AGENDA ITEM 4

REPORT TO CABINET

10 FEBRUARY 2025

REPORT OF CORPORATE MANAGEMENT TEAM

CABINET/COUNCIL 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 2025/26 Budget and Council Tax and outlining the Medium Term Financial Plan (MTFP) position to 2028. The report also includes an update on the financial performance for 2024/25.

The report outlines the budget for 2025/26 and indicative MTFP for future years. The provisional finance settlement was received on 18th December 2024, and this indicated the funding for 2025/26, with the final allocations to be confirmed in February. In order to prepare a Medium Term Financial Plan, assumptions have been made in respect of future years, however, this funding is extremely uncertain and subject to future Government spending reviews.

The Provisional Financial Settlement has provided funding allocations for 2025/26 only. The Government have indicated that there will be reforms to Local Government Finance from 2026/27 onwards and will take forward the fair funding review, also considering the reset of Business Rates. Government have indicated there will be a multi-year settlement from 2026/27 onwards.

REASON FOR RECOMMENDATIONS/DECISIONS

The report outlines recommendations to Cabinet in respect of Cabinet and Council decisions in relation to:

- 2025/26 budget, MTFP and Capital Programme
- Council Tax
- Organisational and HR, Capital Strategy, Treasury Management Strategy, Investment Strategy,
- officer appointments to outside bodies, 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 2025/26 Council Tax requirement for Stockton-on-Tees Borough Council of £124,538,859.

3. Approve a 2025/26 Council Tax requirement for Stockton-on-Tees Borough Council inclusive of Parish Precepts £x – *this information will follow for Council*

4. Approve the 2025/26 budget and indicative 2026/28 MTFP as outlined in paragraphs 20-46, the level of General Fund Balances and the release of reserves to balance the 2024/25 in year financial position as set out in paragraphs 14-19.

5. To revise the existing £6m prudential borrowing approval for investment in Children's Services residential homes and Spark of Genius, and replace with a Council wide investment fund of £20m from prudential borrowing for self-funding capital investments linked to transformation of Services. This could include investments relating to climate change. Individual schemes will need to be approved by Cabinet.

6. Agree the use of £950,000 of Prudential Borrowing to fund the investment required at Preston Park covered within the Levelling Up Fund Preston Park Museum and Grounds Enhancements report to Cabinet on 16th January 2025.

Taxation

SBC

7. Approve the Council Tax for Stockton-on-Tees Borough Council prior to Parish, Fire and Police Precepts be increased by 4.95%, which includes the Government Levy of 2% in respect of Social Care, i.e. to £2,038.98 at Band D (£1,359.32 at Band A).

Fire, Police & Parish

8. The Council note the Police & Crime Commissioner is proposing a precept of £19,406,631 which equates to a Council Tax of £317.73 at Band D (£211.82 at Band A)

9. The Council note the Fire Authority is proposing a precept of £5,769,522 which equates to a Council Tax of £94.46 at Band D (£62.97 at Band A).

10. The Council note the Parish precepts as set out in paragraph 69 of the budget report - *to follow for council*

Capital

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

Organisational and HR

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

Members Allowances

13. Approve that Members allowances are frozen for 2025/26. 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**. *to follow for Council*

15. The Council must set its Local Council Tax Reduction scheme annually by 11 March of the preceding financial year. Cabinet therefore recommends to Council that the current Local Council Tax Reduction Scheme is retained for the financial year 2025/26 incorporating the updates for the prescribed requirements in regulations and to reflect updated income figures in the table at Schedule 1. The scheme is available here www.stockton.gov.uk/CTR.

16. That the Director of Finance, Transformation and Performance and Deputy Chief Executive be given delegated authority, in consultation with the Leader, to make further adjustments to the income table and/or disregard additional funds should the government issue revised publications with regards to these matters after 19th February, to ensure that Government's intentions for additional support is maintained.

Capital Strategy

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

Treasury Management/Prudential Code

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

Investment Strategy

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

RECOMMENDATIONS TO CABINET IN RESPECT OF CABINET DECISIONS

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

DETAIL

1. The MTFP report for 2025/26 to 2027/28 is attached.

2. The report also provides an update on the financial position for 2024/25. As reported previously, inflationary pressures are having a significant impact upon the financial position in 2024/25. We continue to see increased costs in maintaining vital services.

3. The Report outlines the Council Tax proposals and Budget for 2025/26 and the indicative MTFP for the next two years.

4. It provides an update on the position from that reported to Cabinet and Council in February 2024 and reflects implications arising from the Local Government Finance Settlement for 2025/26.

5. The Provisional Financial Settlement has provided funding allocations for 2025/26 only. The Government have indicated that there will be reforms to Local Government Finance from 2026/27 onwards and will take forward the fair funding review, also considering the reset of Business Rates. Government have indicated there will be a multi-year settlement from 2026/27 onwards, therefore the funding shown in 2026/27 onwards in the MTFP is subject to change.

6. The Council has a long history of providing value for money and delivering strong financial management. This has again been reinforced by the External Auditor in the Independent Auditors Annual Report on the 2022/23 accounts, which was issued in May 2024. The auditors have issued an unqualified audit opinion on the 2022/23 financial statements and did not identify any significant weaknesses or recommendations in relation to value for money arrangements.

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 H**.

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 2025/26 – 2027/28 and recommend the budget for 2025/26.

LEGAL IMPLICATIONS

13. None

RISK ASSESSMENT

14. This MTFP update report is categorised as medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk. Understanding cost pressures and future government funding over the medium term will be key to understanding and mitigating this 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

2025/26

CONTENTS

SECTION 1 – NATIONAL CHANGES

Funding Position

1. On 18 December 2024 MHCLG announced the Provisional Local Government Finance Settlement for 2025/26. The settlement was for a one-year period only. This confirmed several of the key aspects from the Autumn Statement and presented information at a local authority level.

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

   - Referendum limits are set at 3% for core council tax and 2% for the Adult Social Care levy
   - Employer National Insurance Contributions – The Government announced £515 million of new funding for Councils to support the cost of the increase from April. Individual allocations will not be published until the final settlement.
   - Recovery Grant – the Government have introduced a new one-off grant totalling £600 million nationally. The funding is distributed using a formula based on deprivation and council tax raising ability.
   - The Social Care grant will be increased by £880 million compared to 2024/25 bringing the national allocation to £5.9 billion.
   - The Improved Better Care Fund and Discharge Fund will be combined into a single grant; the Local Authority Better Care Grant, totalling £2.6 billion nationally. No inflation has been applied on the 2024/25 amount.
   - The Market Sustainability and Improvement Fund will continue, worth £1.05 billion nationally.
   - A new Children's Social Care Prevention Grant has been announced at £250 million. Grant conditions will be notified as part of the final settlement.
   - Revenue Support Grant will be distributed in the same way as previous years and uplifted based on CIP changes to September 2024. There are several smaller grants which will be consolidated into RSG from April 2025 as part of the Government approach to simplifying grant funding.
   - The Services Grant (£87million 2024/25) has been removed from 2025 onwards.

2. The Provisional Financial Settlement has provided funding allocations for 2025/26 only. The Government have indicated that there will be reforms to Local Government Finance from 2026/27 onwards and will take forward the fair funding review, also considering the reset of Business Rates. Government have indicated there will be a multi-year settlement from 2026/27 onwards.

3. Extended Producer Responsibility - Local authorities will receive £1.1 billion of new funding in 2025-26 through the implementation of the Extended Producer Responsibility scheme. This funding is outside of the Local Government Finance Settlement. This is new funding from income generated from charges to businesses producing plastics and recycling, effectively to compensate Local Authorities delivering waste services. The 2025/26 allocation is £3.5m; it is not clear how future allocations would be calculated. It is therefore suggested that this is treated as one-off income and can be used to support the delivery of some of the savings. Any potential future years allocations will be considered within future MTFP reports.

SECTION 2 - FINANCIAL POSITION TO 31 DECEMBER 2024

4. Members will be aware - from the reports to Cabinet throughout the year - of the level of inflationary and demand pressures experienced in the current year. The most recent report, in December, highlighted a potential pressure of £6.6m. Similar pressures are being experienced across most of the Local Government sector.

5. 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 Q3 Over/ (Under) £'000	Projected Variance Q2 Over/ (Under) £'000	Movement from Q2 £'000
Adults, Health & Wellbeing	97,136	99,031	1,895	2,435	(540)
Children's Services	58,153	62,915	4,762	3,530	1,232
Community Services, Environment & Culture	53,208	54,697	1,489	1,419	70
Finance, Transformation & Performance	14,472	14,568	96	178	(82)
Regeneration & Inclusive Growth	613	1,723	1,110	725	385
Corporate Services	12,429	12,435	6	44	(38)
Corporate Items	7,901	6,261	(1,640)	(1,384)	(256)
Total	**243,912**	**251,630**	**7,718**	**6,947**	**771**
Pay Offer		(340)	(340)	(340)	0
Revised Total	**243,912**	**251,290**	**7,378**	**6,607**	**771**

Reasons for movements since Quarter 2 over £100,000

Adults, Health and Wellbeing

6. Demand for Adult Social Care services continues to lead to a financial pressure. A significant driver in the demand levels and cost pressures is health-related issues, which includes keeping people at home and avoiding time in hospital. Discussions are ongoing with the North East and North Cumbria Integrated Care board to agree the most appropriate use of the Better Care Fund pooled budget to mitigate these pressures. We are estimating further funding to contribute towards the costs of £500,000.

Children's Services

7. Children's Services continue to experience unprecedented budget pressures. Members will recall the commentary on the pressures in previous reports, along with actions to mitigate these pressures.

8. Based on the current children in external residential placements and the current price of their packages, this budget is projecting a further overspend of £1.2m. In the quarter, 6 children have moved into an external residential placement contributing almost £500,000 to the projected overspend. There are 8 placements costing more than £10,000 per week, with one placement now exceeding £18,000 per week. This would equate to a total annual cost of more than £5m for these 8 children alone.

Community Services, Environment and Culture

9. There have been no significant movements in the projected position for the directorate.

Finance, Transformation and Performance

10. There have been no significant movements in the projected position for the directorate.

Regeneration and Inclusive Growth

11. Planning income continues to be a volatile area. Updated forecasts now estimate income is expected to be a further £200,000 less than budget.

Corporate Services

12. There have been no significant movements in the projected position for the directorate.

Corporate Items

13. Corporate items budgets are forecast to improve by a further £256,000. The reason for the movement is a one-off release of funds by the MHCLG relating to the national business rates levy account (£330,000).

General Fund Balances and Earmarked Reserves

14. Local authorities are required to retain a prudent level of funds, to support financial stability in the event of emergency or unforeseen events. These are called General Fund balances. The Council aims to retain General Fund Balances at a prudent level, currently at £8,000,000.

15. Should the projected position for the current financial year 2024/25, summarised in the paragraphs above materialise, the Council will need to utilise £7.378m of resources to fund this.

16. Members will be aware that all funding held within earmarked reserves is committed and held for a variety of purposes including for known and committed risks, the insurance fund and the existing capital programme. Due to demand and inflationary pressures over recent years, the Council's reserves levels have reduced.

17. Reserves have been reviewed to understand the existing commitments and potential future risks. As part of this exercise, sums have been identified that were originally allocated for future investments in services, but which can now be redirected to support the MTFP. As a result, the number of reserves the council holds have been rationalised, maintaining specific reserves for larger amounts and combining smaller amounts into two reserves:

    - amounts that are held for existing contractual commitments have been grouped into a new reserve: Service Development and Improvement
    - amounts that can be redirected have been moved into the MTFP Support reserve.

18. Sums have been identified from reserves to fund the projected overspend for 2024/25 of £7.378m. The table below shows the recommended reserves that will be used to fund the in-year position, and the forecast balance in reserves. There remains £1.8m within the transformation reserve. It is envisaged that this will be utilised to invest in services to release revenue savings through the transformation programme.

Earmarked Reserves	Adjusted Opening Balance £'000	Required / Committed £'000	Potential to Redirect £'000	Utilisation for 24/25 Overspend £'000
Capital Scheme Reserves	(11,865)	11,865	0	0
Schools Related Reserves	(5,791)	5,791	0	0
Pooled Funds and Interest Rate Risk	(1,700)	1,700	0	0
Partnership / Statutory Reserves	(2,707)	2,707	0	0
PFI Scheme Liability	(1,491)	1,491	0	0
Insurance Fund	(6,032)	6,032	0	0
Public Health Reserve	(3,356)	561	(2,795)	1,828
Transformation & Implementation	(2,401)	581	(1,820)	0
MTFP Support	(8,437)	2,245	(6,192)	5,550
Service Development & Improvement	(2,767)	2,767	0	0
Total	**(46,547)**	**35,740**	**(10,807)**	**7,378**

19. Using reserves to balance the budget means that remaining reserves are much lower than in previous years. It is vitally important that further in-year overspends are avoided. Given the level of reserves, and to improve the long-term financial resilience of the Council, we will need to consider increasing reserves over the next few years.

