-Tees Borough Council inclusive of Parish Precepts (£925,550) of £103,611,113.

4. Approve the 2022/23 budget and indicative 2022/26 MTFP as outlined in paragraphs 33 - 36, the level of General Fund Balances set out in paragraphs 14-17 and the one-off pressures set out in paragraphs 41-43.

5. Approve prudential borrowing of £6m to fund transformational schemes to meet the growing demands in Children's Social Care and Special Educational Needs

Taxation

SBC

6. 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 £1,781.86 at Band D (£1,187.90 at Band A).

Fire, Police & Parish

7. The Council note the Police precept of £15,889,851 which equates to a Council Tax of £275.73 at Band D (£183.82 at Band A).

8. The Council note the proposed Fire precept of £4,717,453 which equates to a Council Tax of £81.86 at Band D (£54.57 at Band A).

9. The Council note the Parish precepts as set out in paragraph 68 of the budget report.

Capital

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

Organisational and HR

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

12. In accordance with the Localism Act 2011 and in accordance with Secretary of State guidance regarding severance payments for senior local government employees, Council approves the total cost of £333,000 in respect of redundancy costs and payment to the Teesside Pension Scheme in relation to the redundancy of the Director of Community Services and Transport as part of the senior management restructure.

Members Allowances

13. Approve that Members allowances are frozen for 2022/23. This will mean that these allowances have been frozen since 2013/14.

Council Tax - Statutory Requirements

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

15. The Council must set its Local Council Tax Reduction scheme annually by 11 March of the preceding financial year. The scheme was set at Council on Wednesday 24 November 2021; since that date the Department for Work and Pensions has confirmed the uprated benefit figures effective from April 2022. Cabinet therefore recommends to Council that the scheme approved on 24 November 2021 is retained but with the income table at Schedule 1 within the

policy document adjusted to reflect the uprated figures. Also that payments made under the Energy Rebate Scheme 2022 will be disregarded in determining a person's eligibility for a council tax reduction and the amount of any such reduction.

16. 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 23rd February to ensure that the intended alignment is maintained.

Appointment of Auditors

17. That the Council approves acceptance of the Public Sector Audit Appointments invitation to join the sector led option for the appointment of external auditors for five years from 1 April 2023.

Capital Strategy

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

Treasury Management/Prudential Code

19. Approve the Treasury Management Strategy as set out in **Appendix G** to the report.

Investment Strategy

20. Approve the Investment Strategy as set out at **Appendix H** to the report.

RECOMMENDATIONS TO CABINET IN RESPECT OF CABINET DECISIONS

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

DETAIL

1. The MTFP report for 2022/23 to 2025/26 is attached.

2. The report also provides an update on the financial position for 2021/22. As reported previously, the Covid-19 situation has continued to bring significant uncertainty and volatility to the financial position in 2021/22. This includes costs associated with the pandemic as well as increased costs in maintaining vital services.

3. The Report outlines the Council Tax proposals and Budget for 2022/23 and the indicative MTFP for the next three years.

4. It provides an update on the position from that reported to Cabinet and Council in February 2021 and in particular reflects implications arising from the Spending Round 2021 and the Local Government Finance Settlement for 2022/23.

5. The Provisional and Final Financial Settlements have provided funding allocations for 2022/23 only. This means that the position for 2023/24 onwards, outlined in the report, is extremely uncertain and needs to be treated with some caution.

6. 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 Annual Auditors Report, which was considered by the Audit and Governance Committee on 14 February 2022 and which will be presented to Cabinet in March 2022. 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.

7. 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

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

9. The report is attached at **Appendix I**.

COMMUNITY IMPACT IMPLICATIONS

10. 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

11. None

FINANCIAL IMPLICATIONS

12. To update the MTFP position for 2022/23 – 2025/26 and recommend the budget for 2022/23.

LEGAL IMPLICATIONS

13. None

RISK ASSESSMENT

14. This MTFP 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

15. N/A

BACKGROUND PAPERS

16. None

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MEDIUM TERM FINANCIAL PLAN

AND BUDGET

2022/23

CONTENTS

SECTION 1 – NATIONAL CHANGES

Funding Position

1. On 27 October 2021 the Government announced the Budget and Spending Review (2022/23), setting out headline funding levels for government departments across the next three financial years to March 2025.

   The key announcements from the Spending Review impacting on local government were:

   - A new grant for local government amounting to £4.8bn over the next three years, of which £1.5bn is available for 2022/23.

   - A core council tax referendum principle of up to 2% and the ability to levy an adult social care precept of 1% on top of the core principle. Indicated that these limits to apply for each of the three years covered by the Spending Review.

   - Announcement of headline additional funding to support Adult Social Care reform. At that stage no further detail was available.

   - Significant changes to Business Rates for 2022/23 including a nil increase in the multiplier and 50% business rates relief to businesses in the hospitality and retail sectors. It was announced that local authorities would be compensated in full for these changes.

2. On 16 December 2021 the DLUHC announced the Provisional Local Government Finance Settlement for 2022/23. The settlement was for a one-year period only. This expanded on the key aspects from the Spending Review highlighted above and presented information at a local authority level.

   The key announcements from the Provisional Local Government Finance Settlement were:

   - The new grant for local government of £1.5bn for 22/23 announced in the Spending Review has been split across two funding streams:

     a. a new grant, Services Grant £822m for 2022/23 only (SBC allocation £2.7m). DLUHC are planning to consult on where this amount of money is best applied within the sector for future years. This grant includes funding for local government costs to cover the increase in employers National Insurance Contributions.

     b. £636m has been added to the Social Care Grant (SBC allocation £2.2m)

   - Improved better care fund increased by 3%

   - Core council tax referendum limit is set at 2%. There is also the flexibility to add 1% to the Adult Social Care levy in addition to the balance of the unapplied allowance from last year 2021/22 (1%).

   - £5.4bn was announced to fund Adult Social Care Reform over the next three years.

   - The proposed changes to business rates have been delayed.

3. 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.

4. The one-year spending review and financial settlement leaves significant uncertainty regarding the position from 2023 onwards. This makes financial planning across the duration of the MTFP challenging. The future of the review of local government finance (Funding Review and Business Rates Retention and Re-set) is also in question and adds to the future uncertainty.

Government Funding – Final Settlement

5. On 7 February 2022 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 2021

6. The following table details the projected General Fund outturn position for the current financial year, with detail provided in subsequent paragraphs.

Directorate	Annual Budget £'000	Projected Outturn £'000	Projected Variance Over/(Under) £'000	Projected Variance at Q2 Over/(Under) £'000	Movement between Q2 and Q3 £'000
Adults & Health	75,270	75,378	108	165	(57)
Children's Services	40,623	43,859	3,236	2,985	251
Community Services & Transport	38,766	38,627	(139)	516	(655)
Environment, Culture, Leisure & Events	9,773	9,585	(188)	648	(836)
Admin/Democratic Services & Xentrall	8,663	8,778	115	100	15
Finance, Development & Business Services	10,146	10,124	(22)	(67)	45
HR, Legal and Communications	5,273	5,198	(75)	0	(75)
Town Centre Investment	(1,267)	(529)	738	703	35
Corporate Areas	6,876	6,633	(243)	(152)	(91)
Capital Schemes	0	230	230	230	0
Total	**194,123**	**197,883**	**3,760**	**5,128**	**(1,368)**
Government Grants Covid-19 Support		(5,623)	(5,623)	(5,623)	0
Government Grants – Covid-19 Income Loss Compensation		(467)	(467)	(467)	0
Government Grants – Covid-19 Business Grants Admin Funding		(329)	(329)	(229)	(100)
Revised Total	**194,123**	**191,464**	**(2,659)**	**(1,191)**	**(1,468)**

Adults and Health

7. There are no significant movements in the overall position for the Directorate. An increase in the number and cost of residential care placements and the number of domiciliary care hours is offset by reduced expenditure on day care as a result of continued covid related restrictions on capacity.

Children's Services

8. Pressures evident in previous quarters relating to supporting children in our care continue to be experienced, with further pressure evident on the budgets for residential placements and

supported accommodation.

Community Services and Transport

9. As noted in the previous report we are seeing cost pressures due to the impact of COVID on delivering services such as waste collection as well as increased energy and fuel costs. The annual shutdown of one of the lines at the waste disposal site to allow for routine maintenance, has cost less than predicted and we have also seen further income generated through the sales of recyclables making an improvement from last quarter of (£330,000).

10. We have previously discussed how the impact of the pandemic on cleaning and catering services have made financial forecasting very difficult. Latest information is suggesting an improvement against budget of (£230,000) due to an increase in income from catering venues as well as staff savings due to reduced activity for certain periods in the year.

Environment, Culture, Leisure and Events

11. The performance of Tees Active Limited (TAL) has recovered strongly from the effects of the Covid pandemic and it is now projected that no additional subsidy will be required in 2021/22, an improvement of £790,000 from that previously reported.

Other Directorates

12. No significant movements from the position previously reported.

Other Covid Costs/Grants

13. Additional funding of £100,000 has been received in respect of New Burdens for Business Grant administration.

Overall Revenue Position/General Fund Balances

14. The Council aims to retain General Fund Balances at a prudent level, currently £7,400,000 and Members will recall that the position at year-end 2020/21 exceeded this sum by £5,478,000.

15. The 2020/21 Outturn Report also outlined the intention to review General Fund Balances levels. This review has been undertaken and recommends that the level be increased by £600,000 to £8,000,000, representing approximately 4% of the net revenue budget.

16. Should the position summarised in the paragraphs above materialise at year end, then there will be a further sum available of £2,659,000 giving a total of £7,537,000 in excess of the updated level of General Fund Balances of £8,000,000.

