

**AGENDA ITEM 4**

**REPORT TO CABINET**

**12 FEBRUARY 2024**

**REPORT OF CORPORATE  
MANAGEMENT TEAM**

**CABINET DECISION**

**Leader of the Council – Councillor Bob Cook**

**MEDIUM TERM FINANCIAL PLAN UPDATE AND STRATEGY**

**SUMMARY**

This is the final report in setting the Council's 2024/25 Budget and Council Tax and outlining the Medium Term Financial Plan (MTFP) position to 2027. The report also includes an update on the financial performance for 2023/24.

The report outlines the budget for 2024/25 and indicative MTFP for future years. The provisional finance settlement was received on 19<sup>th</sup> December 2023 and this indicated the funding for 2024/25, 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 Report outlines a budget pressure rising to £9m by 2026/27 and the transformation programme which has previously been reported to Cabinet will be key to addressing this gap.

The Powering Our Future Programme, including a planned approach to Transformation (reported to Cabinet in January 2024) will be crucial in delivering savings as well as service improvements to resolve the gap. It ensures that the Council has a clear plan to address the financial challenges we face, at the same time as improving outcomes for communities. Although we can no longer afford to meet the needs of our residents in the way we have in the past, we are confident we can work with our partners and communities to put in place new and innovative approaches that will not only save money, but also reshape what we do, in the best interests of our residents.

**REASON FOR RECOMMENDATIONS/DECISIONS**

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

- 2024/25 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 2024/25 Council Tax requirement for Stockton-on-Tees Borough Council of £115,873,657.
3. Approve a 2024/25 Council Tax requirement for Stockton-on-Tees Borough Council inclusive of Parish Precepts £116,878,570.
4. Approve the 2024/25 budget and indicative 2024/27 MTFP as outlined in paragraphs 25 - 56, the level of General Fund Balances and the release of reserves to balance the 2023/24 in year financial position as set out in paragraphs 19-24.

### **Taxation**

#### **SBC**

5. 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 £1,942.81 at Band D (£1,295.21 at Band A).

#### **Fire, Police & Parish**

6. The Council note the Police & Crime Commissioner is proposing a precept of £18,115,156 which equates to a Council Tax of £303.73 at Band D (£202.49 at Band A).
7. The Council note the Fire Authority is proposing a precept of *xx which equates to a Council Tax of £xx at Band D (£xx at Band A).*- to follow
8. The Council note the Parish precepts as set out in paragraph 80 of the budget report.

### **Capital**

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

### **Organisational and HR**

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

### **Members Allowances**

11. Approve that Members allowances are frozen for 2024/25. This will mean that these allowances have been frozen since 2013/14.

### **Council Tax - Statutory Requirements**

12. Members approve the statutory requirements for Council Tax as shown in **Appendix D**. to follow
13. 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 2024/25 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](http://www.stockton.gov.uk/CTR).

14. 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 21st February to ensure that Government's intentions for additional support is maintained.
15. That the definition of long-term empty properties is amended to include properties empty and unfurnished for a period of one year or more and that the following additional Council Tax premiums be applied from 1 April 2024 onwards:
  - 100% council tax premium for properties empty and substantially unfurnished for a period of between 1 and up to 5 years;
  - 200% council tax premium for properties empty and substantially unfurnished for a period of between 5 and up to 10 years; and
  - 300% council tax premium for properties empty and substantially unfurnished for a period of 10 years or more.
16. That notice is given that a 100% council tax premium is applied to properties substantially furnished with no permanent resident with effect from 1 April 2025.

### **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 2024/25 to 2026/27 is attached.
2. The report also provides an update on the financial position for 2023/24. As reported previously, inflationary pressures are having a significant impact upon the financial position in 2023/24. We continue to see increased costs in maintaining vital services.
3. The Report outlines the Council Tax proposals and Budget for 2024/25 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 2023 and in particular reflects implications arising from the Local Government Finance Settlement for 2024/25.
5. The Provisional Financial Settlement has provided funding allocations for 2024/25 only. The period from 2025/26 and beyond is very uncertain, with no information announced on this period, therefore the projections for this period need to be treated with some caution.

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 2021/22 accounts which was issued in December 2023. The auditors have issued an unqualified audit opinion on the 2021/22 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 2024/25 – 2026/27 and recommend the budget for 2024/25.