SECTION 3 – MEDIUM TERM FINANCIAL PLAN 2025-2028

Current Approved MTFP

20. The current approved position in February 2024 was as follows:

	2025/26 £'000	2026/27 £'000	2027/28 £'000
Budget Gap	7,138	8,100	9,000
Powering Our Futures	(7,138)	(8,100)	(8,100)
Updated Budget Gap (+) / Surplus (-)	**0**	**0**	**900**

21. The table above includes rolling forward the MTFP for an additional year into 2027/28, this is based on the same assumptions as the report to Council in February 2024 and it shows that the position for 2025/26 and 2026/27 was balanced, assuming savings on transformation.

Powering our Futures – Progress towards closing the budget gap

22. As members are aware, the Council is undertaking significant transformation work as part of the Powering our Futures Programme. Excellent progress is being made towards the original savings targets:

- The Powering our Futures report to Cabinet on 17 October 2024 outlined savings of £4.6m across a range of services.

- Transformation work within Children's Services, focusing on keeping children within the borough, continues to progress. So far, £1m per annum savings are anticipated to come in across the MTFP. Work continues to mitigate some of the external pressures in relation to the costs of Children in our Care.

- The Powering our Futures report in October outlined several changes to fees and charges, but did not cover the Council's approach to future inflationary uplifts. It is proposed that most of the Council's fees and charges will be increased in line with Consumer Price Index (CPI) as at September from the previous year, or reflective of a change in cost base, which is forecast to generate £200,000 per annum.

- The review of debt management involved a review of our current bad debt provision, allowing us to release £285,000 as a one-off in 2024/25.

These savings are summarised in the table below

	2024/25 £'000	2025/26 £'000	2026/27 £'000
October POF Report	(375)	(2,296)	(4,644)
Debt Management/ Customer	(285)	0	0
Fees & Charges - Inflationary Increase	0	(200)	(200)
Children in Our Care	0	(1,000)	(1,000)
Savings Achieved	**(660)**	**(3,496)**	**(5,844)**

23. £5.8m savings by 26/27 have been achieved to date. This leaves £2.25m savings to be delivered by 2026/27. Due to the timing required to implement changes to services and deliver savings, we have reprofiled the anticipated programme of savings. Although we are well on target, the timing means that there is a short-term issue in 24/25 and 25/26. This can be mitigated by utilising the income in respect of Extended Producer Responsibility referred to in Paragraph 3.

This is outlined in the table below, showing the reprofiled savings to be delivered via Powering our Futures.

	2024/25 £'000	2025/26 £'000	2026/27 £'000
Powering Our Future as per MTFP	1,893	7,138	8,100
Less Savings Achieved	(660)	(3,496)	(5,844)
Reprofiled Savings	0	(1,350)	(2,256)
Use of Extended Producer Responsibility Fund	**(1,233)**	**(2,292)**	**0**

24. The Council will continue with the transformation programme to ensure the remaining savings are delivered. The Council, like many Councils across the country, is continuing to see increased demand for children's and adults care services, together with increased cost of provision, which continues to place a strain on resources. If this continues, there is a future risk of further financial pressures. It is important that the programme continues to focus on prevention and innovation to look to reduce demand and provide services in the most efficient manner.

25. It is likely that to drive efficiencies, or to invest in measures to mitigate the impact of climate change, capital investment will be required. Any interventions will require a clear business case. The current MTFP includes £6m previously approved to support Children's Services, funded by prudential borrowing, and it is recommended that this is increased to £20m to support all service developments which would deliver efficiencies. In order to draw down funding and undertake borrowing:

(a) The scheme would need to clearly demonstrate an ability to repay the borrowing costs and deliver financial savings
(b) The scheme would need to be approved by Cabinet.
(c) This borrowing can only fund capital expenditure and not be used solely for commercial investment

26. It is therefore recommended that Council agree to increase the facility to borrow to £20m for invest to save schemes that meet the above criteria. Draw down against this fund will be subject to a business case presented to Cabinet for approval.

27. Investment will be required in further measures to reduce the Council's carbon emissions and adapt to the impacts of climate change. Investments are likely to be required in relation to decarbonisation of our fleet vehicles, installation of additional photo-voltaic panels on Council assets, retrofitting energy efficiency improvements for buildings, and measures to address the impact of climate change on our communities. It is expected that additional external funding will become available as the Government seeks to achieve the national carbon reduction targets, and the Council will seek to maximise any opportunities through the development of costed proposals and the allocation of match funding where that is required.

28. These investments may require a longer time frame for return on investment, or consideration of a non-financial return as part of the justification for investment. In circumstances where there is a substantial environmental benefit, but there would be an additional cost to the approved MTFP, the investment proposal would need to be approved by Council.

Changes to current expenditure plans

29. There are a number of issues which will need to be factored into the 2025/26 budget and considered in the MTFP going forward, and these are outlined below:

a) The existing MTFP includes an annual uplift of £1.5m per year in respect of the impact of National Living Wage and inflation increases on Adult Care Fees. The recent announcement setting the National Living Wage level for 2025 at £12.21, was higher than anticipated. We are also seeing significant growth in the number of placements in the current financial year, and it is anticipated that this will continue into future years. The current position is an expected further increase of £6m in 25/26, plus an additional £1m growth per year thereafter.

b) Members will be aware - from MTFP update reports over recent years - of the scale of the financial challenges we are facing within Children's Social Care, as well as the level of investment made into this area. Despite this investment, we continue to see growth in costs and demand, creating a further overspend during the current financial year as described earlier in the report.

c) These trends and demands within Children's Social Care are common across the country, with many local authorities facing the same issues. There are many external factors that are forcing prices up, creating a significant impact on council budgets. Work is ongoing within the transformation programme to try to mitigate the impact of some of these influences, however, despite this it is estimated that a further £6m will be needed, rising by £1m per year thereafter.

d) The financial impact of the agreed pay award for 2024/25 will continue into following years. Based on more up to date information we have reviewed the pay award level required for future years. The agreed MTFP assumes a 2% pay award across all years. The assumption for 2025/26 has been updated to 3%, leaving future years at 2%, and the impact of this is reflected in the table below.

e) Employer National Insurance contribution changes are anticipated to cost £2.5 million for Council direct staff only. As noted in paragraph 1, there will be some funding from

Government to compensate for the additional cost, however, this is not anticipated to be sufficient to mitigate the full financial cost of the change.

f) High levels of inflation over the past 2-3 years have seen increases across a lot of our services. We do not budget for inflation other than by exception, therefore in most instances services are asked to manage increased costs within existing budgets. Several of our commissioned services have been in fixed price contracts for several years, many with prices agreed before the unusually high levels of inflation. Contracts are now reaching expiry dates at varying dates, and we are experiencing a sharp rise in costs across many types of service. Procurement practices are followed with the aim to achieve the best value for money, however, despite this we are still experiencing increased costs. ICT systems costs are one of these areas where we are experiencing large rises in costs, with an estimated £550,000 per year required across the MTFP.

g) Planning Income has been less than anticipated during 2024/25. There are several factors which can impact upon this, and it is often difficult to predict, however, Nutrient Neutrality issues alongside continued uncertainty over proposed planning reforms have both had a significant impact. As a result, it is prudent to allow for a continuation of the reduced income level across the medium term, at £400,000 per year.

h) Grounds Maintenance is also an area where costs have risen this year due to higher supplier prices. This is predicted to continue across the medium term at £200,000 per year.

i) The cost of maintaining the Council's vehicle fleet is greater than budget, at £300,000 per year.

j) The Council's Home to School Transport budget continues to face significant financial pressures. The latest procurement process for the bus and taxi contracts, has seen an increase in costs. We are also seeing a rise in numbers of service users. Many councils are facing similar pressures within Home to School Transport.

k) Additional Community Safety Officers have been previously funded from additional one-off funding. We are currently applying for another 1 year extension to this funding, however, if this is unsuccessful, funding will be required in order to maintain the service at the current level.

l) The Colleagues mission within Powering our Futures is focusing on several strands of work. One of those is Getting into Work. The Council's Corporate Apprentice Programme is one of the very successful arms of this work. The number of apprentices appointed each year is positive, giving local people access to employment, training and development. To continue with the current level of investment, an additional £200,000 is required per annum.

m) Members will recall - in the January 2025 Levelling Up Fund Preston Park Museum and Grounds Enhancements report to Cabinet - that additional funding was required to deliver the full scope of the project to include the Aviary, a Stockton Darlington Railway feature and central areas. The revenue implications of funding the prudential borrowing costs to enable delivery have been included in the budget from 2026/27 onwards.

n) Events to mark the opening of the Urban Park in Stockton Town Centre will take place in 2026/27 and funding has been allocated for this purpose.

30. The changes to current expenditure plans are included in the table below:

	2025/26 £'000	2026/27 £'000	2027/28 £'000

Changes to expenditure plans			
Adult Social Care (Impact of NLW)	6,000	7,000	8,000
Children's Services MTFP Pressures	6,000	7,000	8,000
Employers National Insurance Cost	2,500	2,500	2,500
Pay Award Cost (increasing from 2% to 3%)	1,269	963	963
ICT Systems	550	550	550
Planning Income	400	400	400
Grounds	200	200	200
Vehicles	300	300	300
Home to School Transport	575	900	1,150
Community Safety Officers	250	250	250
Corp App Programme / Getting into Work	200	200	200
Urban Park Opening Event	0	300	0
Borrowing cost for Aviary, SDR Feature and Central areas at PPMG	0	65	65
Pressures	**18,244**	**20,628**	**22,578**

Income and Resources

31. The MTFP has been updated to reflect the Social Care Grant uplift for 2024/25 continuing.

32. The Provisional Local Government Finance Settlement announced provisional funding allocations for 2025/26. There are several changes to income as follows:
    - Social Care Grant was higher than anticipated - £2,995,000
    - Recovery Grant allocation - £3,829,000
    - The new Children’s Services Prevention Grant has been included - £1,084,000
    - The New Homes Bonus continues for a final year in 2025/26 - £603,000
    - Minimal change to the Revenue Support Grant
    - Services Grant has been removed – reducing income by £122,000

33. Individual Local Authority allocations from the £515 million compensation fund for Employer National Insurance Contributions were not announced by Government in the provisional settlement. A methodology note was published and has been used to estimate the amount of funding likely to be received as £1,500,000. Final allocations will be notified in the final settlement.

34. Council Tax figures have been reviewed and additional income has been included to reflect growth in the tax base.

35. Business Rates - projections of business rates income has been updated to reflect assumptions regarding the impact of inflation on the business rates multiplier, as well as reflecting growth in year.

36. Regeneration - Powering our Futures has a key focus of driving economic growth. This has contributed to the council continuing to grow business rates and has added £2m income to the MTFP. Government have committed to a reset of business rates as part of the review of the local authority funding model. The business rates reset will generate a revised business rates baseline, affecting how much growth individual local authorities can retain from business rates. The review of needs within the local authority funding formula is intended to redirect funding towards local authorities with the greatest needs. It is uncertain what the implications will be; it is therefore not reflected in the MTFP at this time.

37. These changes to resources and income are summarised in the table below:

	2025/26 £'000	2026/27 £'000	2027/28 £'000
Additional Income and Resources			
Social Care Grant 24-25	(1,760)	(1,760)	(1,760)
Social Care Grant - Additional 25-26	(2,995)	(2,995)	(2,995)
Recovery Grant	(3,829)	(3,829)	(3,829)
Employers National Insurance Funding	(1,500)	(1,500)	(1,500)
Children's Services Prevention Grant	(1,084)	(1,084)	(1,084)
New Homes Bonus	(603)	0	0
Revenue Support Grant	2	2	2
Services Grant Removal	122	0	0
Council Tax Base Growth	(1,686)	(1,583)	(2,728)
Business Rates Inflation	(154)	(368)	(1,138)
Business Rates Growth	(2,323)	(2,049)	(1,934)
Total	**(15,810)**	**(15,166)**	**(16,966)**

Overall Budget Position

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

	2025/26 £'000	2026/27 £'000	2027/28 £'000
Updated Budget Position	0	0	900
Expenditure Pressures	18,244	20,628	22,578
Additional Income and Resources	(15,810)	(15,166)	(16,966)
Budget Gap (+) / Surplus (-)	**2,434**	**5,462**	**6,512**

39. The above table summarises the overall position and highlights the pressures in future years, which shows a pressure of £2.4 million in 2025/26 rising to £6.5 million in 2027/28.

2025/26 Council Tax and Social Care Precept

40. 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.

41. As highlighted at paragraph 1, the Government announced in the Provisional Local Government Finance Settlement that the Core Council Tax Referendum Thresholds will remain unchanged from 2024/25:
    - 3% for Core Council Tax
    - 2% for Adult Social Care Precept

    This level of increase has been assumed in the Government's spending power calculation.

42. The current MTFP assumes a Council Tax increase of 2.95%. The potential additional resources available from a further 2% increase would equate to £2.4m for each year.

43. Although additional money has been received for social care, members will see the level of demand and cost pressures as described above are outstripping the additional funding. The Adult Social Care precept allows councils to raise additional taxes within the council tax bill to fund social care costs.