17. There are a number of calls on the use of these balances, these are outlined in paragraphs 41–43 below.

SECTION 3 - MEDIUM TERM FINANCIAL PLAN 2022 – 2026

Current Approved MTFP

18. The current approved position in February 2021 was as follows, updated for year 2025/26:

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Budget Gap (+) / Surplus (-)	764	1,302	1,342	1,083

Changes to current expenditure plans

19. There are a number of emerging issues which will need to be factored into the 2022/23 budget and considered in the MTFP going forward and these are outlined below.

    a) Levels of inflation are increasing, with CPI at 5.4% at December and RPI at 7.5% and are starting to impact on costs for local authorities. This is particularly evident for energy costs with forecasted percentage increases of 96% being notified for Gas and 72% for electricity. Fuel costs are also forecast to remain at higher levels than currently budgeted. Similar scale increases are also being experienced by Tees Active Limited and the impact is incorporated within the overall pressure.

    b) The current MTFP assumes an annual pay award of 2% each year across the MTFP. In the context of higher levels of inflation it is prudent to anticipate that this may be at a higher level (3%) in 2022/23.

    c) The Chancellor recently announced that an increase in employers National Insurance contributions of 1.25% would apply from April 2022, prior to it becoming the Health and Social Care Levy subsequently and that this would be funded from the new grant announced for local government. The projected cost to the Council is £1,050,000 per annum.

    d) There are still 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 2021, it has been necessary to place slightly more children in residential care at additional cost. The key challenge is that it is a provider led market and costs of placements continue to increase. Nationally this market is subject to an examination by the Competition and Markets Authority. Regionally a new approach is being taken to the commissioning of placements with a small commissioning support function being established – jointly funded by the DfE and the 12 Local Authorities. This team will be hosted by the Council. The Council continue to consider, to explore opportunities to reduce the numbers of children in care and the associated costs and this is covered in paragraphs 45-46 below.

    e) Workforce and inflationary related pressures on the Adult Social Care market are currently projected to be £400,000 higher than the £1,500,000 currently allocated for 2022/23 in the MTFP.

    f) Adult Market Sustainability and Fair Cost of Care – New funding has been announced for 2022/23 as part of Adult Social Care reforms. Councils are required to utilise this funding to review their fair cost of care model and to develop care market knowledge.

    g) Members will be aware that the Council is, alongside the Tees Valley Councils, Durham and Newcastle, in the process of procuring a new waste facility which will be operational from April 2026. The current contract expires in March 2025 and the Report to Cabinet in June 2021 approved the extension of the current waste disposal contract to March 2026. The current contract is based on an extremely competitive gate fee and any new arrangements of either the new facility or the interim extension will result in a pressure on the MTFP. Based on current levels of waste, the projected additional cost for 2025/26 is £2,200,000.

    h) In response to the MORI Survey, investment was made in a number of areas from one-off resources and given the priority of these savings, it is suggested additional provision is made within the MTFP. Resources will be allocated for 2 additional years when the situation will be reviewed:

- Additional enforcement activity to improve the perceptions of safety of £410,000.
- Targeted work around Street Cleaning and Grounds Maintenance of £250,000.
- An allocation of £200,000 to allow further work in respect of potholes.

i) Libraries – funding for a permanent enhanced security presence in a small number of libraries is required (£80,000).

j) A specific grant supporting the resourcing of Individual Elector Registration ceased in 2021/22, this has now been rolled into the Revenue Support Grant. If the existing levels of registration activity are to continue then additional resources of £50,000 will be required.

k) Members will be aware of the establishment of the Employment Hub as part of the Council's response to the economic impact of the pandemic and the Fairer Stockton Framework. The capital costs of the facility are funded, however there are ongoing running costs of £125,000 per year.

l) Members will be aware of the commitment to support the Fairer Stockton Framework which was recently approved by Cabinet. In order to develop the support to those communities in need it is proposed that £200,000 is allocated to this area.

m) The Council currently operates a successful Apprenticeship Programme. If numbers are to be maintained at current levels, then an additional £200,000 per annum will be required.

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

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Pressures identified				
Inflation - Energy & Fuel	2,650	2,150	2,150	2,150
Pay Award	909	925	942	959
NI increases	1,050	1,050	1,050	1,050
Children In Our Care	3,500	3,500	3,500	3,500
Adult Care Fee Pressures	400	400	400	400
Adults Market Sustainability and Fair Cost of Care	571	0	0	0
Waste & Recycling	0	0	0	2,200
Continuation of Enforcement Activity	410	410	0	0
Continuation of Targeted CFYA Activity	250	250	0	0
Potholes	200	200	0	0
Libraries security costs	80	80	80	80
Individual Electoral Reg grant ceased 21/22	50	50	50	50
Employment & Skills Hub running costs	125	125	125	125
Fairer Stockton Costs	200	200	200	200
Apprenticeship Programme	200	200	200	200
Pressures	**10,595**	**9,540**	**8,697**	**10,914**

Income and Resources

20. The following changes can be made to income levels and resources:

As part of the annual review of levels of concessionary fares support, there is a saving of £45,000 per annum.

Members will be aware of the Report to Cabinet on 17th February outlining proposed changes to the Senior Management structure and this will result in savings of £200,000 per annum from 2023/24. The one-off costs required to achieve this saving are £550,000 which are met from existing resources and within this amount is a cost of £333,000 which requires Council approval and as such is included in the recommendations

The Better Care Fund has seen an increase in the level of funding from the Clinical Commissioning Group £697,000.

Council Tax – the tax base has been updated with the latest projections.

Business Rates – the level of income from business rates has been updated with the latest projections.

21. The announcements from the Provisional Local Government Finance Settlement can be incorporated and set out below:

Revenue Support Grant – the distribution methodology remains unchanged from last year. The overall amount of RSG has been increased by CPI and it now includes previously separate grants for the Electoral Registration Grant, costs included in paragraph 19 above.

New Homes Bonus – The future of this significant funding stream has been under review for some time and it is particularly difficult to predict the level of anticipated income. In 2022/23 the NHB allocation includes legacy funding from previous years which has been incorporated into the figures. It is anticipated that this legacy funding will cease altogether with effect from 2023/24. As in 2021/22 the Lower Tier Grant has been funded from New Homes Bonus.

Social Care Grant (Adults and Children's) – The national allocation has been increased by £636m in 2022/23 (£2.179m for Stockton).

Other Services Grant - This is a new one-off grant introduced for 2022/23 with a national total of £822m (£2.7m for Stockton). This includes funding for local government to cover the costs of the increase in employers National Insurance contributions. DLUHC have confirmed that this level of funding will be distributed to local government in future years, but the distribution method and purpose is to yet to be announced.

Improved Better Care Fund – this has been increased by CPI resulting in an additional £211,000 per annum.

Adults Market Sustainability and Fair Cost of Care Fund As part of the provisional settlement a new fund totalling £162m was announced for 22/23 for local authorities to carry out significant work assessing market sustainability and a cost of care review. The costs associated with this are included at paragraph 19 (SBC Share £571,000). Government have announced £5.4bn over the next three years to address Adults Social Care Reform. Allocations from the longer-term funding are not yet known and will be introduced into the MTFP when the position is clearer, together with associated costs.

Public Health Grant – Allocations will increase in real terms for inflation.

22. Government funding allocations 2023/24 onwards – As highlighted above, there is considerable uncertainty regarding government funding from 2023/24. 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 2022/23 continues into 2023/24 and beyond unless we have been informed otherwise.

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Additional Resources / Savings Identified				
Concessionary Fares inflation provision not needed 21-22	(45)	(45)	(45)	(45)
Corporate Savings	0	(200)	(200)	(200)
BCF - CCG 21-22 Additional Contribution	(697)	(697)	(697)	(697)
Council Tax - Taxbase changes	(448)	(248)	(94)	(78)
Business Rates	(256)	(26)	(219)	(100)
Government Funding				
Revenue Support Grant	(160)	(160)	(160)	(160)
New Government grants & New Homes Bonus	(3,473)	(2,735)	(2,735)	(2,735)
Social Care Grant	(2,179)	(2,179)	(2,179)	(2,179)
Improved Better Care Fund	(211)	(211)	(211)	(211)
Adults Market Sustainability and Fair Cost of Care Fund	(571)	0	0	0
Public Health Grant 21-22 Allocation & 22-23 Real Terms Inflation	(400)	(400)	(400)	(400)
Total	**(8,440)**	**(6,901)**	**(6,940)**	**(6,805)**

Summary Position

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

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Approved Budget Position	764	1,302	1,342	1,083
Expenditure Pressures	10,595	9,540	8,697	10,914
Additional Income and Resources	(8,440)	(6,901)	(6,940)	(6,805)
Budget Gap (+) / Surplus (-)	**2,919**	**3,941**	**3,099**	**5,192**

24. The above table summarises the overall position and highlights the pressures in future years which shows a pressure of £2.9m in 2022/23 rising to £5.2m in 2025/26.

2022/23 COUNCIL TAX AND SOCIAL CARE PRECEPT

Core Council Tax

25. 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.

26. As highlighted at paragraph 2, the Government have announced that the Core Council Tax Referendum Threshold will be 2% for 2022/23 and has assumed this level of increase in their spending power calculation. The MTFP set out above assumes a 1.9% increase in each year.

27. Given the financial pressures facing the Council over the medium term it is recommended that the Council confirm the increase in core Council Tax by 1.9% for 2022/23. The impact of the increase of 1.9% in 2022/23 would be £0.42 per week (Band A) and £0.63 per week (Band D).

Precept for Social Care

28. On 7 September 2021 the Government published "Build Back Better: Our Plan for Health and Social Care". This set out a number of ambitions for health and social care, including £12bn

per year (on average) for health and social care over the next three years, a Health and Social Care Levy at 1.25% on national insurance and a cap on lifetime personal care costs. Within the overall sum a total of £5.4bn will be made available for adult social care (total over 3 years). It is clear that this funding is not intended to address demographic or unit cost issues – these will continue to be met through "council tax, social care precept and long-term efficiencies".

29. Members will be aware that in the periods 2016/17 to 2018/19 and 2020/21 to 2021/22 the Council reluctantly implemented the Governments Adult Social Care Precept to fund the growing demands and pressures in Social Care. This will from 2022/23 include the impact of the new Employers National Insurance rise on care fees and hence the Adult Social Care Budget. Members will recall that Government announced for 2021/22 that local authorities could levy a precept of up to 3% to support Social Care and factored take up of this increase in their Core Spending Power assumptions. This could be applied as a one-off increase or be spread over 2 years. Members decided to increase the levy/precept by 2% in 2021/22 with the remaining 1% planned for 2022/23 and this is included in the current MTFP.

30. Government have announced a further increase of 1% to the Adult Social Care precept, which is included in Local Authorities Core Spending Power for 2022/23. This means that in total Stockton are able to apply up to a 2% increase to the precept for 2022/23. Given the level of pressures faced by the Council and the future funding uncertainty it is recommended that this be applied creating a total increase of 3.9% in 2022/23. This equates to £0.86 per week (Band A) and £1.28 (Band D). The MTFP has also been updated to incorporate the ASC Precept (1%) from 2023/24 for the remainder of the MTFP period. Final decisions on council tax and ASC precept levels will be made each financial year.

31. This will generate £1,978,000 per year to support the MTFP, £989,000 above the amount included in the current MTFP in 2022/23.

Support for Council Taxpayers on low incomes

32. The Council must set its Local Council Tax Reduction scheme annually by 11 March of the preceding financial year. The scheme was set at Council on Wednesday 24 November 2021 and Members will recall that the revised scheme will result in approximately 7,000 of the most vulnerable not paying council tax at all from 2022/23 onwards. The scheme with uprated figures is available here (www.stockton.gov.uk/our-council/council-tax/council-tax-support).

Summary Medium Term Financial Plan

33. The MTFP can be summarised as follows and this takes into account the Council Tax proposal and assumptions above.

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Budget Gap (+) / Surplus (-)	2,919	3,941	3,099	5,192
Additional 1% Social Care Precept Income	(989)	(2,054)	(3,193)	(4,408)
Revised Budget Gap (+) / Surplus (-)	1,930	1,887	(94)	784

34. The updated MTFP 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% (1% in respect of 2022/23 and 1% carried forward from 2021/22).