#### **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

**Name of Contact Officer: Garry Cummings**

**Post Title: Director of Finance, Transformation & Performance and Deputy Chief Executive**

**Telephone No. 01642 527011**

**Email Address: [garry.cummings@stockton.gov.uk](mailto:garry.cummings@stockton.gov.uk)**

**MEDIUM TERM FINANCIAL PLAN  
AND BUDGET  
2024/25**

## CONTENTS

Section 1	<b>National Changes</b> Funding Position Government Funding – Provisional and Final Settlement
Section 2	<b>Financial Position at 31 December 2023</b> Service Position Overall / General Fund Balances
Section 3	<b>Medium Term Financial Plan 2024-27</b>
Section 4	<b>Capital Programme</b>
Section 5	<b>Pay Policy and Members Allowances</b> Pay Policy Statement Officer Appointment to Outside Bodies and Governing Bodies Members Allowances
Section 6	<b>Precept Levels</b> Stockton Precept Police Precept Fire Precept Parish Precept Overall Tax Position Formal Tax Recommendations
Section 7	<b>Local Council Tax Support Scheme</b>
Section 8	<b>Capital Strategy</b>
Section 9	<b>Treasury Management</b> Treasury Management Strategy
Section 10	<b>Investment Strategy</b>
<b>Appendices</b>	
Appendix A	Capital Programme December 2023
Appendix B	Capital Programme
Appendix C	Pay Policy Statement
Appendix D	Council Tax Statutory Requirements - <i>To follow for Council Meeting</i>
Appendix E	Capital Strategy
Appendix F	Treasury Management Strategy
Appendix G	Investment Strategy
Appendix H	Section 25 Statement – Section 151 Officer

## SECTION 1 – NATIONAL CHANGES

### Funding Position

1. On 18 December 2023 the DLUHC announced the Provisional Local Government Finance Settlement for 2024/25. The settlement was for a one-year period only.

The key announcements were:

- Referendum limits are set at 3% for core council tax and 2% for the Adult Social Care levy.
  - The Revenue Support Grant, which now is a small proportion of Government funding has increased in line with CPI
  - Social Care Grant increased by £692m, Market Sustainability and Improvement Fund increased by £123m and the discharge fund increased by £200m.
  - Services Grant has reduced from £483m to £77m nationally.
2. The government has previously committed to carry out a Review of Relative Needs and Resources and a reset of the accumulated business rates growth. Government have confirmed these will not be implemented in this Spending Review period, which ends in March 2025.
  3. The one-year spending review and financial settlement leaves significant uncertainty regarding the position from 2025 onwards. This makes financial planning across the duration of the MTFP challenging and the delay to local government funding reforms add to future uncertainty.
  4. On 24<sup>th</sup> January 2024 in a written ministerial statement, the Government announced a number of further measures in relation to local government funding including
    - An additional £500m to deliver Social Care
    - increase the Funding Guarantee from 3% to 4%

The impact of the above on local authority funding levels will be announced as part of the final local government funding settlement expected in early February. We are awaiting further details on the funding, and therefore we have assumed this funding will only be available for one year.

5. The written ministerial statement included the following announcement –

*We are asking local authorities to produce productivity plans setting out how they will improve service performance and reduce wasteful expenditure to ensure every area is making best use of taxpayers' money. I encourage local authorities to consider whether expenditure on discredited equality, diversity and inclusion programmes meets this objective.*

*The Department for Levelling Up, Housing and Communities will be establishing an expert panel to advise the Government on financial sustainability in the sector which will include the Office for Local Government and the Local Government Association. The panel will review local authority productivity plans and advise the Government on best practice in this area. The Government will monitor these plans and use them to inform funding Settlements in future years.*

## SECTION 2 - FINANCIAL POSITION TO 31 DECEMBER 2023

6. 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 £6.9m. Similar pressures are being experienced across the majority of the Local Government sector.
7. The report outlined that everyone across the Council was being encouraged to challenge and mitigate spend. This has resulted in some savings being identified, such as additional vacant posts, which have been incorporated into the forecast.
8. The following table details the projected General Fund outturn position for the current financial year, with detail provided in subsequent paragraphs.