44. In recognition of the level of budget pressures and financial uncertainty, and in order to mitigate

the financial pressures, it is recommended that the Council increase core Council Tax by 2.95% for 2025/26 and implement the full Adult Social Care levy of 2%. The impact of the increase of 4.95% in 2025/26 would be £1.23 per week (Band A) and £1.85 per week (Band D).

45. A summary of the final position is outlined below:

	2025/26 £'000	2026/27 £'000	2027/28 £'000
Budget Gap (+) / Surplus (-)	2,434	5,462	6,512
Additional Council Tax Income	(2,434)	(2,525)	(2,620)
Final Budget Gap (+) / Surplus (-)	**0**	**2,937**	**3,892**

46. The MTFP could be represented as follows:

	2025/26 £'000	2026/27 £'000	2027/28 £'000
Income			
Business Rates (inc s31 grants)	(63,600)	(64,637)	(65,292)
Better Care Fund (incl Pooled Budget)	(22,152)	(22,152)	(22,152)
Social Care Grant	(20,163)	(20,163)	(20,163)
Public Health Grant	(15,661)	(15,661)	(15,661)
Revenue Support Grant	(6,686)	(6,819)	(6,819)
Recovery Grant	(3,829)	(3,829)	(3,829)
ASC Market Sustainability & Improvement Fund	(3,698)	(3,698)	(3,698)
Children's Services Prevention Grant	(1,084)	(1,084)	(1,084)
New Homes Bonus Grant	(603)	0	0
Council Tax (incl any Deficit/Surplus)	(124,539)	(129,239)	(134,108)
Total Income	**(262,015)**	**(267,282)**	**(272,806)**
Expenditure			
Adults, Health and Wellbeing	104,309	106,809	109,309
Children's Services	62,145	63,145	64,145
Community Services, Environment & Culture	55,843	55,920	55,965
Finance, Transformation & Performance	14,960	14,968	14,968
Corporate Services	11,280	11,280	11,280
Regeneration & Inclusive Growth	792	822	822
Corporate Items incl Pay Award Provision	12,686	17,275	20,209
Total Expenditure	**262,015**	**270,219**	**276,698**
Final Budget Position	**0**	**2,937**	**3,892**

SECTION 4 - CURRENT CAPITAL PROGRAMME

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

CAPITAL PROGRAMME Up to 2027	Current Approved Programme £'000	Programme Revisions £'000	Revised Programme £'000
School Investment Programme & Children's Services	32,551	40	32,591
Inclusive Growth	19,772	150	19,922
Regeneration	125,720	1,300	127,020
Transportation	43,378	594	43,972
Community & Environment, Culture & Leisure	19,718	3,750	23,468
Adults, Health & Wellbeing	4,545	2,512	7,057
Xentrall ICT	900	0	900
Total Approved Capital MTFP	**246,584**	**8,346**	**254,930**

Reasons for movements over £100k

New schemes

Community & Environment, Culture & Leisure

- In line with the October 2024 Cabinet report and November 2025 report to Council regarding borrowing, costs associated with waste initiatives, new receptacles and a waste transfer station, have been included in the programme, £3,300,000 funded by borrowing.

Additional Funding

Transport

- £500,000 grant funding has been added to the programme for design stage of cycleways in Norton and Stockton

Community & Environment, Culture & Leisure

- Vehicle Replacement Fund has been increased by £449,763 for the planned purchases in 2025/26.

Regeneration and Inclusive Growth

- Wellington Square Car Park resurfacing has been included in the programme as referenced in the October 2024 Cabinet and November 2024 Council reports, £1,000,000 funded by borrowing.

- Preston Park museum extension, drainage works have been identified to comply with modern environmental regulations and £950,000 has been added to the programme, funded by borrowing.

Adults, Health and Wellbeing

- Following an announcement from the Department of Health and Social Care, additional DFG grant has been allocated for 2024/25, £270,856 and 2025/26, £2,239,284. These amounts have been included in the programme.

Revisions

Regeneration & Inclusive Growth

- Costs relating to feasibility work for Municipal Quarter are to be removed from the Capital Programme and treated as revenue in line with the Central Stockton and North Thornaby Blueprint Delivery report approved by Cabinet in September 2024, £450,000.

- Indigenous Growth Fund grant has been transferred to the Townscape Heritage Scheme, £100,000 as part of the regeneration works taking place.

- Prudential borrowing has been transferred to Democratic Space/Council Chamber works at Dunedin House, £250,000.

SECTION 5 – PAY POLICY AND MEMBERS ALLOWANCES

Pay Policy

48. The April 2024 pay award was agreed in November 2024 and was a flat rate of £1,290, paid (pro rata for part time employees) up to and including spinal column point 43, and a 2.5% increase on points 44 to 58. In addition, there has been an increase of 2.5% on all pay related allowances. The Trade Union pay claim for April 2025 has yet to be communicated to the national employers. The 2024 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 £12.45 per hour (pay award pending from 1 April 2025). This is still above the current National Living Wage which is £11.44 from 1 April 2024 and £12.21 from 1 April 2025.

50. The continued high increases on the NMW have caused significant pressure on the nationally agreed pay spine. The National Employers deleted SCP 1 on 1 April 2023 to accommodate the increase to the NMW and whilst this has not affected our pay spine to date, it caused significant issues for other authorities. As the 2025 pay award will not be implemented by 1 April 2025, the headroom between the minimum SCP on the national pay spine, i.e. SCP 2, and the NMW on 1 April 2025 will only be 5p per hour. It is therefore likely that further flat rate increases at the lower grades will be needed in future pay awards to keep pace with the expected increases in the NMW. There is also the potential that there will be a need to review the national pay spine in the coming years. In addition, the flat rate increases at the lower grades over the last two years has eroded some of the differentials which could have an impact on recruitment to the mid-range grades. The LGA will need to consider how these issues can be addressed with the 2025 pay award.

51. The Council's median hourly rate and pay multiple, both calculated as at 31 December 2024, are as follows:

    - Median Hourly rate is £15.58 (£14.91 at 31 December 2023); and
    - Pay multiple is 5.76 (5.88 at 31 December 2023) which remains well under the Council's target of 10.

    This is a positive change in both the median hourly rate and pay multiple which is mainly due to the flat rate pay award of £1,290 which was paid to all employees up to and including SCP 43 (pro rata for part time employees) and a 2.5% increase on SCP's 44-58. The Chief Executive pay award was also 2.5% which in percentage terms is significantly lower than those employees at the lower end of the pay spine who received the flat amount. The pay multiple is well within the stated aim of less than 10.

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

Apprentices

53. The Council have a strong track record of recruiting to apprenticeship positions and supporting existing staff to undertake apprenticeship qualifications to support their development.

54. As at 31 December 2024, the Council had 176 people undertaking an apprenticeship qualification (101 on an apprenticeship contract and 75 existing employees for development).

55. For those on an apprenticeship contract (employment linked to the completion of a formal apprenticeship qualification), we pay the following depending on the level of apprenticeship qualification:

- Level 2 or 3 qualification – minimum wage depending on Age. For those aged 18 and over, this is above the National Apprenticeship Minimum Wage.

National Minimum Wage for Age	April 2024 Hourly Rate	April 2025 Hourly Rate
Age 21 and over	£11.44	£12.21
Age 18 to 20	£8.60	£10.00
Under 18	£6.40	£7.55

- Higher and Degree apprenticeships (Level 4 or above qualification) – Salary and salary progression is determined by the Council's established pay and job evaluation scheme.

56. The Council does not include apprentices within the definition of lowest paid employees for the purposes of this policy statement

Headcount and FTE

57. Headcount and FTE as at 31 December 2024 compared to previous years is:

	31 December 2024	31 December 2023	31 December 2022	31 December 2021
Headcount	3297	3231	3145	3205
FTE	2727.7	2650.9	2554.9	2572

58. Whilst there has been a slight increase in headcount and FTE since December 2023 there has been a significant reduction in the headcount and FTE of the workforce over the last 11 years. The headcount has reduced by 1,029 (24%) from 4,260 as at 31 March 2011 to 3,231 as at 31 December 2023. Total FTE has reduced by 533 (17%) from 3,142 as at 31 March 2011 to 2,650.9 as at 31 December 2023.

59. The slight increase in headcount and FTE this year is due to a number of reasons, these are, bringing the Discharge to Assess Service in house; recruiting to permanent posts where these have been covered by agency workers previously; a successful Apprenticeship Programme whilst retaining the previous apprentices.

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

61. We continue to maintain strong relationships with the Trade Unions, including regular update meetings which are held with the Trade Unions and the Director of Corporate Services. The Chief Executive also attends these meetings. The Powering Our Future Programme 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

62. 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.

63. 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.

64. 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

65. Members will be aware that allowances have been frozen since 2014 following a 4% reduction, and it is proposed that this freeze continues for 2025 to support the Council's financial position.

SECTION 6 – PRECEPT LEVELS

Stockton Precept

66. Stockton's current tax level for 2024/25 at Band A (the biggest percentage of its properties) is £1,295.21 (£24.91 per week). It is proposed that the tax level for 25/26 is increased by 4.95% to £1,359.32 at band A (£26.14 per week).

	Band A £	Band D £
2024/25	1,295.21	1,942.81
2025/26	1,359.32	2,038.98

Police Precept

67. The Police & Crime Commissioner is proposing a £14 increase to the Council Tax level, or 4.61%. This is subject to approval.

	Band A £	Band D £
2024/25	202.49	303.73
2025/26	211.82	317.73

Fire Authority

68. A report to the Fire Authority on 14th February outlines a proposed Council Tax increase of £5.00 or 5.59%. This is subject to approval.

	Band A £	Band D £

2024/25	59.64	89.46
2025/26	62.97	94.46

Parishes

69. Details of the Parish precepts – *this information will follow for Council*

Overall Tax Position

70. 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 £124,538,859 is given below:

Tax 2025/26			
	Current 2024/25 (Band A) £	Proposed 2025/26 (Band A) £	Increase %
Police	202.49	211.82	4.61%
Fire	59.64	62.97	5.59%
Stockton BC	1,295.21	1,359.32	4.95%

Formal Tax Recommendations

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

SECTION 7 – LOCAL COUNCIL TAX SUPPORT SCHEME

72. The Council must set its Local Council Tax Reduction scheme annually by 11 March of the preceding financial year. Cabinet therefore recommends to Council that the current Local Council Tax Reduction Scheme is retained for the financial year 2025/26, incorporating the updates for the prescribed requirements in regulations and to reflect uprated income figures in the income table at Schedule 1. The scheme is available here www.stockton.gov.uk/CTR.

73. That the Director of Finance, Transformation and Performance and Deputy Chief Executive be given delegated authority, in consultation with the Leader, to make further adjustments to the income table and/or disregard additional funds, should the government issue revised publications with regards to these matters after 19 February, to ensure that Governments intentions for additional support is maintained.

SECTION 8 – CAPITAL STRATEGY

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

SECTION 9 - TREASURY MANAGEMENT STRATEGY

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

SECTION 10 – INVESTMENT STRATEGY

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

Appendix A – Capital Programme up to 2028 – Summary

CAPITAL PROGRAMME Up to 2027	Current Approved Programme	Programme Revisions	Revised Programme	Expenditure Apr 2018 - December 2024
SCHOOL INVESTMENT PROGRAMME & CHILDRENS SERVICES				
School Investment Programme	24,455,206	40,044	24,495,250	12,975,297
Children Investment	8,095,301	0	8,095,301	895,232
SCHOOL INVESTMENT PROGRAMME & CHILDRENS SERVICES	**32,550,507**	**40,044**	**32,590,551**	**13,870,529**
INCLUSIVE GROWTH				
Inclusive Growth & Development	9,521,909	(100,000)	9,421,909	1,958,178
Office Accommodation	10,250,511	250,000	10,500,511	8,945,473
INCLUSIVE GROWTH	**19,772,420**	**150,000**	**19,922,420**	**10,903,651**
REGENERATION				
Stockton Town Centre Schemes	17,914,451	1,050,000	18,964,451	1,285,961
Reshaping Town Centres	11,422,460	(700,000)	10,722,460	1,973,788
Billingham Town Centre	10,000,000	0	10,000,000	245,956
Thornaby Town Centre	33,087,140	0	33,087,140	6,332,033
Re-Development of Castlegate Site	30,934,381	0	30,934,381	9,966,136
Yarm & Eaglescliffe LUF	22,070,000	950,000	23,020,000	10,290,453
Infrastructure Enhancements, Regeneration & Property Acquisitions	291,717	0	291,717	0
REGENERATION	**125,720,149**	**1,300,000**	**127,020,149**	**30,094,328**
TRANSPORTATION				
City Regional Sustainable Transport	16,335,712	42,967	16,378,679	5,571,136
Other Transport Schemes	25,193,593	500,000	25,693,593	17,300,122
Developer Agreements	1,848,419	50,690	1,899,109	1,379,403
TRANSPORTATION	**43,377,724**	**593,657**	**43,971,381**	**24,250,660**
COMMUNITY & ENVIRONMENT AND CULTURE & LEISURE				
Energy Efficiency Schemes	1,232,724	0	1,232,724	1,231,078
Environment and Green Infrastructure	9,482,984	0	9,482,984	3,247,972
Waste	4,688,465	3,300,000	7,988,465	2,659,425
Building Management	2,787,924	0	2,787,924	1,488,436
Vehicle Replacement	1,525,720	449,763	1,975,483	500,298
COMMUNITY & ENVIRONMENT AND CULTURE & LEISURE	**19,717,817**	**3,749,763**	**23,467,580**	**9,127,208**
ADULTS, HEALTH & WELLBEING				
Adults & Public Health Investment	392,421	0	392,421	172,412
Housing Regeneration	1,459,860	0	1,459,860	0
Private Sector Housing	2,692,509	2,512,142	5,204,651	1,337,638
ADULTS, HEALTH & WELLBEING	**4,544,790**	**2,512,142**	**7,056,932**	**1,510,049**
XENTRALL ICT				
Xentrall ICT Network	900,000	0	900,000	0
XENTRALL ICT	**900,000**	**0**	**900,000**	**0**
Total Approved Capital MTFP	**246,583,408**	**8,345,606**	**254,929,014**	**89,756,425**