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Income				
Business Rates (incl any Deficit/Surplus & s31 grants)	(48,312)	(49,021)	(50,226)	(51,149)
Revenue Support Grant	(5,265)	(5,265)	(5,265)	(5,265)
New Homes Bonus / Lower Tier Services Grant / Other Services Grant	(5,618)	(4,735)	(4,735)	(4,735)
Adult & Children's Social Care Grant	(7,945)	(7,945)	(7,945)	(7,945)
Adults Market Sustainability and Fair Cost of Care Fund	(571)	0	0	0
Better Care Fund (incl Pooled Budget)	(18,188)	(18,188)	(18,188)	(18,188)
Public Health Grant	(14,727)	(14,727)	(14,727)	(14,727)
Council Tax (incl any Deficit/Surplus)	(102,161)	(106,231)	(110,979)	(115,360)
Use Of Reserves Previously Approved	(545)	(545)	0	0
Carry Forward Previously Approved	(611)	0	0	0
Total Income	**(203,943)**	**(206,657)**	**(212,065)**	**(217,369)**
Expenditure				
Adults & Health	78,119	78,892	80,399	81,906
Children's Services	43,225	42,554	42,554	42,554
Community Services & Transport	38,823	39,073	38,463	40,663
Environment, Culture, Leisure & Events	9,254	9,341	9,246	9,341
Town Centre Development	(1,292)	(1,304)	(1,319)	(1,331)
Admin, Democratic Services & Xentrall	8,910	9,149	8,929	8,929
Finance, Development & Business Services	10,450	10,566	11,216	11,216
HR, Legal & Communications	5,271	5,271	5,271	5,271
Corporate Areas incl Pay Award Provision	13,113	15,002	17,212	19,604
Total Expenditure	**205,873**	**208,544**	**211,971**	**218,153**
Revised Budget Position	**1,930**	**1,887**	**(94)**	**784**
Use of One-Off Resources	(1,930)	(1,887)	0	0
Final Budget Position	**0**	**0**	**(94)**	**784**

35. Paragraph 16 identified that there are projected to be £7.537m available in one-off resources, which can be utilised to support the MTFP or to invest in one off activities or priorities. Due to the significant financial uncertainties set out above, it is recommended that we earmark funding to address both the 2022/23 and 2023/24 budget gap which would require £3.817m. This would mean that the Council would have a balanced position in 2022/23 and 2023/24 and then a projected gap of £0.8m by 2025/26.

36. 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 further period of financial uncertainty.

Impact of Alternative Council Tax Decisions

37. The Table below shows the reduction in council tax income and additional pressures faced by the Council should alternative decisions be made on the level of council tax increase.

Income Reduction v 3.9% Increase 2022/23	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
1% Reduction (2.9% Council Tax)	989	1,027	1,067	1,110
2% Reduction (1.9% Council Tax)	1,977	2,054	2,135	2,220
3% Reduction (0.9% Council Tax)	2,966	3,082	3,204	3,331
Council Tax Freeze	3,855	4,006	4,165	4,330

38. The table below shows the revised budget gap with each of the scenarios. This would effectively increase the level of one one-off resources required to balance the budget position for 2022/23 and 2023/24 and create additional pressures across the MTFP.

Revised Budget Gap Before Use One Off Resources	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
1% Reduction (2.9% Council Tax)	2,919	2,914	973	1,894
2% Reduction (1.9% Council Tax)	3,907	3,941	2,041	3,004
3% Reduction (0.9% Council Tax)	4,896	4,969	3,110	4,115
Council Tax Freeze	5,785	5,893	4,071	5,114

39. If members were to opt for a 2.9% increase this would require £5.833m in one off resources to balance 2022/23 and 2023/24. This would mean that not all of the one-off pressures outlined below could be funded.

40. For all other scenarios in the above table, there are insufficient one-off resources to meet the budget gap across the two years. Given the ongoing pressure across the MTFP they would place the Council in a difficult financial position going forward and would require significant savings to be identified

One-Off Resources and Costs

41. Should Members agree to the Council Tax increase of 3.9% and utilise £3.817m of the available resources of £7.537m, as set out in paragraph 35, then this would leave £3.720m available for use on one-off priorities.

42. The report outlines the extreme uncertainty of future Local Government Funding with a review of funding methodology due to be undertaken during 2022. This will affect our Government Funding from 2023/24 onwards and we have currently assumed a continuation of funding at current levels. Members will be aware that the Council has a successful track record of delivering savings and managing change and have utilised a transformation reserve to invest in upfront costs required to deliver on going savings. Given the financial position we will continue to need to deliver change and savings and it is recommended that we earmark funds, £1.5m is suggested, to supplement this Reserve.

43. There are a number of one-off spending requirements where resources need to be considered:

Environment Sustainability and Carbon Reduction Strategy – work is ongoing in developing an ambitious strategy, in response to climate change and the need to reduce greenhouse gas emissions. This is due to be presented to Cabinet in March. It is not yet possible to calculate the potential cost of achieving the overall ambitions of the strategy but it is clear that the work will require significant external funding. However, there are actions we can begin to take now, and small-scale investments that will help us develop detailed proposals with which to secure external funding. It is suggested that we earmark £100,000 to support this initial work.

Stockton and Darlington Railway Celebrations – members will be aware of the plans to celebrate the event following a report to Cabinet on 20 January 2022 and this outlined the requirement for investment of £1.3m.

White Water Course – There are maintenance requirements of the course estimated at £420,000. It is also likely that there are significant future costs linked to the Archimedes screws used to operate the course. We are in discussions with the Canals & Rivers Trust about how the long-term maintenance of the Course can be addressed.

Cemetery Provision – members will recall the recommendation to cabinet following a scrutiny review to explore the acquisition of land for additional cemetery provision. There are also some repairs required to existing facilities. It is therefore recommended that £400,000 is included to support the improvement development of cemeteries, including feasibility studies for new sites.

The position can be summarised as follows:

	£'000
Available Resources	3,720
Transformation Reserve	1,500
Environment strategy	100
Stockton and Darlington Railway	1,300
White Water Course	420
Cemetery provision	400
Total	3,720

Town Centres Funding

44. Members will recall an existing commitment to the principal of acquiring Billingham Town Centre as the most effective means of ensuring meaningful redevelopment of the centre. The commitment to seek to acquire the centre remains; additional work is currently being undertaken to establish an up-to-date valuation and assessment of any short and medium-term repair and maintenance works that would be required before a final recommendation on an acquisition is made in line with the approval in February 2021. Members will note that the Council was unsuccessful in securing funds to support redevelopment aspirations for Billingham through Round 1 of the Levelling Up Fund programme but has been encouraged to submit a refined application in Round 2 of the programme in Spring 2022, with officers working to submit documentation as early as possible in Round 2.

Children's Social Care and Special Educational Needs

45. A separate report is included on the Cabinet Agenda for 17 February outlining an approach to manage growth and identify savings in Children's Social Care and Special Educational Needs. The report outlines the need for £6m of prudential borrowing and it is therefore recommended that this is approved.

46. Once schemes have been appraised and business cases developed, the recommended options will be approved in line with the report to Cabinet.

SECTION 4 - CURRENT CAPITAL PROGRAMME

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

CAPITAL PROGRAMME Up to 2025	Current Approved Programme £'000	Programme Revisions £'000	Revised Programme £'000
Schools Capital	41,569	0	41,569
Housing Regeneration & Inclusive Growth & Development	42,664	0	42,664
Town Centres	102,022	1,389	103,411
Transportation	29,203	1,103	30,306
Other Schemes	13,821	6,378	20,199
Total Approved Capital MTFP	**229,279**	**8,870**	**238,149**

Reasons for Movements over £100,000

New Schemes

Following notification from DLUHC, £1,195,000 pump priming Thornaby Towns Fund Grant has been released and added to the capital programme.

£1,021,000 S106 developer contribution towards the provision of an additional access as part of the Corus Development (Crofton Road) has been added to the capital programme.

Following a successful Urban Tree Challenge Fund bid £188,430 has been added to the programme.

As per the Cabinet report of 17 February 2022 an additional £6,000,000 borrowing has been added to the capital programme to support investment in Children's Services provision to meet the needs of children in care and with special educational needs.

Additional Funding

£115,416 S106 contribution from the developer to support the ongoing feasibility/design works in respect of Wynyard Footbridge has been added to the programme.

Programme Revisions

£200,000 has been allocated to support the investment in Early Years outdoor play areas fully funded by Basic Need Grant.

£210,978 to support Townscape Heritage Public Realm works has been added to the programme primarily funded from 2021/22 LTP grant, but also includes contributions from Corporate Resources and Developer contributions.

Carriageway resurfacing has been increased by £184,000 funded via LTP IT grant.

A supplier refund totalling £131,581 has been added to the programme received in respect of faulty uplighter replacements, remedial works have been added to the 2022/23 programme.

SECTION 5 – PAY POLICY AND MEMBERS ALLOWANCES

Pay Policy

48. The April 2021 pay award has not yet been agreed. Unison and GMB have both balloted their members regarding industrial action however, although there was a significant majority of votes for industrial action, the required % of members voting was not reached for action to be taken. Unite are currently balloting their members. Currently the Employers' pay offer for

2021/22 is 1.75% on scp 3 and above. A further pay award for April 2022 is also pending. Consequently the 2020 pay rates have been used for the purposes of the Pay Policy Statement.

49. The Council's grading structure begins at scp 3 Grade C, which currently is £9.62 per hour (pay award pending from 1 April 2021). If the Employers' pay offer is accepted this would increase to £9.78 per hour. This is still above the current National Living Wage which will be £9.50 per hour from 1 April 2022 but will be under the Foundation ("Real") Living Wage which was increased to £9.90 per hour on 9 November 2021.

50. Whilst the Council remains committed to its objective of paying the Foundation Living Wage the outcome of the national collective bargaining process for 2021 and proposals for the 2022 pay award will need to be considered in order to determine whether further action should be taken to achieve our commitment.

51. The Council's median hourly rate and pay multiple, both calculated as at 31 December 2021 are as follows:

- Median Hourly rate is £12.20 (£12.45 at 31 December 2020); and
- Pay multiple is 6.53 (6.40 at 31 December 2020) which remains well under the Council's target of 10.

There is a slight reduction in both the median hourly and pay multiple which is likely to be due to our increased recruitment of apprentices and impact of not applying the pay award particularly to the posts at the higher levels.

52. The proposals regarding the Senior Management Review have been reflected in the Pay Policy Statement.

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

Withdrawal of Exit Payment Legislation

54. The Government introduced legislation to cap Public Sector Exit Payments to a total of £95,000 on all payment costs relating to the termination of employees with effect from 4 November 2020. These costs and payments included 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 (if applicable). Following a judicial review application, the Government withdrew the legislation. We are pleased to confirm that there were no employees who exited the Council with an entitlement to a payment in excess of £95,000 during the period the cap was in place.

We understand that the Government is still looking to impose some restrictions or controls on public sector exit payments and further consultation, or regulations are anticipated. Our policies and procedures will be reviewed should any further legislation be introduced.