Directorate	Annual Budget	Projected Outturn	Projected Variance Q3 Over/(Under)	Projected Variance Q2 Over/(Under)	Movement between Q2 and Q3
	£'000	£'000	£'000	£'000	£'000
Adults, Health & Wellbeing	88,398	89,943	1,545	1,576	(31)
Children's Services	49,820	58,235	8,415	7,296	1,119
Community Services, Environment & Culture	54,180	53,390	(790)	(401)	(389)
Finance, Development & Regeneration	14,687	14,017	(670)	(235)	(435)
Corporate Services	12,296	11,940	(356)	(220)	(136)
Corporate Items	3,629	840	(2,789)	(2,580)	(209)
<b>Total</b>	<b>223,010</b>	<b>228,365</b>	<b>5,355</b>	<b>5,436</b>	<b>(81)</b>
Pay Award		1,541	1,541	1,500	41
<b>Revised Total</b>	<b>223,010</b>	<b>229,906</b>	<b>6,896</b>	<b>6,936</b>	<b>(40)</b>

### Reasons for movements since Quarter 2 over £100,000

#### Adults, Health and Wellbeing

9. There has been minimal change to the projected position in the quarter. As noted in the December report, additional focus on spending decisions has slightly reduced spending.

#### Children's Services

10. Members will also be aware of the improvement agenda within children's services. Work is underway to understand the longer-term impact of COVID and map what the new normal is post covid. The Department for Education have released a number of new requirements about child protection arrangements which must be complied with and which require significant change. There are also new national requirements around care leavers which require a new and improved approach to care leavers. The requirements to improve, which the Council must comply with, have a direct impact on the financial position and are at the heart of the Council's overall transformation programme.
11. Recruitment to social worker posts continues to be extremely difficult. Maintaining a stable highly experienced social work force is a national challenge. Work is underway to develop a robust work force plan not only linking into the corporate offer but looking to attract social workers into our social work academy. The academy will support the professional development of our staff new and existing whilst also addressing the retention challenge. The overall



pressure anticipated as a result of employing agency social workers is now expected to be around £1.6m.

12. The financial pressures relating to children in our care continue to increase. The external care market continues to drive up costs and availability of places is extremely scarce creating very high competition, especially for children in the highest levels of need. This cohort of children are growing in number, complexity and acuity. The predicted overspend on residential placements and professional services to support Children in our Care has increased to £5m, which is in the main driven by the significant increases in the cost of care, rather than a large rise in numbers of children in residential settings. There are 7 placements costing in excess of £10,000 per week with one exceeding £14,000. This would equate to a total annual cost of £4.4m for these 7 children alone. This is a low figure compared to many councils at the moment but still an enormous budget pressure for Stockton.
13. As described above there are a number of service improvements that have been implemented which will strengthen the service, prevent reliance upon council services and ultimately provide financial savings across the medium term. These interventions include the creation of an edge of care service as well as strengthening the care leavers service. In order to fund the establishment of these services in the first year, £1m of reserves have been applied from the public health reserve.

### **Community Services, Environment and Culture**

14. Members will be aware from previous reports that funding of £1m was earmarked for TAL to support pressures on energy. Whilst energy costs are still a pressure for TAL, their financial performance has been strong and will mean that the Council will no longer need to provide any of this additional financial support. £500,000 of this was declared in the previous quarter and following further work with TAL the remaining £500,000 saving is now able to be reported.

### **Finance, Development and Regeneration**

15. The projected position has improved by £435,000, largely as a result of savings through managing vacancies across the Directorate.

### **Corporate Services**

16. The projected position has improved by £136,000, largely as a result of savings through managing vacancies across the Directorate.

### **Corporate Areas**

17. There have been no significant movements in the projected position for Corporate Areas.

### **Employee Turnover**

18. Members will recall that as part of budget setting, a turnover provision was built into staffing budgets this year of £2.5m. This reflects the natural turnover of staff and the consequential saving in budgets. All areas other than Childrens Services are achieving this level and the reason for the shortfall in that area is agency staff costs as previously outlined.

### **General Fund Balances and resolving the in year budget gap**

19. 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.
20. Should the projected position for the current financial year 2023/24, summarised in the

paragraphs above materialise, the Council will need to utilise £6.9m of resources to fund this.