Appendix B - Capital Programme up to 2028 – Detail

CAPITAL PROGRAMME	Approved Programme	New Approvals (part of Report)	Total Programme
SCHOOL CAPITAL			
School Investment Programme			
Planned Maintenance	2,897,741		2,897,741
SEN Investment			
SEND Higher Needs Capital Provision	2,547,324		2,547,324
Tees Valley Free Special School	61,500		61,500
Bishopton Pru	6,287,436		6,287,436
Ash Trees Satellite at Billingham South	1,070,000		1,070,000
Loose Furniture	35,302		35,302
	10,001,562	0	10,001,562
Secondary			
All Saints Academy	59,862		59,862
Our Lady & St Bedes School	988,546		988,546
Egglescliffe School - Partial Rebuild	657,605		657,605
Secondary School Adaptations - St Michaels	1,078,000		1,078,000
Outwood Academy Expansion	632,003		632,003
	3,416,016	0	3,416,016
Primary			
Oxbridge Primary	7,538,000		7,538,000
	7,538,000	0	7,538,000
Other			
Retained Future Investment Fund	235,143		235,143
Childcare Expansion Fund	406,788		406,788
	641,931	0	641,931
SCHOOLS CAPITAL	**24,495,250**	**0**	**24,495,250**
Children's Services Investment			
King Edwin Developments	4,800,000	(4,800,000)	0
Children's homes investments	2,160,492	(1,200,000)	960,492
Children's Carer adaptation/ extension	331,809		331,809
Education Case Management System	803,000		803,000
	8,095,301	(6,000,000)	2,095,301
SCHOOL INVESTMENT PROGRAMME & CHILDRENS SERVICES	**32,590,551**	**(6,000,000)**	**26,590,551**
INCLUSIVE GROWTH			
Inclusive Growth & Development			
Growth Fund			
Acquisition & Investment	1,000,000		1,000,000
Investment Site Infrastructure Durham Lane Industrial Estate	3,971,909		3,971,909

Inward Investment Strategy	500,000		500,000
Business Growth fund	1,000,000		1,000,000
Regeneration Investment	2,150,000		2,150,000
	8,621,909	0	8,621,909
Inclusive Growth & Development - other			
Billingham Sports Hub	800,000		800,000
	800,000	0	800,000
Inclusive Growth & Development Total	9,421,909	0	9,421,909
Office Accommodation			
Accommodation	9,500,511		9,500,511
Democratic Space / Council Chamber	1,000,000		1,000,000
	10,500,511	0	10,500,511
INCLUSIVE GROWTH	**19,922,420**	**0**	**19,922,420**
REGENERATION			
Stockton Town Centre			
Stockton Town Centre - Infrastructure Projects	217,419		217,419
Townscape Heritage	2,747,032		2,747,032
Stockton Town Hall Redevelopment	6,500,000		6,500,000
Splash Redevelopment	8,500,000		8,500,000
Wellington Square Car Park Resurfacing	1,000,000		1,000,000
	18,964,451	0	18,964,451
Reshaping Town Centres			
Unused borrowing approvals	7,662,960		7,662,960
Billingham Town Centre	10,000,000		10,000,000
Ingleby Barwick	509,500		509,500
Norton	1,750,000		1,750,000
Future Town Centre work	800,000		800,000
	20,722,460	0	20,722,460
Thornaby Town Centre			
Cycleways	6,310,000		6,310,000
Skills Development	4,570,000		4,570,000
Regeneration of Town Centre	18,040,440		18,040,440
North Thornaby	3,076,700		3,076,700
Project Management	1,090,000		1,090,000
	33,087,140	0	33,087,140
Redevelopment of Castlegate Site			
Urban Park	29,184,381		29,184,381
Community Diagnostic Centre	1,750,000		1,750,000
	30,934,381	0	30,934,381
Yarm & Eaglescliffe Levelling Up Fund			
Cycleways	5,000,000		5,000,000
Public Realm	3,623,904		3,623,904
Preston Park	13,520,000		13,520,000
Yarm Town Hall and Toilets	876,096		876,096
	23,020,000	0	23,020,000

Other Regeneration Schemes			
Infrastructure Enhancements & Property Acquisition	291,717		291,717
	291,717	0	291,717
REGENERATION	**127,020,149**	**0**	**127,020,149**
COMMUNITY SERVICES, ENVIRONMENT & CULTURE			
TRANSPORTATION			
City Regional Sustainable Transport			
Integrated Transport	510,466		510,466
Structural Maintenance	659,599		659,599
Carriageways	3,127,350		3,127,350
Bridges	563,536		563,536
Eaglescliffe Station New car park & access	2,614,163		2,614,163
Newport Bridge	1,200,000		1,200,000
Hartburn Lane	665,000		665,000
Other	7,038,565		7,038,565
	16,378,679	0	16,378,679
Other			
A689 Hanzard Drive Feasibility	456,690		456,690
Developer Agreement Schemes	1,899,109		1,899,109
Sandgate Shops	50,000		50,000
Strategic Urban Expansion - West Stockton	19,285,853		19,285,853
Cycleway feasibility and design	741,050		741,050
A19/A689 Interchange Improvements (feasibility)	660,000		660,000
A19/A689 Interchange Improvements (construction)	4,500,000		4,500,000
	27,592,702	0	27,592,702
TRANSPORTATION	**43,971,381**	**0**	**43,971,381**
OTHER SCHEMES			
Energy Efficiency Schemes			
Green Homes Grant - LAD2	1,132,724		1,132,724
IBLF Energy Efficiency	100,000		100,000
	1,232,724	0	1,232,724
Environment, Leisure & Green Infrastructure			
Parks Improvement Programme	2,355,274		2,355,274
Flood Coastal Resilience Innovation Programme - Tees Tidelands	7,077,710		7,077,710
Libraries - Mark up Space	50,000		50,000
	9,482,984	0	9,482,984
Waste			
Waste Management Procurement Project	1,255,374		1,255,374
Household Waste Recycling Centre	2,000,000		2,000,000
Waste Transfer Station	2,533,091		2,533,091
Waste Receptacles	2,200,000		2,200,000
	7,988,465	0	7,988,465

Building Management & Asset Review			
Building Maintenance Programme	2,035,891		2,035,891
Cemeteries	92,033		92,033
Travellers Site Maintenance	140,000		140,000
Allotments	100,000		100,000
White Water Course	420,000		420,000
	2,787,924	0	2,787,924
Vehicle Replacement			
Vehicle Replacement Fund	1,665,928		1,665,928
Library Bus Replacement	242,165		242,165
Brake Roller Tester	67,390		67,390
	1,975,483	0	1,975,483
COMMUNITY SERVICES, ENVIRONMENT & CULTURE	**67,438,961**	**0**	**67,438,961**
ADULTS, HEALTH AND WELLBEING			
Adults & Health			
Independent Living LD Bid	202,000		202,000
Cowpen Bewley Landfill Site	60,000		60,000
Changing Places Toilets	130,421		130,421
	392,421	0	392,421
Housing Regeneration			
Victoria Estate Regeneration	549,860		549,860
Affordable Housing	910,000		910,000
	1,459,860	0	1,459,860
Private Sector Housing			
Disabled Adaptations	4,483,102		4,483,102
Homeowner Improvement Scheme	253,059		253,059
Local Authority Housing Fund 3	468,490		468,490
	5,204,651	0	5,204,651
ADULTS, HEALTH AND WELLBEING	**7,056,932**	**0**	**7,056,932**
XENTRALL ICT			
Xentrall ICT Network	900,000	0	900,000
	900,000	0	900,000
XENTRALL ICT	**900,000**	**0**	**900,000**
COUNCIL WIDE			
Unallocated council wide invest to save	0	20,000,000	20,000,000
	0	20,000,000	20,000,000
COUNCIL WIDE	**0**	**20,000,000**	**20,000,000**
Total Approved Capital MTFP	**254,929,014**	**14,000,000**	**268,929,014**

CAPITAL PROGRAMME	Approved Programme	New Approvals (part of Report)	Total Programme
Government Support	154,537,862		154,537,862
Earmarked Resources / Receipts	8,359,037		8,359,037
Earmarked Housing Regeneration Receipts	175,913		175,913
Prudential Borrowing	66,289,273	14,000,000	80,289,273
Other Contributions	15,769,615		15,769,615
Corporate One-Off Resources	9,797,314		9,797,314
Total Approved Funding Capital MTFP	**254,929,014**	**14,000,000**	**268,929,014**

Appendix C

Stockton on Tees
Borough Council

Pay Policy Statement
2025/26

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 - Chief Executive.

Monitoring Officer – Director of Corporate Services.

Section 151 Officer – Director of Finance, Transformation & Performance & Deputy Chief Executive.

Statutory Director of Adult Social Services - Director of Adults, Health & Wellbeing.

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, Transformation & Performance & Deputy Chief Executive.

Data Protection Officer – Assistant Director – Procurement & Governance

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	Chief Executive
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 Executive, 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, and including, grade O, and Local Government Association Senior Management Job Evaluation Scheme for jobs graded P and above, which ensures a fair and transparent approach to pay.

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

5. CHIEF OFFICERS

Remuneration of Chief Officers

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

Job Title
Chief Executive
Deputy Chief Executive
Directors
Director of Public Health
Assistant Directors

5.2 The salaries relating to the above grades effective from 1 April 2024 are:

Job Title	Salary
Chief Executive	£173,252
Deputy Chief Executive (additional payment of £11,203 in addition to Director Salary)	£150,536
Director	£139,333
Assistant Director – Level 1 (including Director of Public Health)	£104,788
Assistant Director – Level 2	£98,916

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 Remuneration of Chief Officers on recruitment will be in accordance with the pay structure set out on paragraph 5.2 (and as may be varied by paragraph 5.4). Arrangements for the appointment of Chief Officers are delegated to the Appointment Panel and in accordance with the Employment Procedure Rules. Any other new employee appointments offering a salary in excess of £100k will be subject to Elected Member approval.

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 receives 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 Guidance issued under the Localism Act 2011, where the cost to the authority of severance packages for Chief Officers is £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 The Government has also issued statutory guidance for Local Authorities when making Special Severance Payments. *The payments are described as payments made to employees that are outside of statutory, contractual or other requirements when leaving employment in the public sector.* The Council would not usually make such payments, however, should it be necessary to do so the statutory guidance will be followed.

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 who 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 Should it be necessary to re-employ or engage a former employee who has left under the circumstances detailed in 8.1 above, this must be agreed by the Director of the service and the Director of Corporate Services in advance. If the re-employment is in Corporate Services, then the approval of the Head of Paid Service will be required.

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

9.1 The salaries used in this report are from 1 April 2024.

9.2 The Council's grading structure begins at SCP 3 Grade C, which currently is £12.45 per hour. This is above the current National Living Wage, which is £11.45 per hour from 1 April 2024. The National Living Wage is increasing to £12.21 per hour with effect from 1 April 2025. The trade union pay claim for 1 April 2025 has not been issued, however, the Council's lowest pay point will be above the 2025 NLW rate regardless of the pay award.

9.4 The Council has also agreed that apprentices undertaking level 1, 2 and 3 apprenticeships, will be paid the National Living Wage for their age. From 1 April 2025 these will start at £7.55 per hour for 16 and 17 year olds, rising to £12.21 for those who are aged 21 and over. For those apprentices undertaking a level 4 apprenticeship or above they will be paid a minimum of grade C which is currently £12.45 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 (Chief Executive) against the median average pay, using hourly rates as at 31 December, for employees within the scope of this statement.