Apprentices

55. 2021/22 (to date) has been an extremely positive year for apprenticeships within the Council with 41 new apprenticeship starts through our annual apprenticeship programme and 60 existing employees undertaking an apprenticeship qualification for development – 101 in total. In 2020/21 due to the Covid-19 pandemic we had a lower uptake of apprenticeships but still managed to support 40 apprenticeships. Since the introduction of the Apprenticeship Levy in April 2017 we have seen a gradual increase in the number of "apprenticeship starts" (newly employed apprentices and existing employees undertaking a qualification) each year, with the exception of 2020/21 as outlined in the table below. We are proposing to run a further apprenticeship programme in 2022, going out to advertise in May, with apprentices starting employment in September 2022.

Apprenticeships	New Apprentices	Existing Employee	Total
2017/18	18	42	60
2018/19	32	43	75
2019/20	55	27	82
2020/21	12	28	40
April 21 – To Date	41	60	101

56. The Council continues to pay its new apprentices the national minimum wage for age ranging from £4.62 per hour for 16 and 17 year olds rising to £8.91 per hour for those aged 23 or over, rather than the national apprentice rate of £4.30 per hour. The National Minimum wage rates increase in April each year and are set nationally by the government.

For apprentices undertaking a Level 4 apprenticeship or above the Council currently pays a minimum of Grade C being £9.62 per hour (pay awards pending).

Headcount and FTE

57. Headcount and FTE as at 31 December 2021 compared to 2018 & 2019 is:

	31 December 2021	31 December 2020	31 December 2019	31 December 2018
Headcount	3205	3,218	3,226	3195
FTE	2572	2,551.4	2,531	2498

58. Headcount and FTE have remained fairly static over the last 3 years but overall, there has been a significant reduction in the headcount and FTE of the workforce over the last 10 years. The headcount has reduced by 1,055 (25%) from 4,260 as at 31 March 2011 to 3,205 as at 31 December 2021. Total FTE has reduced by 570 (18%) from 3,142 as at 31 March 2011 to 2,572 as at 31 December 2021.

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

60. 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

61. 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.

62. 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.

63. 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

64. Members will be aware that allowances have been frozen since 2014 following a 4% reduction and it is proposed that this freeze continues for 2023 to support the Council's financial position.

SECTION 6 – PRECEPT LEVELS

Stockton Precept

65. Stockton's current tax level for 2021/22 at Band A (the biggest percentage of its properties) is £1,143.32 (£21.93 per week).

	Band A £	Band D £
2021/22	1,143.32	1,714.98
2022/23	1,187.90	1,781.86

Police Precept

66. The Police & Crime Commissioner has indicated a Council Tax Increase of £10.00 per year at Band D, equivalent to 3.76%.

	Band A £	Band D £
2021/22	177.15	265.73
2022/23	183.82	275.73

Fire Authority

67. A report to the Fire Authority on 11 February 2022 outlines a proposed Council Tax increase of 1.9%.

	Band A £	Band D £
2021/22	53.55	80.33
2022/23	54.57	81.86

Parishes

68. Details of the Parish precepts are given below:

Parish	2021/22 Precept £	2022/23 Precept £	Precept Increase/ Decrease £	Precept Increase/ Decrease %	Band D Increase/ Decrease %	LCTS Grant Both Years £	2022/23 TOTAL £
Aislaby & Newsham	0	0	0	0.00%	0.00%	0	0
Carlton	8,000	8,000	0	0.00%	-0.05%	22	8,022
Castlelevington / Kirklevington	20,000	21,000	1,000	5.00%	-3.34%	348	21,348
Egglescliffe & Eaglescliffe	38,979	53,270	14,291	36.66%	35.47%	5,446	58,716
Elton	0	0	0	0.00%	0.00%	0	0
Wynyard	20,000	21,000	1,000	5.00%	-3.31%	0	21,000
Grindon & Thorpe Thewles	9,518	9,700	182	1.91%	-3.53%	0	9,700
Hilton	2,621	2,621	0	0.00%	-2.08%	129	2,750
Ingleby Barwick	180,300	180,300	0	0.00%	-1.22%	3,445	183,745
Long Newton	13,764	13,764	0	0.00%	0.82%	236	14,000
Maltby	3,504	3,504	0	0.00%	-3.49%	138	3,642
Preston	5,279	5,779	500	9.47%	7.90%	471	6,250
Redmarshall	4,100	4,100	0	0.00%	-1.38%	118	4,218
Stillington & Whitton	9,157	10,000	843	9.21%	2.17%	1,243	11,243
Thornaby	160,861	160,861	0	0.00%	-0.22%	36,050	196,911
Wolviston	13,148	14,159	1,011	7.69%	6.58%	533	14,692
Yarm	117,859	121,409	3,550	3.01%	0.35%	6,141	127,550
Billingham	265,546	296,083	30,537	11.50%	10.64%	23,509	319,592
Total	**872,636**	**925,550**	**52,914**	**6.06%**	**5.31%**	**77,829**	**1,003,379**

Overall Tax Position

69. 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 £102,685,563 is given below:

Tax 2022/23			
	Current 2021/22 (Band A) £	Proposed 2022/23 (Band A) £	Increase %
Police	177.15	183.82	3.76
Fire	53.55	54.57	1.9
Stockton BC	1,143.32	1,187.90	3.9

Formal Tax Recommendations

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

Local Council Tax Support Scheme

71. The Council must set its Local Council Tax Reduction scheme annually by 11 March of the preceding financial year. The scheme was set at Council on Wednesday 24 November 2021 and Members will recall that the revised scheme will result in approximately 7,000 of the most vulnerable not paying council tax at all from 2022/23 onwards. Since the Scheme was approved the Department for Work and Pensions has confirmed the uprated benefit figures effective from April 2022. Cabinet therefore recommends to Council that the scheme approved on 24 November 2021 is retained but with the income table at Schedule 1 adjusted to reflect the uprated figures. The scheme with uprated figures is available here (www.stockton.gov.uk/our-council/council-tax/council-tax-support). In addition, Government's recent announcement that households will receive an 'energy bill rebate payment' in April 2022 has resulted in an amendment to The Council Tax (Demand Notices and Reduction Schemes) (England) Regulations 2012 with a requirement that from 1 April 2022 all local council tax support schemes (including those for persons of working age as well as those of pension age) must disregard any payment made under the Energy Rebate Scheme 2022 in determining a person's eligibility for a council tax reduction and the amount of any such reduction. Cabinet therefore recommends to Council that this is adopted into the Local Council Tax Reduction scheme from 1 April 2022.

72. 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 23 February to ensure that the intended alignment is maintained.

SECTION 7 – Appointment of Auditors

73. The current external auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. The Council opted into the ‘appointing person’ national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23.

74. PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. During Autumn 2021 all local government bodies need to make important decisions about their external audit arrangements from 2023/24. They have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by PSAA.

75. The report concludes that the sector-wide procurement conducted by PSAA will produce better outcomes and will be less burdensome for the Council than a procurement undertaken locally because:

- collective procurement reduces costs for the sector and for individual authorities compared to a multiplicity of smaller local procurements;
- if it does not use the national appointment arrangements, the Council will need to establish its own auditor panel with an independent chair and independent members to oversee a local auditor procurement and ongoing management of an audit contract;
- it is the best opportunity to secure the appointment of a qualified, registered auditor - there are only nine accredited local audit firms, and a local procurement would be drawing from the same limited supply of auditor resources as PSAA’s national procurement; and
- supporting the sector-led body offers the best way of to ensuring there is a continuing and sustainable public audit market into the medium and long term.

76. If the Council wishes to take advantage of the national auditor appointment arrangements, it is required under the local audit regulations to make the decision at full Council. The opt-in period starts on 22 September 2021 and closes on 11 March 2022. To opt into the national scheme from 2023/24, the Council needs to return completed opt-in documents to PSAA by 11 March 2022.

77. The Audit and Governance Committee noted the report and recommended that full Council accepts Public Sector Audit Appointments’ invitation to opt into the sector-led option for the appointment of external auditors for five financial years from 1 April 2023. The report is included at **Appendix E**.

SECTION 8 – CAPITAL STRATEGY

78. 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 F**.

SECTION 9 - TREASURY MANAGEMENT STRATEGY

79. The Council’s Treasury Management Strategy required to be approved is shown at **Appendix G**.

SECTION 10 – INVESTMENT STRATEGY

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

Appendix A

Capital Programme – December 2021

CAPITAL PROGRAMME Up to 2023	Current Approved Programme	Programme Revisions	Revised Programme	Expenditure Apr 2016 - Dec 2021
SCHOOL CAPITAL				
School Investment Programme	41,568,878	0	41,568,878	10,875,804
SCHOOLS CAPITAL	**41,568,878**	**0**	**41,568,878**	**10,875,804**
HOUSING REGENERATION & INCLUSIVE GROWTH & DEVELOPMENT				
Housing Regeneration	1,714,097	0	1,714,097	3,537
Inclusive Growth & Development	40,950,000	0	40,950,000	6,285,201
HOUSING REGENERATION & INCLUSIVE GROWTH & DEVELOPMENT	**42,664,097**	**0**	**42,664,097**	**6,288,738**
TOWN CENTRES				
Stockton Town Centre Schemes	29,578,230	193,690	29,771,920	26,691,272
Reshaping Town Centres	20,807,204	0	20,807,204	399,646
Thornaby Town Centre	5,900,440	1,195,000	7,095,440	239,126
Re-Development of Castlegate Site	43,543,812	0	43,543,812	2,890,937
Infrastructure Enhancements, Regeneration & Property Acquisitions	2,192,720	0	2,192,720	343,039
TOWN CENTRES	**102,022,406**	**1,388,690**	**103,411,096**	**30,564,020**
TRANSPORTATION				
Local Transport Plans	7,361,728	(87,036)	7,274,692	4,650,687
Other Transport Schemes	20,404,202	0	20,404,202	2,997,674
Developer Agreements	1,437,562	1,190,157	2,627,719	855,010
TRANSPORTATION	**29,203,492**	**1,103,121**	**30,306,613**	**8,503,371**
OTHER SCHEMES				
Private Sector Housing	2,371,178	2,207	2,373,385	1,420,878
Building Management & Asset Review	2,094,070	91,050	2,185,120	369,737
Parks, Museums & Cemeteries	631,540	259,604	891,144	140,059
Energy Efficiency Schemes	1,869,922	25,000	1,894,922	263,630
Other Schemes	6,854,641	6,000,000	12,854,641	1,819,989
OTHER SCHEMES	**13,821,351**	**6,377,861**	**20,199,212**	**4,014,293**
Total Approved Capital MTFP	**229,280,224**	**8,869,672**	**238,149,896**	**60,246,226**