21. Like all Council's we make provisions to manage risks of levels of Council Tax and Business Rates collection and given the financial position these provisions have been reviewed.
22. The Council's long-term collection of Council Tax is around 99%, which means that we write off debts as a last resort. During Covid, we increased the non-collection provision due to increased risks of collection and uncertainty. We have undertaken a review of our collection performance and bad debt provision, and we can release £5.074m.
23. Our collection performance for Business Rates income is extremely high at over 99%. We are however subject to appeals which can reduce the level of income received and in order to be prudent and in line with standard practice, we create a provision to manage this risk. In recent years there are changes that have affected the appeals process namely a check, challenge and appeal system. A new list was launched in April 2023, which has seen a reduction in appeals, and it is timely to review the provision held and £2.98m can be released.
24. The impact of the above will release £8.054m in 2024/25. This will be used to replenish balances used to fund the 2023/24 in year position and leave £1.158m to support the MTFP.

### SECTION 3 – MEDIUM TERM FINANCIAL PLAN 2024-2027

#### Current Approved MTFP

25. The current approved position in February 2023 was as follows:

	2024/25	2025/26	2026/27
	£'000	£'000	£'000
Budget Gap (+) / Surplus (-)	1,125	3,451	1,911

26. Members will however be aware from the report to Cabinet in December that this position has changed considerably due to inflation, pressures and funding changes. The details of these changes are outlined in the paragraphs below.

#### Changes to current expenditure plans

27. There are a number of issues which will need to be factored into the 2024/25 budget and considered in the MTFP going forward and these are outlined below.
  - a) The existing MTFP includes an annual uplift in 2024/25 of £2.75m in respect of the impact of NLW and inflation increases on Adult Care Fees. The recent announcement setting the National Living Wage level for 2024 at £11.44, 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. We are seeing particular pressure amongst providers within the care at home market and work is ongoing to understand the potential implications of this. Therefore, additional sums will need to be allocated from 24/25 onwards. Based on the anticipated inflationary increases and growth pressures, this is expected to be around £4m.
  - b) As set out above, there are still considerable ongoing pressures on Children's Social Care, particularly relating to the costs of children in our care, which is a national issue, being experienced by the majority of local authorities.

- c) Work has been undertaken re-assessing the budget position which is considering:
- The age profile of current children in care
  - An estimate of growth based on trends
  - Current staffing establishment and reliance on agency costs

There are a number of interventions underway to explore opportunities for improvements and cost reductions. These include:

- An edge of care service which will provide intensive support to help Children to remain home safely and avoid coming into care.
- A revised approach to re-unification to support Children moving home from care
- A revised approach to commissioning and procurement
- A review of placements to ensure clear plans are in place for young people including opportunities for alternative provision.
- Developing a Social Work Academy to support recruitment of social workers
- Explore opportunities to becoming a sponsoring employer to recruit international social workers

All of this work will inform the overall budget position and based on current information, this is anticipated to require an increase in base budget of £7m in 24/25, £6m in 25/26 and future years.

- d) The financial impact of the agreed pay award for 2023/24 will continue into future years. An assumption has also been made on the potential level of the pay award in 2024/25 and 2025/26 and incorporated into the table below. The assumptions are 2024/25 4%; 2025/26 2% and 2026/27 2%.
- e) The expected pressure on waste has been reviewed. The predicted spend levels have been also updated to reflect the latest assumptions for inflation, potential changes in contractual arrangements and volume of waste collected and disposed of. This is generating an anticipated reduction in spend in the first two years of the medium term financial plan and a pressure in 2026/27 when new contractual arrangements are anticipated.
- f) The exciting waterfront development in Stockton town centre will open up an attractive and thriving new area for our borough. There are annual maintenance costs associated with the new development which need to be incorporated into the plan in future years.
- g) Costs of community transport are also affected by inflation and are increasing as a result of fuel costs and retendering of contracts. The volume of service users is also increasing which is creating a financial pressure.
- h) Local authorities are required to insure against various risks and we take a measured approach to risk through a combination of self-insuring and taking out insurance premiums. We hold an insurance fund to cover those risks that we self-insure against. An actuarial review a number of years ago identified that the fund could be reduced in line with their latest valuation, and as a result we have been releasing this excess into the MTFP over recent years. The latest actuarial review indicates that the fund is now at an appropriate level, so alternative funds are required to replace this within the MTFP.
- i) The Bank of England base rate and gilt rates have continued to increase over the past year, meaning the interest rates for investments and borrowing have also increased. This is having a benefit in that we are earning higher interest on the cash balances we have available to invest. It also means that the cost of borrowing has increased. We continue to be extremely prudent and manage our cash flow very carefully. The authority has future borrowing requirements as presented in the Treasury Management Strategy and as a result of higher interest rates, there will be increased costs associated with borrowing.