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

10.3 The median hourly rate and multiplier has been calculated using the data from 31 December 2024. The Council's Median Hourly Rate is £15.58 as at 31 December 2024 (£14.91 at 31 December 2023) and the Pay Multiple is 5.76 as at 31 December 2024 (5.88 at 31 December 2023). This is a positive change in both the median hourly rate and pay multiple which is mainly due to the flat rate pay award of £1,290 which was paid to all employees up to and including SCP 43 (pro rata for part time employees) and a 2.5% increase on SCP's 44-58. The Chief Executive pay award was 2.5% which in percentage terms is significantly lower than those employees at the lower end of the pay spine who received the flat amount. 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 up to 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)

Officer Appointments to Outside Bodies and Governing Bodies

Body	Role	Officer
Spark of Genius NE LLP	Board Member	Garry Cummings Director of Finance, Transformation & Performance & Deputy Chief Executive Majella McCarthy, Director of Children's Services
Stockton Borough Holding Company Limited and Stockton Hotels Company Limited	Director Company Secretary	Reuben Kench, Director of Community Services, Environment, & Culture Tracey Carter, Director of Regeneration & Inclusive Growth Clare Harper, Assistant Director (Finance) April Pilgrim, Lead Solicitor (Corporate Services)
Saltburn Artists Project	Director	Reuben Kench, Director of Community Services, Environment, & Culture
Tees River Trust	Board Member	Neil Mitchell, Head of Environment, Leisure & Green Infrastructure
Bishopton Management Board	Governor	Sharon Stevens, Team Manager Children's Services
Oliver and Norman Field Charity	Trustee	Sarah Runnacles, Senior Occupational Therapist
Achieving Real Change In Communities CIC (ARCC)	Board Member	Marc Stephenson, Assistant Director (Community Safety & Regulated Services)
Tees Valley LEP Area ESI Funds Local Sub-Committee	Board Member	Garry Cummings Director of Finance, Transformation & Performance & Deputy Chief Executive
Stockton BID Company limited	Board Member	Tracey Carter, Director of Regeneration & Inclusive Growth
Norton Educational Endowment Foundation	Trustee	Eddie Huntington Assistant Director, Education, Inclusion & Achievement
St Patrick's College	Vice Chair of Governing Body	Vanessa Housley, Service Lead Education and Wellbeing

Appendix D – Council Tax Resolution – *to follow for Council*

Appendix E

CAPITAL STRATEGY REPORT 2025/26

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.

In 2025/26, the Council is planning capital expenditure of £94.524m as summarised below:

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

	2023/24 actual	2024/25 forecast	2025/26 budget	2026/27 budget	2027/28 budget
Schools and Children's Services	14.006	10.168	8.468	0.147	0.142
Inclusive Growth	8.013	4.105	7.254	0.000	0.000
Regeneration	12.568	25.661	52.097	17.272	17.417
Transportation	11.715	8.371	11.207	5.313	0.000
Community & Env, Culture & Leisure	5.538	7.220	7.599	3.210	0.000
Adults, Health and Wellbeing	2.808	2.668	3.749	0.550	0.000
Xentrall ICT	0.000	0.300	0.150	0.150	0.300
Council Wide	0.000	0.000	4.000	4.000	12.000
TOTAL	**54.648**	**58.493**	**94.524**	**30.642**	**29.859**

The main General Fund capital projects in 2025/26 include programme of works for the School Investment Strategy, including SEND, Town Centre investment works across the Borough and a number of Transport schemes. The Council has no plans to incur capital expenditure on investments to generate a yield.

Governance: The details of the current governance arrangements for the Capital Programme are outlined in Schedule 2 below.

The Council has a Programme Management Office who ensure the right arrangements are in place to successfully deliver our Council priorities through major programmes and apply consistent ways of working, including governance and progress reporting. To ensure a joined up approach to delivery, they work closely with teams across the Council, including HR, Communications, Finance and Legal alongside operational colleagues, Project Managers and Project Sponsors. The focus is on ensuring systems and processes are robust and effective in terms of minimising risk to the Council.

Throughout the year Senior Officers identify schemes to be considered for addition to the Capital Programme. These are appraised from a range of perspectives to ensure value for money and strategic fit for the organisation and progress through the process outlined in Schedule 2.

Any scheme that is to be funded through a new borrowing approval, or the utilisation of capital receipts requires approval from full Council in line with the Council's constitution and are not added into the Capital Programme until such approval has been sought and received.

Schemes that have been appraised, progressed through the project life cycle (Schedule 2) and are fully funded through external grants, contributions or existing internal resources are added to the Capital Programme in the quarterly MTFP update reports and Cabinet Members are asked to note the inclusion of the schemes within the programme. This is also the case where borrowing has been approved by full Council but the drawdown of such funding has been delegated to Cabinet upon consideration of the relevant business case.

The Capital Programme, to support the Medium Term Financial Plan, is approved on an annual basis by full Council as part of the annual budget setting process in February each year. This captures all the updates provided to Cabinet throughout the previous year.

The Programme Management Office will ensure the right arrangements are in place to successfully deliver our Council priorities through major programmes and will apply consistent ways of working, including governance and progress reporting. These processes are regularly reviewed to ensure that they are robust and fit for purpose as circumstances within the organisation evolve.

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

	2023/24 actual	**2024/25 forecast**	**2025/26 budget**	**2026/27 budget**	**2027/28 budget**
Capital receipts	1.544	1.995	2.619	0.550	0.000
Capital grants	27.141	45.077	62.029	13.136	0.000
Capital contributions	13.792	5.955	4.519	0.943	0.142
Revenue	3.864	2.969	2.268	0.150	0.300
Borrowing	8.307	2.497	23.088	15.865	29.417
TOTAL	**54.648**	**58.493**	**94.523**	**30.644**	**29.859**

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

	2023/24 actual	**2024/25 forecast**	**2025/26 budget**	**2026/27 budget**	**2027/28 budget**
Own resources	3.29	3.70	3.99	3.43	5.13

Government 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 and capital receipts used to replace debt. The CFR is expected to increase to £209.28m by the end of 2025/26. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

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

	2023/24 actual	2024/25 forecast	2025/26 budget	2026/27 budget	2027/28 budget
General Fund services	189.990	189.483	209.280	221.504	247.042
Capital investments	0.000	0.000	0.000	0.000	0.000
TOTAL CFR	**189.990**	**189.483**	**209.280**	**221.504**	**247.042**

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 £0.575m of capital receipts and loan repayments in the coming financial year as follows:

Table 5: Capital receipts receivable in £ millions

	2023/24 actual	2024/25 forecast	2025/26 budget	2026/27 budget	2027/28 budget
Asset sales	0.893	0.785	0.565	0.225	0.000
Loans repaid	0.490	0.010	0.010	0.010	0.010
TOTAL	**1.383**	**0.795**	**0.575**	**0.235**	**0.010**

Flexible Use of Capital Receipt's Strategy

The Ministry of Housing, Communities and Local Government 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 31st December 2024 the Council has £129.1m borrowing at an average interest rate of 3.38% and £29.7m treasury investments at an average rate of 4.2%.

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 and long-term fixed rate loans where the future cost is known but higher.

The Authority does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board.

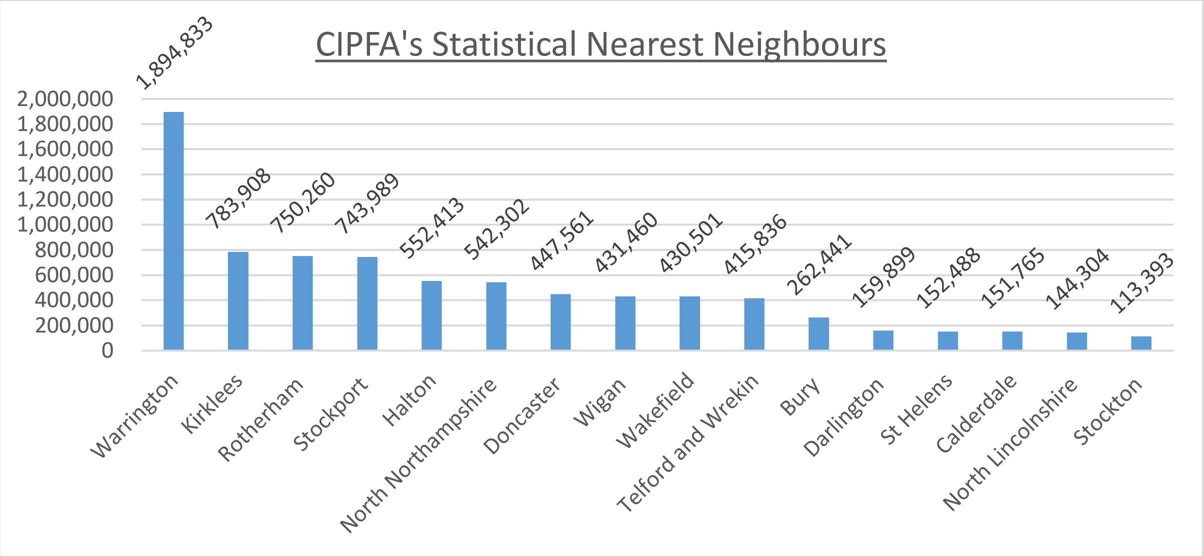
Projected levels of the Council's total outstanding debt (which comprises borrowing, PFI liabilities and leases) are shown below, compared with the capital financing requirement (see above).

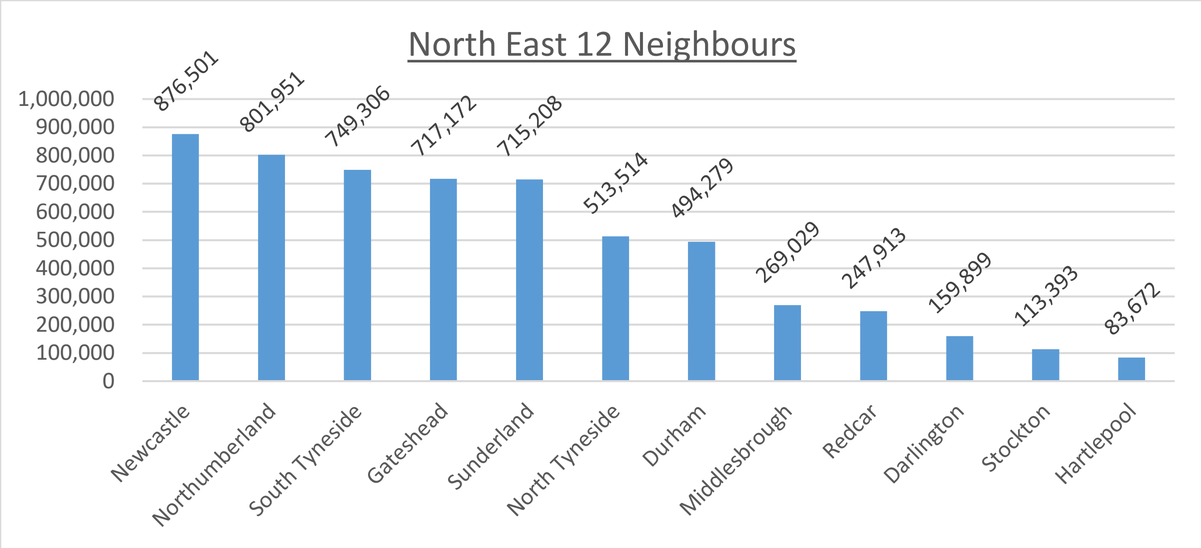
Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.2024 actual	**31.3.2025 forecast**	**31.3.2026 budget**	**31.3.2027 budget**	**31.3.2028 budget**
Debt (incl. PFI & leases)	113.393	134.658	190.668	206.024	231.798
Capital Financing Requirement	189.990	189.483	209.280	221.504	247.042

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.

As part of their Financial Resilience Index, CIPFA has produced data comparing Gross External Debt to the Councils statistical nearest neighbours and North East 12 neighbours. Comparisons (£m) are shown in the two graphs below:





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 is kept to a minimum level of £5m at each year-end. This benchmark is currently estimated to be £130.6m at 31st March 2025 and is forecast to rise to £231.6m over the next three years.

Table 7: Borrowing and the Liability Benchmark in £ millions

	31.3.2024 actual	31.3.2025 forecast	31.3.2026 budget	31.3.2027 budget	31.3.2028 budget
Outstanding borrowing	108.4	130.4	187.8	204.7	231.4
Liability benchmark	108.4	130.6	188.0	204.9	231.6

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

	2024/25 limit	2025/26 limit	2026/27 limit	2027/28 limit
Authorised limit	207.5	227.3	239.5	265.0
Operational boundary	192.5	212.3	224.5	250.0

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

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

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

Table 9: Treasury management investments in £millions

	31.3.2024 actual	31.3.2025 forecast	31.3.2026 budget	31.3.2027 budget	31.3.2028 budget
Near-term investments	8.8	5.0	5.0	5.0	5.0
Long-term investments	13.0	13.2	13.2	13.2	13.2
TOTAL	**21.8**	**18.2**	**18.2**	**18.2**	**18.2**

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

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

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

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Deputy Chief Executive & Director of Finance, Transformation and Performance 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 Deputy Chief Executive & Director of Finance, Transformation and Performance 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 G.

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 2024 were valued at £17.970m 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 Deputy Chief Executive & Director of Finance, Transformation and Performance 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 G.