Appendix B

Capital Programme

CAPITAL PROGRAMME	Approved Programme	New Approvals (part of Report)	Total Programme
SCHOOL CAPITAL			
School Investment Programme			
Planned Maintenance	3,380,446	0	3,380,446
SEN Investment			
Ash Trees Academy	50,000	0	50,000
Myton Park Primary School	707,000	0	707,000
Egglescliffe School	109,000	0	109,000
Junction farm	453	0	453
Tees Valley Free Special School	61,500	0	61,500
Future SEN Investment	77,417	0	77,417
	1,005,370	0	1,005,370
Early Years			
Redhill Childrens Centre	188,319	0	188,319
Early Years Capital Grant	585,419	0	585,419
	773,738	0	773,738
Secondary Expansion Programme			
All Saints Academy - Expansion	3,445,000	0	3,445,000
Northfield School - Expansion	404,708	0	404,708
Our Lady & St Bedes School Expansion	5,281,403	0	5,281,403
Egglescliffe School - Partial Rebuild	10,136,137	0	10,136,137
Secondary School Feasibility Ian Ramsey	1,300,000	0	1,300,000
Outwood Academy Expansion - Bishopsgarth Toilet Remodelling	5,000,000	0	5,000,000
Conyers New Build Hall	567	0	567
	25,567,815	0	25,567,815
Healthy Pupils Capital Fund	6,125	0	6,125
Whitehouse Primary Toilet Refurbishment	54,000	0	54,000
Oxbridge Primary	30,000	0	30,000
Bishopton PRU	4,337,436	0	4,337,436
Abbey Hill Expansion	326,000	0	326,000
Retained Future Investment Fund	6,087,948	0	6,087,948
	10,841,509	0	10,841,509
	41,568,878	**0**	**41,568,878**
HOUSING REGENERATION & INCLUSIVE GROWTH & DEVELOPMENT			
Housing Regeneration			
Victoria Estate Regeneration	804,097	0	804,097
Affordable Housing	910,000	0	910,000
	1,714,097	0	1,714,097

Business Development			
Indigenous Growth Fund			
Key Sites Acquisition and Investment	6,000,000	0	6,000,000
Key Sites Infrastructure Delivery	3,000,000	0	3,000,000
Inward Investment Strategy	500,000	0	500,000
Business Growth fund	500,000	0	500,000
	10,000,000	0	10,000,000
Other schemes			
Employment Hub	650,000	0	650,000
Office Accommodation			
Accommodation - Stockton & Billingham	10,300,000	0	10,300,000
Customer Facing Services & Leisure Facility	20,000,000	0	20,000,000
	30,300,000	0	30,300,000
	42,664,097	**0**	**42,664,097**
TOWN CENTRES			
Stockton Town Centre			
Stockton Town Centre - Infrastructure Projects	217,419	0	217,419
Townscape Heritage	2,755,912	0	2,755,912
Northshore Hotel	1,901	0	1,901
Globe Theatre Refurbishment	26,796,688	0	26,796,688
	29,771,920	0	29,771,920
Reshaping Town Centres			
Town Centre Developments	7,662,960	0	7,662,960
Billingham Town Centre	10,000,000	0	10,000,000
Other Town Centres Programme	3,144,244	0	3,144,244
	20,807,204	0	20,807,204
Thornaby Town Centre			
Thornaby Town Fund	2,095,440	0	2,095,440
Thornaby Town Centre	5,000,000	0	5,000,000
	7,095,440	0	7,095,440
Redevelopment of Castlegate Site			
Demolition	36,543,812	0	36,543,812
Relocation	7,000,000	0	7,000,000
	43,543,812	0	43,543,812
Other Regeneration Schemes			
Infrastructure Enhancements & Property Acquisition	573,367	0	573,367
Glam Post Office Demolition	1,619,353	0	1,619,353
	2,192,720	0	2,192,720
	103,411,096	**0**	**103,411,096**
TRANSPORTATION			
LTP - Integrated Transport	1,141,525	0	1,141,525
LTP Structural Maintenance			0
Structural Maintenance	1,664,644	0	1,664,644
Mandale Bridge	2,670,412	0	2,670,412
Carriageway Re-surfacing	1,798,111	0	1,798,111
	6,133,167	0	6,133,167
LTP Programme	**7,274,692**	**0**	**7,274,692**

Other transport schemes			
Preston Park	128,407	0	128,407
TVCA A689 Wynyard Feasibility	426,207	0	426,207
TVCA Fuji Film	1,090,000	0	1,090,000
Developer Agreements	2,627,719	0	2,627,719
Sandgate Shops	50,000	0	50,000
Eaglescliffe Station Western Access	657,938	0	657,938
Strategic Urban Expansion - West Stockton	17,100,000	0	17,100,000
Portrack Relief Road	900,000	0	900,000
Norton Road Cycleway	50,000	0	50,000
Myton Way	1,650	0	1,650
Ingleby Way/ Myton Way Dualling			
	23,031,921	0	23,031,921
	30,306,613	**0**	**30,306,613**
OTHER SCHEMES			
Private Sector Housing			
Disabled Adaptations	2,171,744	0	2,171,744
Homeowner Improvement Scheme	201,641	0	201,641
	2,373,385	**0**	**2,373,385**
Building Management & Asset Review			
Building Maintenance Programme	1,832,430		1,832,430
Stockton Town Hall Renovation	200,000		200,000
Travellers Site Maintenance	152,690		152,690
Allotments		100,000	100,000
White Water Course		420,000	420,000
	2,185,120	**520,000**	**2,705,120**
Parks, Museums & Cemeteries			
Parks Improvement Programme	467,242	0	467,242
Cemeteries	423,902	0	423,902
	891,144	**0**	**891,144**
Energy Efficiency Schemes			
District Heating Schemes	251,000	0	251,000
Public Sector Decarbonisation Programme	466,863	0	466,863
Green Homes Grant - LAD2	1,177,059	0	1,177,059
	1,894,922	**0**	**1,894,922**
Other Schemes			
Independent Living LD Bid	202,000		202,000
Joint Venture Investments	492,580		492,580
Investment in Childrens Services	6,000,000	0	6,000,000
Children's Carer adaptation/ extension	363,820		363,820
Vehicle Replacement Fund	4,609,774		4,609,774
Community Services - MOT Bay	63,672		63,672
Waste Management Procurement Project	504,627		504,627
22 Sandown road - Refurbishment Works	240,000		240,000
Flood Coastal Resilience Innovation Programme - Tees Tidelands	305,000		305,000
Stockton Reference Library	73,168		73,168
Library Bus Replacement		200,000	200,000
	12,854,641	**200,000**	**13,054,641**
Total Approved Capital MTFP	**238,149,896**	**720,000**	**238,869,896**

CAPITAL PROGRAMME	Approved Programme	New Approvals (part of Report)	Total Programme
Government Support	115,418,427	0	115,418,427
Earmarked Resources / Receipts	12,686,819	0	12,686,819
Earmarked Housing Regeneration Receipts	175,913	0	175,913
Prudential Borrowing	85,031,298		85,031,298
Other Contributions	14,631,746	0	14,631,746
Corporate One-Off Resources	10,205,694	720,000	10,925,693
Total Approved Funding Capital MTFP	**238,149,897**	**720,000**	**238,869,896**

Stockton-on-Tees
BOROUGH COUNCIL

Appendix C

Stockton on Tees
Borough Council

Pay Policy Statement
2022/23

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. The Pay Awards for 2021/22 and 2022/23 are not yet agreed but will be applied once known.

5. CHIEF OFFICERS

Remuneration of Chief Officers

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

Job Title
Managing Director
Deputy Managing Director
Directors
Director of Public Health
Assistant Directors

Please see senior management structure chart (Link)

5.2 The salaries (pay award for 2021/22 pending) relating to the above grades are:

Job Title	Salary
Managing Director	£159,000
Deputy Managing Director (additional payment in addition to Director Salary)	£137,500
Director	£127,500
Assistant Director – Level 1	£95,419
Assistant Director – Level 2	£89,966

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 set 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, severance packages taken as a whole for Senior Local Government employees, has a cost to the authority of £100,000 or more the Council will be given an opportunity to vote before the package is approved. However, if the employee would be contractually entitled to such a payment and where there is no discretion and a failure to comply would place the Council in breach of contract and leave it exposed to litigation, the payment would be exempt from the requirement of such a vote

6.5 In November 2020 the Government introduced a cap on exit payments for local authority employees but withdrew the legislation following a judicial review challenge. It is understood that the Government may be considering further proposals to restrict exit payments and have already consulted Local Authorities on statutory guidance on the making and disclosure of Special Severance Payment by Local Authorities. Further information is unknown at this point however, the Council will amend its policies and procedures to reflect any changes to 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 a 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 Nationally negotiated pay award for employees on NJC terms and conditions has yet to be agreed for 1 April 2021 and therefore the salaries used in this report are from 1 April 2020.

9.2 The Council's grading structure begins at scp 3 Grade C, which currently is £9.62 per hour (pay award pending from 1 April 2021). If the Employers' pay offer of 1.75% is accepted this would increase to £9.78 per hour. This is still above the current National Living Wage which will be £9.50 per hour from 1 April 2022 but will be under the Foundation ("Real") Living Wage which was increased to £9.90 per hour on 9 November 2021.

Whilst the Council remains committed to its objective of paying the Foundation Living Wage the outcome of the national collective bargaining process for 2021 and 2022 will need to be known in order to determine whether consideration should be given to further action to achieve our commitment.

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 2022 these will start at £4.81 per hour for 16 and 17 year olds, rising to £9.50 for those who are aged 23 and over. For those apprentices undertaking a level 4 apprenticeship or above they will be paid a minimum of 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 As the pay award for both NJC employees and Chief Officer has yet to be agreed from 1 April 2021 we have calculated the median hourly rate and multiplier using the data from 31 December 2021, but the salaries are as at April 2020. The Council's Median Hourly Rate is £12.20 as at 31 December 2021 (£12.45 at 31 December 2020) and the Pay Multiple is 6.53 as at 31 December 2021 (6.40 at 31 December 2020). There is a slight negative change in both the median hourly rate and pay multiple which is likely due to a combination of continuing to recruit to apprentice posts and the pay awards not being agreed as yet. However, 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	Reuben Kench, Director of the Environment, Culture, Leisure and Events, Chris Renahan, Assistant Director (Inclusive Growth and Development), Tony Montague, Assistant Director (Finance) Jill Douglas (Winship), Assistant Director (HR, Legal and Communications) Jill Douglas (Winship), Assistant Director (HR, Legal and Communications)
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 Governor	Vanessa Housley, Service Lead Education and Wellbeing Martin Gray, Director of Children Services
Bishopton Management Board	Governor	Sharon Stevens, Team Manager Children Services
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

Council Tax Resolution

Resolution to be Added for Council Meeting

APPENDIX E

AGENDA ITEM

REPORT TO AUDIT AND GOVERNANCE COMMITTEE

29 NOVEMBER 2021

REPORT OF DIRECTOR OF FINANCE, DEVELOPMENT AND BUSINESS SERVICES

APPOINTMENT OF EXTERNAL AUDITORS 2023/24 to 2027/28

SUMMARY

The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. The Council opted into the ‘appointing person’ national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23.

PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. During Autumn 2021 all local government bodies need to make important decisions about their external audit arrangements from 2023/24. They have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by PSAA.