- j) The response to a government consultation on planning fees was announced this summer. This introduces changes to planning fees and as a result we anticipate an increase in the amount of fees collected.
- k) The regional agreement for Concessionary fares over recent years have been lower than budget. This anticipated saving has been built in.
- l) Members will recall the additional money allocated into the budget in recent years to fund the higher costs of energy. These prices are slowly beginning to fall, however there remains significant uncertainty in the market. The impact of recent international events upon supply and prices is unknown. Our energy is purchased through NEPO, a regional organisation governed by the 12 North East local authorities. NEPO provide regular updates and analysis which helps to inform to forecast future costs. The approved MTFP already assumes a reduction in prices from 24/25 onwards. We are forecasting that energy costs will fall further, creating a greater saving in future years of the MTFP. TAL are still experiencing energy pressures of £1m and members will note that in paragraph 14 outlined that the operational performance of TAL in the current year meant that this was not required. TAL are also experiencing significant inflationary pressures so are unlikely to be able to cover the £1m pressure in full in 2024/25, however it is anticipated that this will reduce to £500k.
- m) In the budget report last year, it was anticipated a saving could be achieved relating to housing grants. This year there have been pressures relating to homelessness requiring additional investment. It is therefore anticipated that this saving will not be achievable across the MTFP.

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

<b>Pressures identified</b>	<b>2024/25 £'000</b>	<b>2025/26 £'000</b>	<b>2026/27 £'000</b>
Adult Services Pressures	4,000	4,000	4,000
Children's Services Pressures	7,000	6,000	6,000
Pay Award	2,926	3,202	3,484
Waste	(350)	(350)	1,100
Maintenance of Waterfront Development	0	0	380
Community Transport	500	750	750
Insurance Fund	0	500	1,000
Interest Rates	500	500	500
Increase in Planning Fees	(300)	(300)	(300)
Reduction in Concessionary Fares	(700)	(700)	(700)
Reduction in Energy Prices	(1,080)	(1,080)	(1,080)
Savings Redistributed to Support Homelessness	150	150	150
<b>Pressures</b>	<b>12,646</b>	<b>12,672</b>	<b>15,284</b>

### 2024/25 Council Tax and Social Care Precept

- 28. 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.
- 29. As highlighted at paragraph 1, the Government announced in the Provisional Local Government Finance Settlement that the Core Council Tax Referendum Threshold;
  - Will increase from 2% to 3% for 2024/25 for Core Council Tax

- Will increase from 1% to 2% for Adult Social Care
- These changes will apply to both 2024/25 and no information is available for future years.

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

30. The current MTFP assumes a Council Tax increase of 2.9%. The additional flexibility outlined above would allow an additional 2% increase. If this increase were applied in 2024/25, it would generate £2m. If this increase is not applied, then it would mean further increase in the budget gap.
31. 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 2024/25 and implement the full Adult Social Care levy of 2%. The impact of the increase of 4.95% in 2024/25 would be £1.17 per week (Band A) and £1.76 per week (Band D).
32. The taxbase has increased due to house building within the borough, which is partly offset by an increase in the levels of discounts.