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

	31.3.2024 actual	**31.3.2025 forecast**	**31.3.2026 budget**	**31.3.2027 budget**	**31.3.2028 budget**
Total net income from service and commercial investments £m	0.903	0.903	0.903	0.903	0.903
Proportion of net revenue stream	0.49%	0.48%	0.46%	0.45%	0.44%

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	**2023/24 Actual £m**	**2024/25 Forecast £m**	**2025/26 Budget £m**
Treasury management investments	21.696	18.100	18.100
Service investments: Loans	0.242	0.232	0.220
Service investments: Shares	0.000	0.000	0.000
Commercial investments: Property	17.970	17.970	17.970
TOTAL INVESTMENTS	**39.908**	**36.302**	**36.290**

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	31.03.2024 Actual £m	31.03.2025 Forecast £m	31.03.2026 Forecast £m
Treasury management investments	0	0	0
Service investments: Loans	0	0	0
Service investments: Shares	0	0	0
Commercial investments: Property	17.000	17.000	17.000
Total Funded by Borrowing	**17.000**	**17.000**	**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	2023/24 Actual £m	2024/25 Forecast £m	2025/26 Budget £m
Treasury management investments	5.8%	3.0%	4.7%
Service investments: Loans	9.1%	0.0%	0.0%
Commercial investments: Property	3.0%	3.3%	3.3%
ALL INVESTMENTS	**5.0%**	**3.0%**	**4.0%**

Other Liabilities

The authority has no other significant liabilities other than the debt detailed in Table 6. The previous guarantee on the performance of the ARCC (Achieving Real Change in Communities) under the service agreement pursuant to a guarantee with the Secretary of State ceased in 2024.

Governance: Decisions on incurring new discretional liabilities are taken by service managers in consultation with the Deputy Chief Executive & Director of Finance, Transformation and Performance. 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 66 of the draft 2023/24 Statement of Accounts.

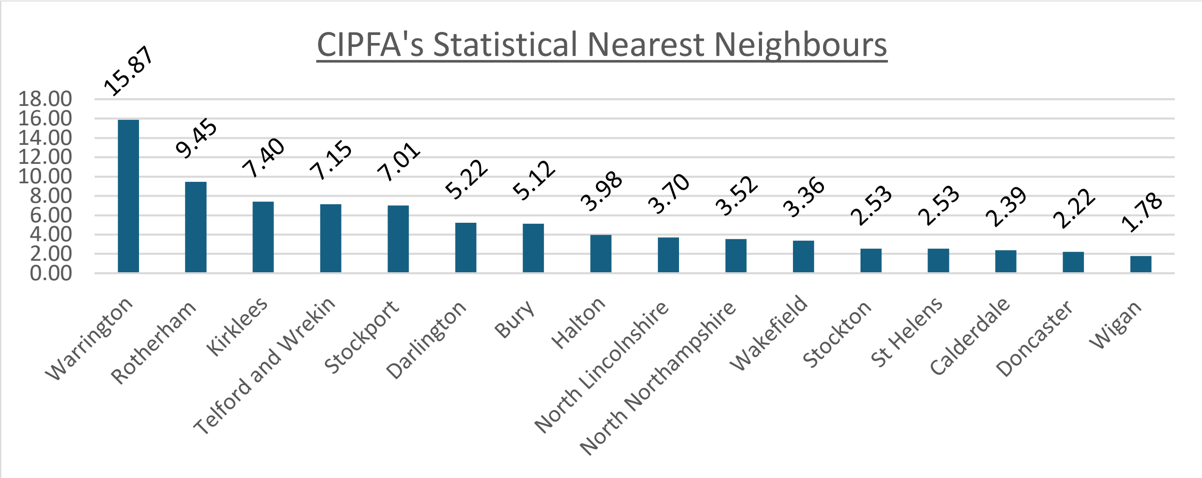
Revenue Budget Implications

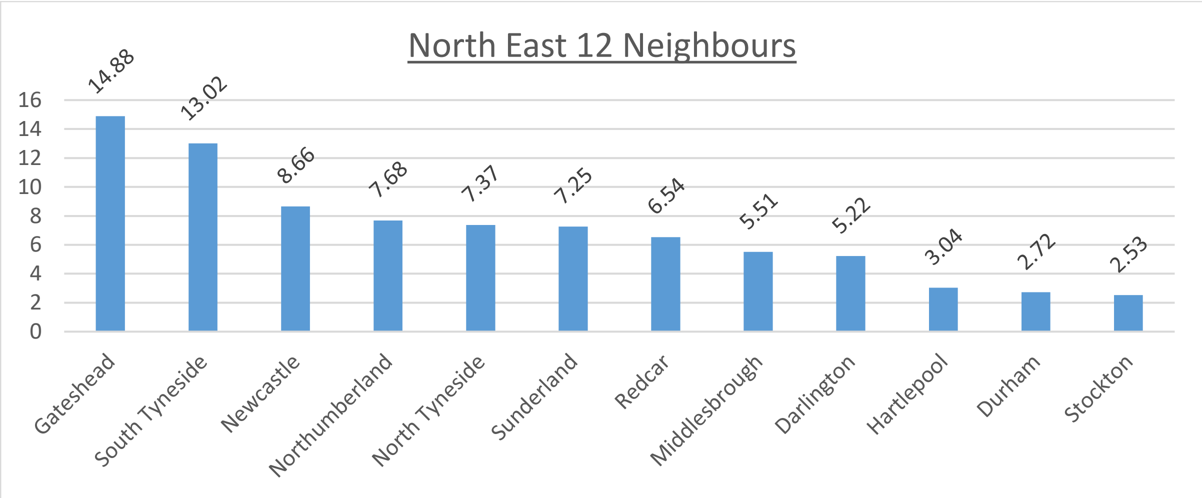
Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from council tax, business rates and general government grants.

Table 14: Prudential Indicator: Proportion of financing costs to net revenue stream

	31.3.2024 actual	31.3.2025 forecast	31.3.2026 budget	31.3.2027 budget	31.3.2028 budget
Financing costs (£m)	5.1	5.9	9.0	10.1	10.4
Proportion of net revenue stream	2.5%	3.2%	4.6%	5.0%	5.0%

As part of their Financial Resilience Index CIPFA has produced data comparing the above ratio to the Councils statistical nearest neighbours and North East 12 neighbours. Comparisons (%) are shown in the two graphs below.





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 Deputy Chief Executive & Director of Finance, Transformation and Performance is satisfied that the proposed capital programme is prudent, affordable and sustainable. Processes and controls ensure that the programme is reviewed regularly in the context of inflation driven cost increases and rising interest rates. The impact of the existing Capital Programme on the MTFP has been considered, and the revenue implications of future capital schemes are included when considering the approval of the capital budget.

Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. 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. All senior staff with treasury management responsibilities are CIPFA qualified Accountants.

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 Deputy Chief Executive & Director of Finance, Transformation and Performance.

Schedule 1 – Annual Minimum Revenue Provision Statement 2025/26

Where the Authority finances capital expenditure by debt, 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 Authority to have regard to the former Ministry of Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in 2024.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is aligned with that over which the capital expenditure provides benefits.

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

MRP is calculated by reference to the capital financing requirement (CFR) which is the total amount of past capital expenditure that has yet to be permanently financed, noting that debt must be repaid and therefore can only be a temporary form of funding. The CFR is calculated from the Authority's balance sheet in accordance with the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Expenditure in Local Authorities, 2021 edition.

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

For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset equal to the average relevant PWLB rate for the year of expenditure 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 loans

- For capital expenditure on loans to third parties which were made primarily for financial return rather than direct service purposes, MRP will be charged in accordance with the policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. This MRP charge will be reduced by the value any repayments of loan principal received during in the year, with the capital receipts so arising applied to finance the expenditure instead.

- For capital expenditure on loans to third parties which were made primarily for service purposes, the Authority will make nil MRP except as detailed below for expected credit losses. Instead, the

Authority will apply the capital receipts arising from the repayments of the loan principal to finance the expenditure in the year they are received.

- For capital loans made on or after 7th May 2024 where an expected credit loss is recognised during the year, the MRP charge in respect of the loan will be no lower than the loss recognised. Where expected credit losses are reversed, for example on the eventual repayment of the loan, this will be treated as an overpayment.

- For capital loans made before 7th May 2024 and for loans where expected credit losses are not applicable, where a shortfall in capital receipts is anticipated, MRP will be charged to cover that shortfall over the remaining life of the assets funded by the loan.

Capital expenditure incurred during 2025/26 will not be subject to a MRP charge until the year following the year in which the relevant assets become operational.

Capital receipts

Proceeds from the sale of capital assets are classed as capital receipts, and are typically used to finance new capital expenditure. Where the Authority decides instead to use capital receipts to repay debt and hence reduce the CFR, the calculation of MRP will be adjusted as follows:

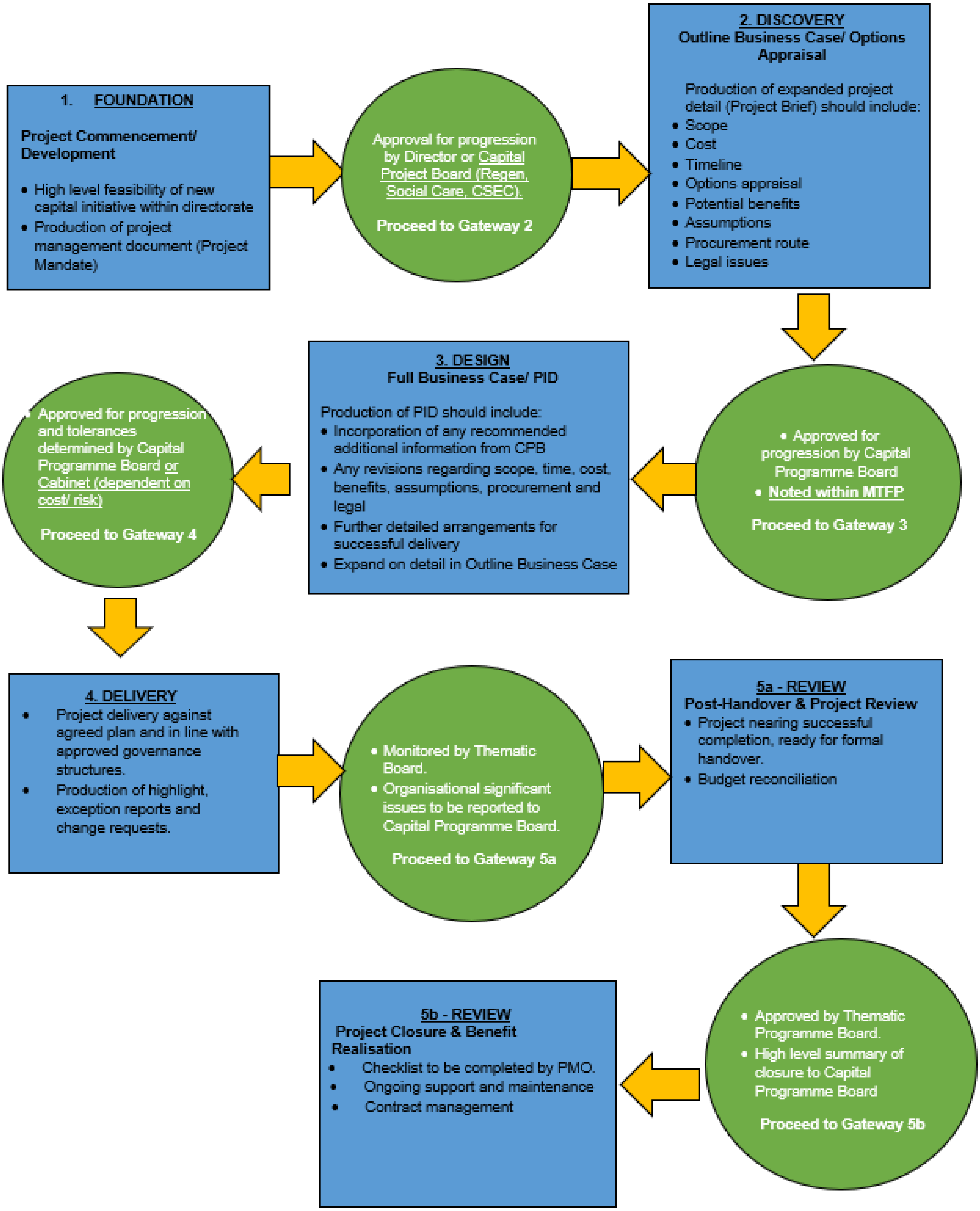
- Capital receipts arising on the repayment of principal on capital loans to third parties will be used to lower the MRP charge in respect of the same loans in the year of receipt, if any.

- Capital receipts arising on the repayment of principal on finance lease receivables will be used to lower the MRP charge in respect of the acquisition of the asset subject to the lease in the year of receipt, if any.

- Capital receipts arising from other assets which form an identified part of the Authority's MRP calculations will be used to reduce the MRP charge in respect of the same assets over their remaining useful lives, starting in the year after the receipt is applied.

- Any other capital receipts applied to repay debt will be used to reduce MRP in 10 equal instalments starting in the year after receipt is applied.

Schedule 2 – Capital Programme Management Arrangements – Capital Programme Lifecycle



APPENDIX F

STOCKTON ON TEES TREASURY MANAGEMENT STRATEGY 2025/26

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 2021 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 G of this report.