The report concludes that the sector-wide procurement conducted by PSAA will produce better outcomes and will be less burdensome for the Council than a procurement undertaken locally because:

- collective procurement reduces costs for the sector and for individual authorities compared to a multiplicity of smaller local procurements;
- if it does not use the national appointment arrangements, the Council will need to establish its own auditor panel with an independent chair and independent members to oversee a local auditor procurement and ongoing management of an audit contract;
- it is the best opportunity to secure the appointment of a qualified, registered auditor - there are only nine accredited local audit firms, and a local procurement would be drawing from the same limited supply of auditor resources as PSAA’s national procurement; and
- supporting the sector-led body offers the best way of to ensuring there is a continuing and sustainable public audit market into the medium and long term.

If the Council wishes to take advantage of the national auditor appointment arrangements, it is required under the local audit regulations to make the decision at full Council. The opt-in period starts on 22 September 2021 and closes on 11 March 2022. To opt into the national scheme from 2023/24, the Council needs to return completed opt-in documents to PSAA by 11 March 2022.

REASON FOR RECOMMENDATION

This report sets out proposals for appointing the external auditor to the Council for the accounts for the five-year period from 2023/24.

RECOMMENDATION

1. That the Committee notes the report and that it will be recommended that full Council accepts Public Sector Audit Appointments' invitation to opt into the sector-led option for the appointment of external auditors for five financial years from 1 April 2023.

DETAIL

1. Under the Local Government Audit & Accountability Act 2014 ("the Act"), the council is required to appoint an auditor to audit its accounts for each financial year. The council has three options.

   - To appoint its own auditor, which requires it to follow the procedure set out in the Act.
   - To act jointly with other authorities to procure an auditor following the procedures in the Act.
   - To opt into the national auditor appointment scheme administered by a body designated by the Secretary of State as the 'appointing person'. The body currently designated for this role is Public Sector Audit Appointments Limited (PSAA).

   In order to opt into the national scheme, a council must make a decision at a meeting of the Full Council.

The Appointed Auditor

2. The auditor appointed at the end of the procurement process will undertake the statutory audit of accounts and Best Value assessment of the council in each financial year, in accordance with all relevant codes of practice and guidance. The appointed auditor is also responsible for investigating questions raised by electors and has powers and responsibilities in relation to Public Interest Reports and statutory recommendations.

3. The auditor must act independently of the council and the main purpose of the procurement legislation is to ensure that the appointed auditor is sufficiently qualified and independent.

4. The auditor must be registered to undertake local audits by the Financial Reporting Council (FRC) employ authorised Key Audit Partners to oversee the work. As the report below sets out there is a currently a shortage of registered firms and Key Audit Partners.

5. Auditors are regulated by the FRC, which will be replaced by a new body with wider powers, the Audit, Reporting and Governance Authority (ARGA) during the course of the next audit contract. Councils therefore have very limited influence over the nature of the audit services they are procuring, the nature and quality of which are determined or overseen by third parties.

Appointment by the council itself or jointly

6. The Council may elect to appoint its own external auditor under the Act, which would require the Council to;

   - Establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by the Council itself, and the members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, excluding current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing to which audit firm to award a contract for the Council's external audit.

   - Manage the contract for its duration, overseen by the Auditor Panel.

7. Alternatively, the Act enables the Council to join with other authorities to establish a joint auditor panel. Again, this will need to be constituted of wholly or a majority of independent appointees. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.

The national auditor appointment scheme

8. PSAA is specified as the 'appointing person' for principal local government under the provisions of the Act and the Local Audit (Appointing Person) Regulations 2015. PSAA let five-year audit services contracts in 2017 for the first appointing period, covering audits of the accounts from 2018/19 to 2022/23. It is now undertaking the work needed to invite eligible bodies to opt in for the next appointing period, from the 2023/24 audit onwards, and to complete a procurement for audit services. PSAA is a not-for-profit organisation whose costs are around 4% of the scheme with any surplus distributed back to scheme members.

9. In summary the national opt-in scheme provides the following:

- the appointment of a suitably qualified audit firm to conduct audits for each of the five financial years commencing 1 April 2023;
- appointing the same auditor to other opted-in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints;
- managing the procurement process to ensure both quality and price criteria are satisfied. PSAA has sought views from the sector to help inform its detailed procurement strategy;
- ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise during the appointment period;
- minimising the scheme management costs and returning any surpluses to scheme members;
- consulting with authorities on auditor appointments, giving the Council the opportunity to influence which auditor is appointed;
- consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity, and audit risk; and
- ongoing contract and performance management of the contracts once these have been let.

Pressures in the current local audit market and delays in issuing opinions

10. Much has changed in the local audit market since audit contracts were last awarded in 2017. At that time the audit market was relatively stable, there had been few changes in audit requirements, and local audit fees had been reducing over a long period. 98% of those bodies eligible opted into the national scheme and attracted very competitive bids from audit firms. The resulting audit contracts took effect from 1 April 2018.

11. During 2018 a series of financial crises and failures in the private sector year led to questioning about the role of auditors and the focus and value of their work. Four independent reviews were commissioned by Government: Sir John Kingman's review of the Financial Reporting Council (FRC), the audit regulator; the Competition and Markets Authority review of the audit market; Sir Donald Brydon's review of the quality and effectiveness of audit; and Sir Tony Redmond's review of local authority financial reporting and external audit. The recommendations are now under consideration by Government, with the clear implication that significant reforms will follow. A new audit regulator (ARGA) is to be established, and arrangements for system leadership in local audit are to be introduced. Further change will follow as other recommendations are implemented.

12. The Kingman review has led to an urgent drive for the FRC to deliver rapid, measurable improvements in audit quality. This has created a major pressure for audit firms to ensure full compliance with regulatory requirements and expectations in every audit they undertake. By the time firms were conducting 2018/19 local audits during 2019, the measures they were putting in

place to respond to a more focused regulator were clearly visible. To deliver the necessary improvements in audit quality, firms were requiring their audit teams to undertake additional work to gain deeper levels of assurance. However, additional work requires more time, posing a threat to the firms' ability to complete all their audits by the target date for publication of audited accounts. Delayed opinions are not the only consequence of the FRC's drive to improve audit quality. Additional audit work must also be paid for. As a result, many more fee variation claims have been needed than in prior years.

13. This situation has been accentuated by growing auditor recruitment and retention challenges, the complexity of local government financial statements and increasing levels of technical challenges as bodies explore innovative ways of developing new or enhanced income streams to help fund services for local people. These challenges have increased in subsequent audit years, with Covid-19 creating further significant pressure for finance and audit teams.

14. None of these problems is unique to local government audit. Similar challenges have played out in other sectors, where increased fees and disappointing responses to tender invitations have been experienced during the past two years.

The invitation

15. PSAA is now inviting the Council to opt in for the second appointing period, for 2023/24 to 2027/28, along with all other eligible authorities. Based on the level of opt-ins it will enter into contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's auditor.

The next audit procurement

16. The prices submitted by bidders through the procurement will be the key determinant of the value of audit fees paid by opted-in bodies. PSAA will:

- seek to encourage realistic fee levels and to benefit from the economies of scale associated with procuring on behalf of a significant number of bodies;
- continue to pool scheme costs and charge fees to opted-in bodies in accordance with the published fee scale as amended following consultations with scheme members and other interested parties (pooling means that everyone within the scheme will benefit from the prices secured via a competitive procurement process – a key tenet of the national collective scheme);
- continue to minimise its own costs, around 4% of scheme costs, and as a not-for-profit company will return any surplus funds to scheme members. In 2019 it returned a total £3.5million to relevant bodies and in 2021 a further £5.6million was returned;
- PSAA will seek to encourage market sustainability in its procurement. Firms will be able to bid for a variety of differently sized contracts so that they can match their available resources and risk appetite to the contract for which they bid. They will be required to meet appropriate quality standards and to reflect realistic market prices in their tenders, informed by the scale fees and the supporting information provided about each audit. Where regulatory changes are in train which affect the amount of audit work suppliers must undertake, firms will be informed as to which developments should be priced into their bids.

17. The scope of a local audit is fixed. It is determined by the Code of Audit Practice (currently published by the National Audit Office), the format of the financial statements (specified by CIPFA/LASAAC) and the application of auditing standards regulated by the FRC. These factors apply to all local audits irrespective of whether an eligible body decides to opt into PSAA's national scheme or chooses to make its own separate arrangements. The requirements are mandatory; they shape the work auditors undertake and have a bearing on the actual fees required.

18. Fees paid in respect of the Councils audit of the accounts since the current contract commenced are as follows;

2018/19	£101,000
2019/20	£101,000
2020/21	£116,000 (reflects agreed price due to increased audit requirements)

19. There are currently nine audit providers eligible to audit local authorities and other relevant bodies under local audit legislation. This means that a local procurement exercise would seek tenders from the same firms as the national procurement exercise, subject to the need to manage any local independence issues. Local firms cannot be invited to bid. Local procurements must deliver the same audit scope and requirements as a national procurement, reflecting the auditor's statutory responsibilities.

Assessment of options and officer recommendation

20. If the Council did not opt in there would be a need to establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by the Council itself, and the members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, excluding current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing to which audit firm to award a contract for the Council external audit.

21. Alternatively, the Act enables the Council to join with other authorities to establish a joint auditor panel. Again, this will need to be constituted of wholly or a majority of independent appointees. Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.

22. These would be more resource-intensive processes to implement for the council, and without the bulk buying power of the sector-led procurement would be likely to result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process. The council is unable to influence the scope of the audit and the regulatory regime inhibits the council's ability to affect quality.

23. The Council and its auditor panel would need to maintain ongoing oversight of the contract. Local contract management cannot, however, influence the scope or delivery of an audit.

24. The national offer provides the appointment of an independent auditor with limited administrative cost to the council. By joining the scheme, the council would be acting with other councils to optimise the opportunity to influence the market that a national procurement provides.

25. The recommended approach is therefore to opt into the national auditor appointment scheme.

The way forward

26. Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of the Council. The Council then needs to respond formally to PSAA's invitation in the form specified by PSAA by the close of the opt-in period (11 March 2022).

27. PSAA will commence the formal procurement process in early February 2022. It expects to award contracts in August 2022 and will then consult with authorities on the appointment of auditors so that it can make appointments by the statutory deadline of 31 December 2022.

COMMUNITY IMPACT IMPLICATIONS

28. 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

29. No direct implications.

FINANCIAL IMPLICATIONS

30. There is a risk that current external audit fee levels could increase when the current contracts end. It is clear that the scope of audit has increased, requiring more audit work. There are also concerns about capacity and sustainability in the local audit market.

    Opting into a national scheme provides maximum opportunity to ensure fees are as realistic as possible, while ensuring the quality of audit is maintained, by entering into a large scale collective procurement arrangement.

    If the national scheme is not used some additional resource may be needed to establish an auditor panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to state what, if any, additional resource may be required for audit fees from 2023/24.

LEGAL IMPLICATIONS

31. Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.

    Section 8 governs the procedure for appointment including that the Council must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant Council is a local Council operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the Council under those arrangements.

    Section 12 makes provision for the failure to appoint a local auditor. The Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.