#### Additional Income

33. Business Rates - projections of business rates income have been updated to reflect assumptions regarding the impact of inflation on the business rates multiplier.
34. Business Rates has undergone a full revaluation for 2023/24. A new list came into effect from 1<sup>st</sup> April 2023. The recent Non-Domestic Rating Act 2023 was passed confirming that revaluations will now take place every three years from 2026. The impact of this is factored into the anticipated business rates income in future years.
35. A reset of business rates as well as a review of the local authority funding model to better reflect needs have both been anticipated for a number of years. The business rates reset will generate a revised business rates baseline since the last time it was done, 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. Under the latest modelling it is anticipated that Stockton on Tees will lose out as a result of the business rates reset, but gain as a result of the fair funding model. It is uncertain when these changes will come in and what the real implications will be, it is therefore not reflected in the MTFP assumptions above. It remains a risk to funding levels.
36. The approved MTFP includes an increase in income from Fees & Charges from 24/25. It is proposed to increase fees for most services by 7% in 24/25. This will generate a further 100k p.a.
37. There were a number of changes to grants announced as part of the provisional Local Government Finance Settlement on 19<sup>th</sup> December 2023
  - Other Services Grant is £880,000 less than estimated
  - Additional funding for Market Sustainability and Improvement Fund was received - £722,000
  - Social Care Grant was higher than anticipated - £268,000
  - New Homes Bonus is £133,000 higher than estimated
  - Other grants small changes totalling £15,000
38. A written ministerial statement from DLUHC on 24<sup>th</sup> January 2024 announced an additional £500m nationally for social care in 24/25. The council's share of this is estimated to be £1.7m. The statement also announced an increase to the minimum funding guarantee from 3% to 4%. The impact this will have on funding at a local authority level will be announced as part of the final local government finance settlement expected in early February.

39. The impact of these changes is expected to be an overall benefit of £1,928,000 in 2024/25.

40. The changes to current income and resources are included in the table below:

<b>Additional Income and Resources</b>	<b>2024/25 £'000</b>	<b>2025/26 £'000</b>	<b>2026/27 £'000</b>
NNDR	(5,713)	(5,713)	(5,713)
Council Tax and Social Care Levy	(2,333)	(2,431)	(2,530)
Government Grants	(1,928)	(95)	(106)
Fees and Charges Inflation	(100)	(100)	(100)
<b>Total Additional Income and Resources</b>	<b>(10,074)</b>	<b>(8,339)</b>	<b>(8,449)</b>

### Overall Budget Position

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

	<b>2024/25 £'000</b>	<b>2025/26 £'000</b>	<b>2026/27 £'000</b>
Approved Budget Position	1,125	3,451	1,911
Expenditure Pressures	12,646	12,672	15,284
Additional Income and Resources	(10,074)	(8,339)	(8,449)
<b>Budget Gap (+) / Surplus (-)</b>	<b>3,697</b>	<b>7,784</b>	<b>8,746</b>

42. The above table summarises the overall position and highlights the pressures in future years which shows a pressure of £3.7m in 2024/25 rising to £8.7m in 2026/27. This means that immediate actions are required to address the position next year.

### Actions to Resolve Budget Gap

43. Due to the projected financial position set out above, significant work has been undertaken to identify ways of addressing this budget gap. The next section sets out these in more detail.

### Council Tax Changes

44. Regulations permit Billing Authorities to charge higher rates of council tax on properties that have been unoccupied and substantially unfurnished for certain periods of time, the main aim of which is to encourage owners to bring empty properties back into use. The premiums which can be applied are as follows: -

<b>Period Property is Empty</b>	<b>Additional Council Tax Premium</b>
2-5 years	100%
5-10 years	200%
10years +	300%

45. It is for each Billing Authority to decide its additional charge, in Stockton if a property has remained unoccupied and substantially unfurnished for more than two years an additional premium of 50% is applied. All other Councils in the North East apart from one apply the 100% premium and the majority also apply enhanced rates for over 5 years.

46. The Levelling up and Regeneration Act 2023 allows Billing Authorities to charge a 100% premium after one year for long term empty dwellings rather than two years, this comes into effect from 1/4/2024.
47. In Stockton we have around 360 properties which are unoccupied and substantially unfurnished for over 2 years and an additional 430 between 1 and 2 years. Applying the additional premium would be financially beneficial but would also support the Council's drive to bring empty homes back into use. It is therefore recommended that we move to charging 100% premium for properties unoccupied and substantially unfurnished for 1 – 5 years, 200% premium for properties unoccupied and substantially unfurnished for 5 -10 years and 300% for over 10 years. This could generate an additional £1.2m per annum, however, given that it should encourage owners to bring properties back to use then we should not assume the full amount will be received. We have assumed 50% income, £600k per annum, and this will be reviewed throughout the year.
48. In addition, the Levelling up and Regeneration Act 2023 has introduced a provision to set a council tax premium of up to 100% to substantially furnished properties that have no permanent resident, they are often referred to as second homes. It is recommended that a 100% premium for properties substantially furnished with no permanent resident; the Act requires 12 months notice of this premium and therefore will be effective from 1 April 2025. Applying the premium would be financially beneficial and potentially will result in properties being brought back into use as permanent dwellings, as the premium will not be applied until 1 April 2025 no additional income is factored into the year commencing 1 April 2024.