External Context

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

Economic background: The impact on the UK from the government's Autumn Budget, slower expected interest rate cuts, a short-term boost to but modestly weaker economic growth over the medium term, together with uncertainties around US domestic and foreign policy, will be major influences on the Authority's treasury management strategy for 2025/26.

The Bank of England's (BoE) Monetary Policy Committee (MPC) held Bank Rate at 4.75% at its December 2024 meeting, having reduced it to that level in November and following a previous 25bp cut from the 5.25% peak at the August MPC meeting. At the December meeting, six Committee members voted to maintain Bank Rate at 4.75% while three members preferred to reduce it to 4.50%.

The November quarterly Monetary Policy Report (MPR) expected Gross Domestic Product (GDP) growth to pick up to around 1.75% (four-quarter GDP) in the early period of the BoE's forecast horizon before falling back. The impact from the Budget pushes GDP higher in 2025 than was expected in the previous MPR, before becoming weaker. Current GDP growth was shown to be zero (0.0%) between July and September 2024 and 0.4% between April and June 2024, a further downward revision from the 0.5% rate previously reported by the Office for National Statistics (ONS).

ONS figures reported the annual Consumer Price Index (CPI) inflation rate at 2.6% in November 2024, up from 2.3% in the previous month and in line with expectations. Core CPI also rose, but by more than expected, to 3.6% against a forecast of 3.5% and 3.3% in the previous month. The outlook for CPI inflation in the November MPR showed it rising above the MPC's 2% target from 2024 into 2025 and reaching around 2.75% by the middle of calendar 2025. This represents a modest near-term increase due to the ongoing impacts from higher interest rates, the Autumn Budget, and a projected margin of economic slack. Over the medium-term, once these pressures ease, inflation is expected to stabilise around the 2% target.

The labour market appears to be easing slowly, but the data still require treating with some caution. The latest figures reported the unemployment rate rose to 4.3% in the three months to October 2024 and economic inactivity fell to 21.7%. Pay growth for the same period was reported at 5.2% for both regular earnings (excluding bonuses) and for total earnings. Looking ahead, the BoE MPR showed the unemployment rate is expected to increase modestly, rising to around 4.5%, the assumed medium-term equilibrium unemployment rate, by the end of the forecast horizon.

The US Federal Reserve has continued cutting interest rates, bringing down the Fed Funds Rate by 0.25% at its December 2024 monetary policy meeting to a range of 4.25%-4.50%, marking the third consecutive reduction. Further interest rate cuts are expected, but uncertainties around the potential inflationary impact of US policies may muddy the waters in terms of the pace and magnitude of further rate reductions. Moreover, the US economy continues to expand at a decent pace, rising at an (upwardly revised) annual rate of 3.1% in the third quarter of 2024, and inflation remains elevated suggesting that monetary policy may need to remain more restrictive in the coming months than had previously been anticipated.

Euro zone inflation rose above the European Central Bank (ECB) 2% target in November 2024, hitting 2.2% as was widely expected and a further increase from 2% in the previous month. Despite the rise, the ECB continued its rate cutting cycle and reduced its three key policy rates by 0.25% in December. Inflation is expected to rise further in the short term, but then fall back towards the 2% target during 2025, with the ECB remaining committed to maintaining rates at levels consistent with bringing inflation to target, but without suggesting a specific path.

Credit outlook: Credit Default Swap (CDS) prices have typically followed a general trend downwards during 2024, reflecting a relatively more stable financial period compared to the previous year. Improved credit conditions in 2024 have also led to greater convergence in CDS prices between ringfenced (retail) and non-ringfenced (investment) banking entities again.

Higher interest rates can lead to a deterioration in banks' asset quality through increased loan defaults and volatility in the value of capital investments. Fortunately, the rapid interest rate hikes during this monetary tightening cycle, while putting some strain on households and corporate borrowers, has not caused a rise in defaults, and banks have fared better than expected to date, buoyed by strong capital positions. Low unemployment and robust wage growth have also limited the number of problem loans, all of which are positive in terms of creditworthiness.

Moreover, while a potential easing of US financial regulations may aid their banks' competitiveness compared to institutions in the UK and other regions, it is unlikely there will be any material impact on the underlying creditworthiness of the institutions on the counterparty list maintained by Arlingclose, the authority's treasury adviser.

Overall, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast (December 2024): The Authority's treasury management adviser Arlingclose expects the Bank of England's MPC will continue reducing Bank Rate through 2025, taking it to around 3.75% by the end of the 2025/26 financial year. The effect from the Autumn Budget on economic growth and inflation has reduced previous expectations in terms of the pace of rate cuts as well as pushing up the rate at the end of the loosening cycle.

Arlingclose expects long-term gilt yields to remain broadly at current levels on average (amid continued volatility), but to end the forecast period modestly lower compared to now. Yields will continue remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will be short-term volatility due to economic and (geo)political uncertainty and events.

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

Local Context

On 31st December 2024, the Authority held £129.1m of borrowing and £29.7m 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

	31.3.24 Actual £m	**31.3.25 Forecast £m**	**31.3.26 Forecast £m**	**31.3.27 Forecast £m**	**31.3.28 Forecast £m**
General Fund CFR	189.99	189.48	209.28	221.50	247.04
Less: Other debt liabilities	(5.55)	(4.25)	(2.87)	(1.32)	(0.39)
Loans CFR	**184.44**	**185.24**	**206.41**	**220.19**	**246.66**
Less: External borrowing	(108.39)	(130.41)	(187.80)	(204.71)	(231.41)
Internal (over) borrowing	**76.05**	**54.83**	**18.61**	**15.48**	**15.24**
Less: Balance Sheet Resources	(97.83)	(73.05)	(36.84)	(33.71)	(33.47)
(Investments) / New borrowing	**(21.77)**	**(18.23)**	**(18.23)**	**(18.23)**	**(18.23)**

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums 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 and will potentially be required to increase borrowing up to a total of £231.4m 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.

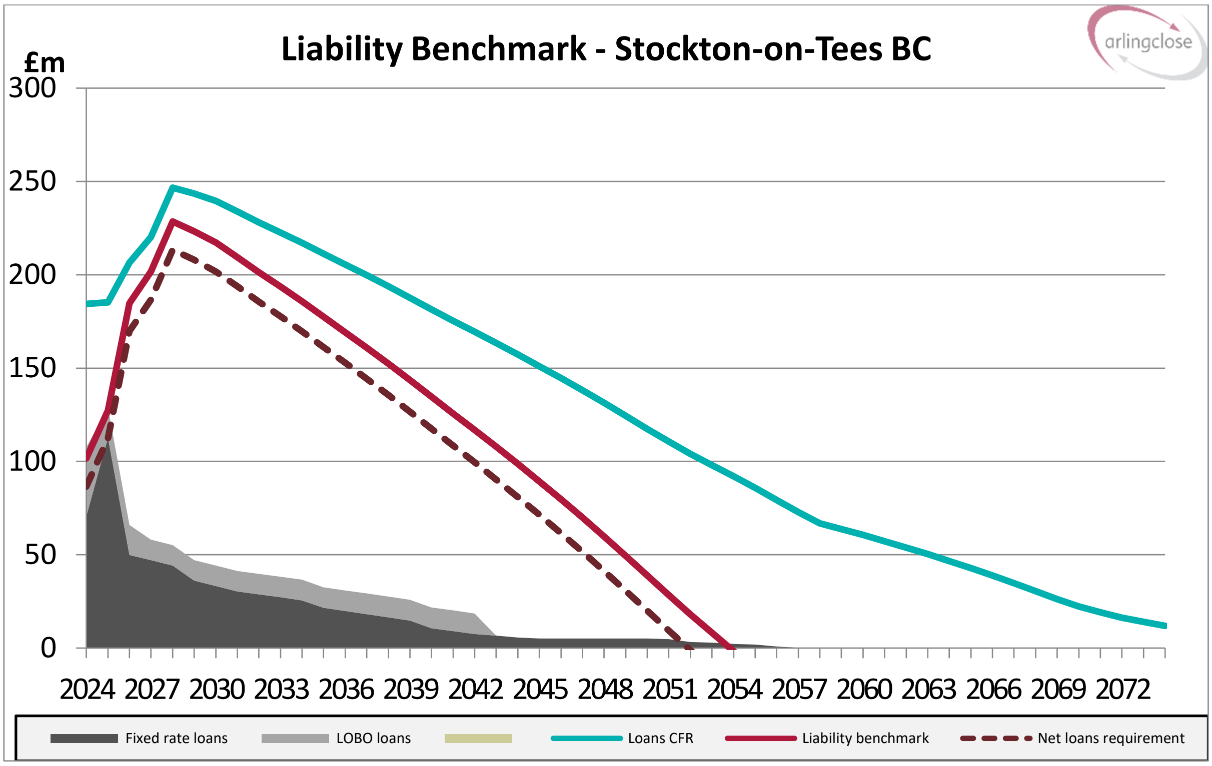
Liability benchmark: To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of £5m at each year-end to maintain sufficient liquidity but minimise credit risk.

The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Table 2: Prudential Indicator: Liability benchmark

	31.3.24 Actual £m	**31.3.25 Forecast £m**	**31.3.26 Forecast £m**	**31.3.27 Forecast £m**	**31.3.28 Forecast £m**
Loans CFR	184.44	185.24	206.41	220.19	246.66
Less: Balance Sheet Resources	(97.83)	(73.05)	(36.84)	(33.71)	(33.47)
Plus: Liquidity Allowance	21.77	18.20	18.20	18.20	18.20
Liability Benchmark	**108.39**	**130.38**	**187.77**	**204.68**	**231.39**

Following on from the medium-term forecasts in table 2 above, the long-term liability benchmark assumes an estimated level of 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. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing:



Borrowing Strategy

The Authority at the 31st December 2024 had £129.1m of loans, an increase of £26.1m 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 £187.8m in 2025/26. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £227.3m.

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. Short-term interest rates are currently higher than in the recent past, but are expected to fall in the coming year and it is therefore likely to be more cost effective over the medium-term to either use internal resources, or to borrow short-term loans instead. The risks of this approach will be managed by keeping the Authority's interest rate exposure within the limit set in the treasury management prudential indicators.

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. 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 2025/26 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 further 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)
- National Wealth Fund Ltd (formerly UK Infrastructure Bank Ltd)
- 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
- retail investors via a regulated peer-to-peer platform
- 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
- similar asset based finance
- 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 £16m (£37m 2023/24) 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. With interest rates having risen recently, lenders have started to exercise their options. The authority took advantage of this in November 2024 repaying £21m in LOBO loans and replacing this with short term debt. The Authority will take the option to repay LOBO loans to reduce refinancing risk in later years if the option becomes available.

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. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

Treasury 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 £72m and £14m, 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 to or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

Strategy: As demonstrated by the liability benchmark above, the Authority expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.

The CIPFA Code does not permit local authorities to both borrow and invest long-term for cash flow management. But the Authority may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by adding diversification to the strategic pooled fund portfolio.

ESG policy: Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Authority's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Authority will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

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	3 years	Unlimited	n/a
Local authorities & other government entities	3 years	£5,000,000	Unlimited
Secured investments *	3 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) *	3 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 *	3 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: Sterling-denominated investments with or explicitly guaranteed by the UK Government, including the Debt Management Account Deposit Facility, treasury bills and gilts. These are deemed to be zero credit risk due to the government's ability to create additional currency and therefore may be made in unlimited amounts for up to 3 years.

Local authorities and other government entities: Loans to, and bonds and bills issued or guaranteed by, other 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.

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, secured deposits 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, including exchange traded 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 can be either withdrawn after a notice period or sold on an exchange, 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 unsecured loans to companies and universities. 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 through 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.

Reputational aspects: The Authority is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, 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 which will be needed to cover investment losses. 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) of which at least two will be UK domiciled 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	£5m

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	-£0.011m
One-year revenue impact of a 1% fall in interest rates	£0.011m

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

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 prudential limits on the long-term treasury management investments will be:

	2024/25	2025/26	2026/27	No Fixed Date
Limit on principal invested beyond year end	£60m	£50m	£40m	£20m

Long-term investments with no fixed maturity date include strategic pooled funds and real estate investment trusts but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

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 Deputy Chief Executive and Director of Finance, Transformation and Performance believes this to be the most appropriate status.