    Section 17 gives the Secretary of State the power to make regulations in relation to an ‘appointing person’ specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a sector-led body to become the appointing person. In July 2016 the Secretary of State specified PSAA as the appointing person.

RISK ASSESSMENT

32. The principal risks are that the Council;

    - fails to appoint an auditor in accordance with the requirements and timing specified in local audit legislation; or
    - does not achieve value for money in the appointment process.

    These risks are considered best mitigated by opting into the sector-led approach through PSAA.

WARDS AFFECTED AND CONSULTATION WITH WARD/COUNCILLORS

33. Not applicable

BACKGROUND PAPERS

34. None

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Appendix F

CAPITAL STRATEGY REPORT 2022/23

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 2022/23, the Council is planning capital expenditure of £79.182m as summarised below:

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

	2020/21 actual	2021/22 forecast	2022/23 budget	2023/24 budget	2024/25 budget
Schools Capital	3.312	7.714	21.967	5.000	0.738
Housing Regeneration, Inclusive Growth & Development	0.159	7.109	9.364	13.988	12.160
Town Centres	12.814	9.832	27.530	17.477	22.375
Transportation	6.788	12.574	14.106	1.510	0.000
Other Schemes	5.203	8.039	6.215	6.044	0.000
TOTAL	**28.276**	**45.268**	**79.182**	**44.019**	**35.273**

The main General Fund capital projects in 2022/23 include the Secondary School Investment Programme of Works £15.2m, Redevelopment of the Castlegate Site £11.5m and West Stockton Strategic Urban Expansion £12.8m. 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. Members will consider the Environmental Sustainability & Carbon Reduction Strategy at the Cabinet meeting on 17th March 2022. Future capital projects will consider the aims of this strategy as part of the business case development.

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

	2020/21 actual	2021/22 forecast	2022/23 budget	2023/24 budget	2024/25 budget
Capital receipts	2.285	1.280	3.569	0.000	0.000
Capital grants	6.985	32.003	41.984	16.931	13.110
Capital contributions	6.011	1.836	6.520	5.001	0.000
Revenue	1.861	5.937	8.694	0.221	0.000
Borrowing	11.134	4.212	18.415	21.866	22.163
TOTAL	**28.276**	**45.268**	**79.182**	**44.019**	**35.273**

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

	2020/21 actual	2021/22 forecast	2022/23 budget	2023/24 budget	2024/25 budget
Own resources	2.684	2.790	3.037	2.824	3.404

Ministry of Housing Communities and Local Government (DLUHC) 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 £15.379m during 2022/23. 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

	2020/21 actual	2021/22 forecast	2022/23 budget	2023/24 budget	2024/25 budget
General Fund services	182.124	183.545	198.924	217.966	236.725
Capital investments	0.000	0.000	0.000	0.000	0.000
TOTAL CFR	**182.124**	**183.545**	**198.924**	**217.966**	**236.725**

Asset management: Asset Strategy and Management is a systematic process of lifecycle management including strategic planning, investment, operation, and maintenance of building assets in a cost effective and environmentally sustainable manner. To ensure that the capital assets continue to be of a long term and sustainable use, the Council provides Strategic Asset Management Planning by maintaining up to date building condition information, developing a pipeline of investment, and managing programmes from inception to delivery. This ensures that Council building assets continue to be a safe and fit for purpose environment which supports the Council's 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. Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive £2.451m of capital receipts and loan repayments in the coming financial year as follows:

Table 5: Capital receipts receivable in £ millions

	2020/21 actual	2021/22 forecast	2022/23 budget	2023/24 budget	2024/25 budget
Asset sales	3.160	1.136	1.030	0.993	3.754
Loans repaid	0.006	0.086	1.421	0.086	0.086
TOTAL	**3.166**	**1.222**	**2.451**	**1.079**	**3.840**

Flexible Use of Capital Receipt's Strategy

DLUHC 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 2025/26.

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 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 31 December 2021 the Council had £73.597m debt and £47.587m 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 0.40% for a 9 month loan period) 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

	31.3.2021 actual	31.3.2022 forecast	31.3.2023 budget	31.3.2024 budget	31.3.2025 budget
Debt (incl. PFI & leases)	87.954	88.749	143.653	169.517	192.489
Capital Financing Requirement	182.124	183.545	198.924	217.966	236.725

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 £82.2m at 31st March 2022 and is forecast to rise to £189.6m over the next three years.

Table 7: Borrowing and the Liability Benchmark in £ millions

	31.3.2021 actual	31.3.2022 forecast	31.3.2023 budget	31.3.2024 budget	31.3.2025 budget
Outstanding borrowing	80.0	82.2	138.5	165.0	189.6
Liability benchmark	73.8	82.2	138.5	164.9	189.6

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

	2021/22 limit	2022/23 limit	2023/24 limit	2024/25 limit
Authorised limit	203.5	224.9	244.0	262.7
Operational boundary	183.5	201.9	221.0	239.7

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

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

	31.3.2021 actual	31.3.2022 forecast	31.3.2023 budget	31.3.2024 budget	31.3.2025 budget
Near-term investments	16.3	10.0	10.0	10.0	10.0
Long-term investments	13.8	15.5	15.5	15.5	15.5
TOTAL	**30.1**	**25.5**	**25.5**	**25.5**	**25.5**

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

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. The Treasury Management prudential indicators are provided within the Treasury Management Strategy included at Appendix G.

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 via Cabinet / Council.

Based on the current small value of service investments all potential losses could be absorbed in budgets or reserves without unmanageable detriment to local services.

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

Commercial Activities

The Council has for a number of years owned investment properties and these make profits which are spent on local public services. Total commercial investments as at 31st March 2021 were valued at £16.048m across a range of properties such as estate shops, garages, ground leases and the Hotel.

With financial return being the main objective, the Council accepts higher risk on commercial investment than with treasury investments. The principal risk exposures include reduction in rental payments due to vacancies and a fall in capital value. In order that commercial investments remain proportionate to the size of the authority, these are subject to an overall maximum investment limit of £30m. Any variation from planned budgets will be monitored through the budgetary control and medium-term financial plan process.

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 via Cabinet / Council.

- Further details on commercial investments are included within the Investment Strategy included at **Appendix H**.

In relation to the overall net revenue stream of the Council compared to the net income from commercial investments this is not material to the overall financial capacity of the Council. This is demonstrated in table 10 below and any losses can be absorbed in budgets or managed through reserves.

Table 10: Prudential Indicator: Net income from commercial and service investments to net revenue stream

	2020/21 actual	2021/22 forecast	2022/23 budget	2023/24 budget	2024/25 budget
Total net income from service and commercial investments £m	0.95	1.239	1.098	1.098	1.098
Proportion of net revenue stream	0.57%	0.80%	0.68%	0.66%	0.64%

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 11: Total investment exposure in £millions

Total Investment Exposure	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Budget £m
Treasury management investments	30.059	25.500	25.500
Service investments: Loans	2.251	2.165	0.744
Service investments: Shares	0.377	0.377	0.377
Commercial investments: Property	16.048	16.048	16.048
TOTAL INVESTMENTS	**48.735**	**44.090**	**42.669**

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 12: Investments funded by borrowing in £millions

Investments funded by borrowing	31.03.2021 Actual £m	31.03.2022 Forecast £m	31.03.2023 Forecast £m
Treasury management investments	0	0	0
Service investments: Loans	1.335	1.335	0.000
Service investments: Shares	0	0	0
Commercial investments: Property	17.000	17.000	17.000
Total Funded by Borrowing	**18.335**	**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 13: Investment rate of return (net of all costs)

Investments net rate of return	2020/21 Actual	2021/22 Forecast	2022/23 Forecast
Treasury management investments	1.5%	1.5%	3.2%
Service investments: Loans	1.9%	1.8%	4.6%
Service investments: Shares	0.0%	0.0%	0.0%
Commercial investments: Property	3.4%	2.9%	3.0%
ALL INVESTMENTS	**2.0%**	**1.9%**	**3.1%**

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 £364m as at the 31 March 2021. The Council has also agreed 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 57 of the 2020/21 Statement of Accounts. Pension information is covered in pages 53 – 56 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 14: Prudential Indicator: Proportion of financing costs to net revenue stream

	31.3.2021 actual	31.3.2022 forecast	31.3.2023 budget	31.3.2024 budget	31.3.2025 budget
Financing costs (£m)	4.6	4.2	4.9	5.2	5.7
Proportion of net revenue stream	2.8%	2.7%	3.0%	3.1%	3.4%

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 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 2022/23

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 DLUHC Guidance) most recently issued in 2018.

The broad aim of the DLUHC 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 DLUHC 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 1 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 31 March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset determined on an annuity method starting in the year after the asset becomes operational.

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 2022/23 will not be subject to a MRP charge until the year following the year in which the relevant assets become operational.

Appendix G

STOCKTON ON TEES TREASURY MANAGEMENT STRATEGY 2022/23

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.

Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy presented at **Appendix H** 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 ongoing impact on the UK from coronavirus, together with higher inflation, higher interest rates, and the country's trade position post-Brexit, will be major influences on the Authority's treasury management strategy for 2022/23.

The Bank of England (BoE) increased Bank Rate to 0.25% in December 2021 while maintaining its Quantitative Easing programme at £895 billion. The Monetary Policy Committee (MPC) voted 8-1 in favour of raising rates, and unanimously to maintain the asset purchase programme.

Within the announcement the MPC noted that the pace of the global recovery was broadly in line with its November Monetary Policy Report. Prior to the emergence of the Omicron coronavirus variant, the Bank also considered the UK economy to be evolving in line with expectations, however the increased uncertainty and risk to activity the new variant presents, the Bank revised down its estimates for Q4 GDP growth to 0.6% from 1.0%. Inflation was projected to be higher than previously forecast, with CPI likely to remain above 5% throughout the winter and peak at 6% in April 2022. The labour market was generally performing better than previously forecast and the BoE now expects the unemployment rate to fall to 4% compared to 4.5% forecast previously, but notes that Omicron could weaken the demand for labour.

UK CPI for November 2021 registered 5.1% year on year, up from 4.2% in the previous month. Core inflation, which excludes the more volatile components, rose to 4.0% from 3.4%. The most recent labour market data for the three months to October 2021 showed the unemployment rate fell to 4.2% while the employment rate rose to 75.5%.

Gross domestic product (GDP) grew by 1.3% in the third calendar quarter of 2021 according to the initial estimate, compared to a gain of 5.5% in the previous quarter, with the annual rate slowing to 6.6% from 23.6%. The Q3 gain was modestly below the consensus forecast of a 1.5% rise. During the quarter activity measures were boosted by sectors that reopened following pandemic restrictions, suggesting that wider spending was flat. Looking ahead, while monthly GDP readings suggest there had been some increase in momentum in the latter part of Q3, Q4 growth is expected to be soft.

Credit outlook: Since the start of 2021, relatively benign credit conditions have led to credit default swap (CDS) prices for the larger UK banks to remain low and had steadily edged down throughout the year up until mid-November when the emergence of Omicron has caused them to rise modestly. However, the generally improved economic outlook during 2021 helped bank profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of coronavirus-related business support measures by the government means the full impact on bank balance sheets may not be known for some time.