### Powering Our Futures

49. Members are aware from previous reports of the importance of our Powering our future programme to identify savings and income to deliver a robust financial plan. A key strand is Regeneration Powering Our Future. This will drive economic growth to improve community prosperity and wellbeing. Our exciting regeneration projects will make sure Stockton-on-Tees is a place of choice for business. Not only will this generate more income through Council Tax and Business Rates, there will be more employment opportunities too, which will reduce demand on services, saving us money.
50. Members are aware of the transformation programme and a report was presented to Cabinet in January outlining the scope of the outcome based reviews included within Phase 1 of the programme. These reviews are wide ranging and cover a significant proportion of the Council's budget. In order to deliver a robust financial plan, it is clear that the transformation programme will need to make savings and this will be the key activity to resolve the budget gap. Inevitably, given the extent and scope of the reviews they will take time to fully deliver. The majority of the savings are included in years 2 and 3 of the plan.
51. The reviews included in phase 1 are listed below;
  - Customer Contact and Access to Services
  - Administration and Business Services
  - Fleet Management
  - Xentrall Shared Services with DBC
  - Debt Management
  - Fees and Charges
  - Children in our Care
  - SEND
  - Transitions to Adulthood
  - Intermediate Care
  - Early Intervention and Prevention
  - Community Transport
  - Waste Collection

- Community Safety and Regulatory Services

Other Mitigating Actions

52. Whilst the transformation programme is the key mechanism for identifying efficiencies, members can be assured that expenditure controls are in place to manage day to day spend extremely carefully to support the Council’s financial position. This includes:

- Introduction of a People Panel to review appointments to vacant posts to consider opportunities for changes or delays resulting in budget savings
- Review of the procurement of all contracts prior to renewal
- Any opportunities for savings

These controls will be particularly relevant to the areas in scope of review. Any savings will support the council’s overall financial position.

53. A summary of these actions are included in the table below

	<b>2024/25</b> <b>£'000</b>	<b>2025/26</b> <b>£'000</b>	<b>2026/27</b> <b>£'000</b>
Budget Gap (+) / Surplus (-)	3,697	7,784	8,746
Empty Homes Premium	(646)	(646)	(646)
Powering Our Futures	(1,893)	(7,138)	(8,100)
Use of Provisions brought forward from paragraph 24	(1,158)		
<b>Budget Gap (+) / Surplus (-)</b>	<b>0</b>	<b>0</b>	<b>0</b>

54. The MTFP could be represented as follows:



	2024/25 £'000	2025/26 £'000	2026/27 £'000
<b>Income</b>			
Business Rates (incl any Deficit/Surplus & s31 grants)	(60,121)	(61,340)	(62,437)
Revenue Support Grant	(6,503)	(6,633)	(6,766)
New Homes Bonus / Lower Tier Services Grant / Other Services Grant	(904)	(122)	0
Adult & Children's Social Care Grant	(17,108)	(15,408)	(15,408)
ASC Market Sustainability & Improvement Fund	(3,698)	(3,698)	(3,698)
ASC Discharge Fund	(1,676)	(1,676)	(1,676)
Better Care Fund (incl Pooled Budget)	(20,421)	(20,422)	(20,422)
Public Health Grant	(15,336)	(15,336)	(15,336)
Council Tax (incl any Deficit/Surplus)	(115,874)	(120,419)	(125,131)
<b>Total Income</b>	<b>(241,641)</b>	<b>(245,054)</b>	<b>(250,874)</b>
<b>Expenditure</b>			
Adults & Health	95,525	97,275	98,775
Community Services, Environment & Culture	51,124	53,969	55,704
Children's Services	57,090	56,090	56,090
Finance, Transformation & Performance	14,531	14,519	14,527
Corporate Items incl Pay Award Provision	12,697	10,869	12,946
Corporate Services	12,057	12,557	13,057
Regeneration & Inclusive Growth	(225)	(225)	(225)
<b>Total Expenditure</b>	<b>242,799</b>	<b>245,054</b>	<b>250,874</b>
<b>Revised Budget Position</b>	<b>1,158</b>	<b>0</b>	<b>0</b>
Use of Reserves	(1,158)		
<b>Final Budget Position</b>	<b>0</b>	<b>0</b>	<b>0</b>