Financial Implications

The budget for investment income in 2025/26 is £0.860m, and the budget for debt interest to be paid in 2025/26 is £7.1m. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

Where investment income exceeds budget, e.g. from higher risk investments including pooled funds, or debt interest paid falls below budget, e.g. from cheap short-term borrowing, then revenue savings will be transferred to a treasury management reserve to cover the risk of capital losses or higher interest rates payable in future years.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Deputy Chief Executive and Director of Finance, Transformation and Performance, 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 2024

Underlying assumptions:

- As expected, the Monetary Policy Committee (MPC) held Bank Rate at 4.75% in December, although, with a 6-3 voting split and obvious concerns about economic growth, presented a much more dovish stance than had been expected given recent inflationary data.
- The Budget measures remain a concern for policymakers, for both growth and inflation. Additional government spending will boost demand in a constrained supply environment, while pushing up direct costs for employers. The short to medium-term inflationary effects will promote caution amongst policymakers.
- UK GDP recovered well in H1 2024 from technical recession, but underlying growth has petered out as the year has progressed. While government spending should boost GDP growth in 2025, private sector activity appears to be waning, partly due to Budget measures.
- Private sector wage growth and services inflation remain elevated; wage growth picked up sharply in October. The increase in employers' NICs, minimum and public sector wage levels could have wide ranging impacts on private sector employment demand and costs, but the near-term impact will likely be inflationary as these additional costs get passed to consumers.
- CPI inflation rates have risen due to higher energy prices and less favourable base effects. The current CPI rate of 2.6% could rise further in Q1 2025. The Bank of England (BoE) estimates the CPI rate at 2.7% by year end 2025 and to remain over target in 2026.
- The MPC re-emphasised that monetary policy will be eased gradually. Despite recent inflation-related data moving upwards or surprising to the upside, the minutes suggested a significant minority of policymakers are at least as worried about the flatlining UK economy.
- US government bond yields have risen following strong US data and uncertainty about the effects of US policies on the US economy, particularly in terms of inflation and monetary policy. The Federal Reserve pared back its expectations for rate cuts in light of these issues. Higher US yields are also pushing up UK gilt yields, a relationship that will be maintained unless monetary policy in the UK and US diverges.

Forecast:

- In line with our forecast, Bank Rate was held at 4.75% in December.
- The MPC will reduce Bank Rate in a gradual manner. We see a rate cut in February 2025, followed by a cut alongside every Monetary Policy Report publication, to a low of 3.75%.
- Long-term gilt yields have risen to reflect both UK and US economic, monetary and fiscal policy expectations, and increases in bond supply. Volatility will remain elevated as the market digests incoming data for clues around the impact of policy changes.
- This uncertainty may also necessitate more frequent changes to our forecast than has been the case recently.

	Current	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.75	4.50	4.25	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Downside risk	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.90	4.60	4.35	4.10	3.90	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Downside risk	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
5yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.34	4.30	4.20	4.10	4.00	3.90	3.90	3.95	4.00	4.05	4.05	4.05	4.05
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
10yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.56	4.55	4.45	4.30	4.20	4.20	4.20	4.20	4.25	4.25	4.25	4.25	4.25
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
20yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	5.05	5.00	4.90	4.80	4.70	4.65	4.65	4.65	4.65	4.65	4.65	4.65	4.65
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
50yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.52	4.70	4.60	4.50	4.40	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80

Schedule 2 – Existing Investment & Debt Portfolio Position

	31/12/2024 Actual Portfolio £m	31/12/2024 Average Rate %
External borrowing:		
Public Works Loan Board	51.9	2.90%
Local authorities	61.3	2.37%
LOBO loans from banks	16.0	4.87%
Total external borrowing	**129.1**	
Other long-term liabilities:		
Private Finance Initiative	3.3	
Finance Leases	2.2	
Total other long-term liabilities	**5.6**	
Total gross external debt	**134.7**	
Treasury investments:		
Banks & building societies	1.2	3.25%
Government (incl. local authorities)	0.0	0.00%
Money Market Funds	15.3	4.80%
Other pooled funds	13.2	4.60%
Total treasury investments	**29.7**	
Net Debt	**105.0**	

APPENDIX G

NON TREASURY INVESTMENT STRATEGY REPORT 2025/26

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.

The statutory guidance defines investments as “all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios.” The Authority interprets this to exclude (a) trade receivables which meet the accounting definition of financial assets but are not investments in the everyday sense of the word and (b) property held partially to generate a profit but primarily for the provision of local public services. This aligns the Authority’s definition of an investment with that in the 2021 edition of the CIPFA Prudential Code, a more recent piece of statutory guidance.

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 2025/26 plan for treasury management investments are covered in a separate document, the Treasury Management Strategy, attached at Appendix F of this report.

Service Investments: Loans

Contribution: The Council can lend money to its subsidiaries, its suppliers, local businesses, local charities, housing associations, local residents and its employees to support local public services and stimulate local economic growth. Details of the loans provided as at 31st March 2024 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 Authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for service purposes in £ millions

Category of borrower	31.3.2024 actual			2025/26
	Balance owing £m	Loss allowance £m	Net figure in accounts £m	Approved Limit £m
Subsidiaries / Joint Ventures	0.000	0.000	0.000	**5.000**
Local businesses	0.038	0.000	0.039	**2.000**
Local residents	0.204	0.000	0.204	**1.000**
Employees	0.000	0.000	0.000	**0.050**
TOTAL	**0.242**	**0.000**	**0.242**	**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, 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, upper limits on the sum invested in each category of shares have been set as follows:

Table 2: Shares held for service purposes in £ millions

Category of company	31.3.2024 actual			2025/26
	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	0	0	**2.000**
TOTAL	**0**	**0**	**0**	**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	31.3.2024 Value £m
Estate Shops	0.499
Hampton by Hilton Hotel	11.900
Town Centre	1.380
Ground Leases	2.726
Garages	0.011
Agricultural	1.350
Advertising Hoardings	0.104
TOTAL	**17.970**

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 specialist external valuers as at 31st March 2024. These assets are valued on a rolling programme 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

	2023/24 Actual £m	2024/25 Forecast £m	2025/26 Budget £m
Gross service expenditure	492.952	465.695	
Investment income	3.598	2.348	2.068
Proportion	**0.73%**	**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 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	2023/24 Actual £m	2024/25 Forecast £m	2025/26 Budget £m
Treasury management investments	21.696	18.100	18.100
Service investments: Loans	0.242	0.232	0.220
Service investments: Shares	0.000	0.000	0.000
Commercial investments: Property	17.970	17.970	17.970
TOTAL INVESTMENTS	**39.908**	**36.302**	**36.290**

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	2023/24 Actual £m	2024/25 Forecast £m	2025/26 Budget £m
Treasury management investments	0	0	0
Service investments: Loans	0	0	0
Service investments: Shares	0	0	0
Commercial investments: Property	17.000	17.000	17.000
Total Funded by Borrowing	**17.000**	**17.000**	**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	**2023/24 Actual £m**	**2024/25 Forecast £m**	**2025/26 Budget £m**
Treasury management investments	5.8%	3.0%	4.7%
Service investments: Loans	9.1%	0.0%	0.0%
Commercial investments: Property	3.0%	3.3%	3.3%
ALL INVESTMENTS	**5.0%**	**3.0%**	**4.0%**

Appendix H

SECTION 151 OFFICERS STATEMENT ON THE ROBUSTNESS OF THE BUDGET AND ADEQUACY OF BALANCES –YEAR 2025/26

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 in their Auditors Annual Report 2022/23 for Stockton-on-Tees gave an unqualified opinion on the accounts for the Council for that year. This reflects the fact that the authority had proper and robust financial management and controls in place for that year. 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 Section 151 Officer has responsibility for ensuring that an effective system of internal control is in place and for identifying any areas for improvement where appropriate. The Council has a robust Internal Audit programme, taking a risk-based approach to ensure the systems and processes in place are robust. 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.

Robustness of Estimates

5. The Medium Term Financial Plan monitoring and reporting cycle is rigorous, so that any potential financial risks are identified, reported and addressed as quickly as possible.

6. During 2024/5 the S151 Officer and finance team have undertaken a thorough review of the budget monitoring arrangements, resulting in a refreshed process placing greater emphasis on the roles and responsibilities of budget managers across the Council. A thorough programme of training has been delivered to all budget managers, using both face to face and online delivery platforms. A suite of budget management tools have also been developed and rolled out to ensure budget managers have the skills and information to support them in their role of managing budgets.

7. An exceptional process of budget management is in place for the more complex and volatile budgets, for example Adult's and Children's Services placements budgets. This involves greater frequency of scrutiny, greater interrogation by the finance team, and analysis by budget managers and Directorate Senior Management Teams.

8. There is a rigorous system for budget monitoring and reporting, with scrutiny and challenge upon financial performance undertaken by the finance teams, budget managers, directorate senior management teams and Corporate Management Team. Cabinet receive regular Medium Term Financial Plan and budget update reports throughout the financial year.

9. The MTFP has been reviewed in full and updated for future years. In preparing the updated MTFP, the following factors have been taken into account
   - understanding the most up to date cost and activity base
   - analysis of growth trends over recent years
   - anticipation of potential risks or mitigations that may impact upon Council budgets over the medium term
   - all known changes to funding levels, as well as estimates for those funding streams for which we have not received confirmation

10. There are a number of uncertainties looking ahead across the period of the Medium Term Financial Plan, which may impact upon the Council's budget in future years. These include:
    - Continued growth in costs and demand for services
    - Continuation of exceptional growth across adult's and children's social care, as seen in recent years. Although additional funds have been allocated within the report, the allowance for growth continues to be challenging and poses a risk.
    - Potential national changes to government funding allocations, including the Fair Funding Review and Business Rates reset
    - Other national government changes, for example Children's Social Care and Adult's Social Care Reform

11. All of these challenges are experienced by most councils across the country and are reflective of the current challenges facing local government budgets. Financial risks have been quantified where appropriate and either provision has been made or mitigations have been identified. Additional resources for high demand areas are recommended for inclusion in the budget to reflect the growing costs.

12. The plan includes the continuation of a number of mitigating actions looking to control spending and maximise income sources in order to ensure efficient use of Council resources. These include additional consideration of recruitment and procurement decisions, adding further robust challenge into the decision making process, before funds are committed.

13. The Powering our Futures programme is now well underway and has been successful in delivering a significant share of the savings required to close the budget gap. A number of recommendations from the transformation reviews have been agreed by Cabinet and are beginning to be implemented. This progress and commitment by members of the council to the programme, provide real reassurance that achievement of the remaining savings will be realised.

14. During this process the investment in capacity and implementation of robust project management processes have provided a framework to drive progress across the reviews. This includes greater focus upon performance and financial information in measuring the success of projects. This infrastructure allows senior leaders to assess the success of the programme and reflect on the performance, giving scope to address any potential issues and alter direction in a timely manner if required.

15. Following the principles of budget monitoring set out above, the construction of the budget for 2025/26 and examination and validation of the budget proposals has been subject to challenge by the Council's Corporate Management Team.

16. Given the factors set out above I am reassured on the robustness of the estimates included within the medium term financial plan, and that they are reflective of known information and informed by current performance and processes. This is subject to the continued commitment by officers and members to maintain the level of challenge, mitigate potential financial risks as soon

as possible, and continue to deliver the transformation programme and savings within the necessary timeframes.

Adequacy of the Proposed Level of Reserves

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

18. 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

19. A thorough review of provisions linked to Council tax and Business Rates was undertaken as part of the budget setting for 2024/25 and repeated again this year. Analysis of known data such as collection rates and levels of debt, as well as predictions regarding business rates appeals are considered. Although levels of debt are higher than pre-covid, I am satisfied that the provisions are appropriate, and in keeping with similar authorities approaches.

20. The Council holds £8m in General Fund balances, a sum of money the Council must maintain in case of a major unforeseen event leading to significant financial uncertainty. In the event that the Council must use these funds, they must commit to replenishing them back to the original level as quickly as possible.

21. As set out in the main body of the report the Council's budget continues to grow each year, with the largest growth in the Social Care budgets. Due to the Council's current MTFP and successful performance against delivering savings so far, it is not proposed to increase this sum this year, however, it is recommended that this is considered as part of the next budget and MTFP setting cycle.

22. As part of the annual budget setting process, the levels of balances and reserves are reviewed to ensure that the level is appropriate in the context of local circumstances. As described in the main body of the report, a thorough review of reserves has been undertaken again this year. This has identified a sum that can be redirected to fund the projected overspend within 2024/25.

23. When making an assessment of the level of reserves, factors to take into account include historic trends against budget, current savings requirements and other potential future financial risks.
    a) The level of overspend the Council has experienced over the past three years has required the use of reserves and provisions to fund the overspend. This has caused the Council's reserves levels to reduce faster than planned.
    b) The MTFP does require savings to be made, amounting to £2.5m by 2026/27. As described above the Council has invested in building capacity to enable delivery of these savings, and has already shown success in implementing over £5.8m worth of savings. This demonstrates proven commitment and reassures us that we can be cautiously optimistic in the likelihood of achieving the remaining targets.
    c) In setting the MTFP, officers have followed a process to try to identify potential future risk as far as possible. As discussed earlier there remain various challenges to staying within budget, however, we have implemented processes and demonstrated commitment to mitigating pressures.

24. This review views the current level of general fund balances to be prudent and reflective of the current levels of risk facing the Council. Earmarked reserves are held to provide resources for specific, identified purposes. These reserves have been reviewed and commitments assessed, and although the reserves are committed, a substantial element will not be utilised in the next

two years. Therefore, these could be made available if savings are not delivered in line with the plan included in the report, or further pressures materialise.

25. Due to the reserves position described above and summarised in the table within the report, it would not be robust to utilise reserves to fund the medium term financial plan. Should the maximum increase to Council tax not be agreed, additional savings would have to be identified to the equivalent amount.

26. This funding is only available once, and if it were to be required to support the MTFP, options would need to be considered to either find alternative means to fund these existing commitments, 154or take the decision to cease those commitments.