The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several financial institutions, revising them from negative to stable and even making a handful of rating upgrades.

Looking ahead, while there is still the chance of bank losses from bad loans as government and central bank support is removed, the institutions on the Authority's counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the Authority's lending list are under regular review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast: The Authority's treasury management adviser Arlingclose is forecasting that Bank Rate will continue to rise in calendar Q1 2022 to subdue inflationary pressures and the perceived desire by the BoE to move away from emergency levels of interest rates.

Investors continue to price in multiple rises in Bank Rate over the next forecast horizon, and Arlingclose believes that although interest rates will rise again, the increases will not be to the extent predicted by financial markets. In the near-term, the risks around Arlingclose's central case are to the upside while over the medium-term the risks become more balanced.

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

Local Context

On 31st December 2021, the Authority held £73.6m of borrowing and £47.6m 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

	31.3.21 Actual £m	**31.3.22 Forecast £m**	**31.3.23 Forecast £m**	**31.3.24 Forecast £m**	**31.3.25 Forecast £m**
General Fund CFR	182.1	183.5	198.9	218.0	236.7
Less: Other debt liabilities	(7.9)	(6.5)	(5.2)	(4.6)	(2.9)
Loans CFR	**174.2**	**177.0**	**193.7**	**213.4**	**233.8**
Less: External borrowing	(80.0)	(82.2)	(138.5)	(165.0)	(189.6)
Internal (over) borrowing	**94.2**	**94.8**	**55.3**	**48.4**	**44.2**
Less: Balance Sheet Resources	(124.3)	(120.3)	(80.8)	(74.0)	(69.8)
(Investments) / New borrowing	**(30.1)**	**(25.5)**	**(25.5)**	**(25.5)**	**(25.5)**

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 £189.6m 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

	31.3.21 Actual £m	**31.3.22 Forecast £m**	**31.3.23 Forecast £m**	**31.3.24 Forecast £m**	**31.3.25 Forecast £m**
Loans CFR	174.2	177.0	193.7	213.4	233.8
Less: Balance Sheet Resources	(124.3)	(120.3)	(80.8)	(74.0)	(69.8)
Plus: Liquidity Allowance	23.9	25.5	25.5	25.5	25.5
Liability Benchmark	**73.8**	**82.2**	**138.5**	**164.9**	**189.6**

Following on from the medium-term forecasts in table 2 above, the long-term liability benchmark assumes there is no additional capital expenditure funded by borrowing, minimum revenue provision on new capital expenditure based on a 50 year asset life and income, expenditure and reserves all increasing by inflation of 2.5% a year.

<u>Borrowing Strategy</u>

The Authority at the 31st December 2021 had £73.6m of loans, a decrease of £17.4m on the same period last 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 £138.5m in 2022/23. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £225m.

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 2022/23 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; the Authority intends to avoid this activity in order to retain its access to PWLB loans.

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:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except 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 £77m and £30m, 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 few 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.

Business models: Under the new IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

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 £63.9million on 31st March 2022. 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.

Treasury Management Prudential Indicators

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% rise in interest rates	-£0.088m
One-year revenue impact of a 1% fall in interest rates	£0.088m

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 £0.088m negative impact on the council's 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.

Long Term Treasury Management Investments: 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

Related Matters

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 2022/23 is £0.790m, based on an average investment portfolio of £25m. The budget for debt interest to be paid in 2022/23 is £3.232m. 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 circumstances 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 2021

Underlying assumptions:

- The global recovery from the pandemic has entered a more challenging phase. The resurgence in demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. The advent of the Omicron variant of coronavirus is affecting activity and is also a reminder of the potential downside risks.

- Despite relatively buoyant activity survey data, official GDP data indicates that growth was weakening into Q4 2021. Other data, however, suggested continued momentum, particularly for November. Retail sales volumes rose 1.4%, PMIs increased, and the labour market continued to strengthen. The end of furlough did not appear to have had a significant impact on unemployment. Wage growth is elevated.

- The CPI inflation rate rose to 5.1% for November and will rise higher in the near term. While the transitory factors affecting inflation are expected to unwind over time, policymakers' concern is persistent medium term price pressure.

- These factors prompted the MPC to raise Bank Rate to 0.25% at the December meeting. Short term interest rate expectations remain elevated.

- The outlook, however, appears weaker. Household spending faces pressures from a combination of higher prices and tax rises. In the immediate term, the Omicron variant has already affected growth – Q4 and Q1 activity could be weak at best.

- Longer-term government bond yields remain relatively low despite the more hawkish signals from the BoE and the Federal Reserve. Investors are concerned that significant policy tightening in the near term will slow growth and prompt the need for looser policy later. Geo-political and coronavirus risks are also driving safe haven buying. The result is a much flatter yield curve, as short-term yields rise even as long-term yields fall.

- The rise in Bank Rate despite the Omicron variant signals that the MPC will act to bring inflation down whatever the environment. It has also made clear its intentions to tighten policy further. While the economic outlook will be challenging, the signals from policymakers suggest their preference is to tighten policy unless data indicates a more severe slowdown.

Forecast:

- The MPC will want to build on the strong message it delivered this month by tightening policy despite Omicron uncertainty.

- Arlingclose therefore expects Bank Rate to rise to 0.50% in Q1 2022, but then remain there. Risks to the forecast are initially weighted to the upside, but becoming more balanced over time. The Arlingclose central forecast remains below the market forward curve.

- Gilt yields will remain broadly flat from current levels. Yields have fallen sharply at the longer end of the yield curve, but expectations of a rise in Bank Rate have maintained short term gilt yields at higher levels.

- Easing expectations for Bank Rate over time could prompt the yield curve to steepen, as investors build in higher inflation expectations.

- The risks around the gilt yield forecasts vary. The risk for short and medium term yields is initially on the upside but shifts lower later. The risk for long-term yields is weighted to the upside.

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
3-month money market ra													
Upside risk	0.05	0.05	0.25	0.35	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.55	0.55	0.60	0.60	0.60	0.60	0.65	0.65	0.65	0.65	0.65	0.65
Downside risk	0.00	-0.25	-0.25	-0.30	-0.30	-0.30	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35
5yr gilt yield													
Upside risk	0.00	0.35	0.45	0.55	0.55	0.55	0.55	0.55	0.55	0.50	0.50	0.45	0.45
Arlingclose Central Case	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.65	0.70	0.75	0.75
Downside risk	-0.10	-0.20	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40
10yr gilt yield													
Upside risk	0.10	0.25	0.35	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.55	0.55	0.55
Arlingclose Central Case	0.80	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.90	0.90	0.95	0.95
Downside risk	-0.10	-0.25	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.40	-0.40	-0.40	-0.40
20yr gilt yield													
Upside risk	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	1.00	1.05	1.10	1.10	1.10	1.10	1.15	1.15	1.15	1.20	1.20	1.20	1.20
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45
50yr gilt yield													
Upside risk	0.25	0.30	0.40	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.70	0.75	0.80	0.85	0.90	0.95	1.00	1.05	1.05	1.10	1.10	1.15	1.15
Downside risk	-0.15	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45

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

	31/12/2021 Actual Portfolio £m	31/12/2021 Average Rate %
External borrowing:		
Public Works Loan Board	32.1	2.20%
Local authorities	0.5	2.00%
LOBO loans from banks	37.0	4.79%
Other loans	4.0	8.99%
Total external borrowing	**73.6**	
Other long-term liabilities:		
Private Finance Initiative	3.6	
Finance Leases	2.9	
Total other long-term liabilities	**6.5**	
Total gross external debt	**80.1**	
Treasury investments:		
Banks & building societies	1.1	0.00%
Government (incl. local authorities)	1.0	
Money Market Funds	30.0	0.01%
Other pooled funds	15.5	3.64%
Total treasury investments	**47.6**	
Net Debt	**32.5**	

Appendix H

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 2022/23 plan for treasury management investments are covered in a separate document, the Treasury Management Strategy, attached at Appendix G 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 2021 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	31.3.2021 actual			2022/23
	Balance owing £m	**Loss allowance £m**	**Net figure in accounts £m**	**Approved Limit £m**
Subsidiaries / Joint Ventures	0.634	0.000	0.634	**5.000**
Local businesses	1.408	-0.003	1.405	**2.000**
Local residents	0.211	0.000	0.211	**1.000**
Employees	0.000	0.000	0.000	**0.050**
TOTAL	**2.253**	**-0.003**	**2.250**	**8.050**

Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts are shown net of this loss allowance. However, the Authority 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 invests 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	31.3.2021 actual			2022/23
	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: The Government 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	**31.3.2021 Value £m**
Estate Shops	0.604
Hampton by Hilton Hotel	9.900
Town Centre	1.630
Ground Leases	2.891
Garages	0.083
Agricultural	0.900
Advertising Hoardings	0.040
TOTAL	**16.048**

During 2019/20 the Council purchased Wellington Square and Castlegate shopping centres. These properties do not meet DLUHC 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 2021. 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

	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Budget £m
Gross service expenditure	423.276	402.683	421.447
Investment income	1.890	1.863	2.105
Proportion	**0.45%**	**0.46%**	**0.50%**

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, which 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	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Budget £m
Treasury management investments	30.059	25.500	25.500
Service investments: Loans	2.251	2.165	0.744
Service investments: Shares	0.377	0.377	0.377
Commercial investments: Property	16.048	16.048	16.048
TOTAL INVESTMENTS	**48.735**	**44.090**	**42.669**

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	31.03.2021 Actual £m	31.03.2022 Forecast £m	31.03.2023 Forecast £m
Treasury management investments	0	0	0
Service investments: Loans	1.335	1.335	0.000
Service investments: Shares	0	0	0
Commercial investments: Property	17.000	17.000	17.000
Total Funded by Borrowing	**18.335**	**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	2020/21 Actual	2021/22 Forecast	2022/23 Forecast
Treasury management investments	1.5%	1.5%	3.2%
Service investments: Loans	1.9%	1.8%	4.6%
Service investments: Shares	0.0%	0.0%	0.0%
Commercial investments: Property	3.4%	2.9%	3.0%
ALL INVESTMENTS	**2.0%**	**1.9%**	**3.1%**

Appendix I

SECTION 151 OFFICERS STATEMENT ON THE ROBUSTNESS OF THE BUDGET AND ADEQUACY OF BALANCES –YEAR 2022/23

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 2020/21. 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 2021/22. The National Audit Office issues guidance to auditors that underpins the work they carry out and sets out the reporting criteria that they are required to consider. The reporting criteria are: Financial Sustainability; Governance and Improving 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 and to the impact of inflation. The key demand led pressure relates to Children’s Social Care, which is under significant pressure in the current year. There are mitigation plans in place to manage these pressures. Inflation, particularly relating to energy and fuel is also a significant risk for the 2022/23 budget and additional resources are recommended for inclusion in the budget to reflect this.

9. The construction of the budget for 2022/23 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. This review has resulted in a recommended increase in the level of General Fund Balances to £8,000,000. 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.