55. The detail and actions described above will give a balanced position over the MTFP. Should any further financial pressures or funding changes materialise, or if there are delays or other factors impacting upon the planned delivery of transformation savings, we would have to review and reallocate our earmarked reserves to resolve the issues or deliver additional financial savings.
56. We currently hold a number of earmarked reserves, all of which have commitments and plans against them. Some of these reserves however are not planned to be utilised in the next two years and as such there is the ability to redirect and cover a potential shortfall should the need arise. 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, or take the decision to cease those commitments.

## SECTION 4 - CURRENT CAPITAL PROGRAMME

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

<b>CAPITAL PROGRAMME Up to 2026</b>	<b>Current Approved Programme £'000</b>	<b>Programme Revisions £'000</b>	<b>Revised Programme £'000</b>
School Investment Programme & Childrens Services	47,826	419	48,245
Regeneration, Development and Growth	18,237	0	18,237
Town Centres	137,663	0	137,663
Transportation	43,712	134	43,846
Community & Environment, Culture & Leisure	19,722	553	20,275
Adults, Health & Wellbeing	4,135	11	4,146
<b>Total Approved Capital MTFP</b>	<b>271,295</b>	<b>1,117</b>	<b>272,412</b>

### **Reasons for movements over £100k**

#### New schemes

#### Schools Investment Programme

57. Following DFE announcements in November 2023, £406,788 of Childcare Expansion Grant has been allocated and has been added to the capital programme.

#### Community & Environment, Culture & Leisure

58. Recreational facilities at Stillington have been included in the programme, funded by developer agreement, £209,000.

#### Additional Funding

#### Community & Environment, Culture & Leisure

59. Additional grant funding for Tree's in Stockton project have been approved and included in the programme, £283,000.

## **SECTION 5 – PAY POLICY AND MEMBERS ALLOWANCES**

### Pay Policy

60. The April 2023 pay award was agreed in November 2023 and was a flat rate of £1,925, paid pro rata for part time employees up to and including spinal column point 43 and a 3.88% increase on points 44 to 58. In addition, there has been an increase of 3.88% on all pay related allowances. The Trade Union pay claim for April 2024 has yet to be communicated to the national employers. The 2023 pay rates have been used for the purposes of the Pay Policy Statement.
61. The Council's grading structure begins at scp 3 Grade C, which currently is £11.79 per hour (pay award pending from 1 April 2024). This is still above the current National Living Wage which is £10.42 from 1 April 2023 and £11.44 from 1 April 2024.
62. The continued high increases on the NMW has caused significant pressure on the nationally agreed pay spine with scp 1 being deleted on 1 April 2023 to accommodate the increase to the NMW. Whilst this did not affect our pay spine it caused significant issues for other authorities. 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 2024 pay award.

63. The Council’s median hourly rate and pay multiple, both calculated as at 31 December 2023 are as follows:

- Median Hourly rate is £14.91 (£13.66 at 31 December 2022); and
- Pay multiple is 5.88 (6.20 at 31 December 2022) 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 £1,925 which was paid to all employees up to and including SCP 43 (pro rata for part time employees) and a 3.88% increase on SCP’s 44-58. The Chief Executive pay award was 3.5% 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.

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

### Apprentices

65. From 1 April to 31 December 2023 the Council has recruited 49 apprentices to new positions, the majority of which were through our annual apprenticeship programme. In addition, 30 existing employees started an apprenticeship to support their development, a total of 79.

66. Since the introduction of the Apprenticeship Levy in April 2017 we have seen a gradual increase in the number of “apprenticeship starts” (newly employed apprentices and existing employees undertaking a qualification) each year, with the exception of 2020/21 due to the Covid-19 pandemic. 2021/22 saw a significant increase, particularly in existing employees undertaking an apprenticeship, and with the return to delivering an annual programme. We are proposing to run a further apprenticeship programme in 2024, going out to advertise in May, with apprentices starting employment in September 2024.

<b>Apprenticeships</b>	<b>New Apprentices</b>	<b>Existing Employees</b>	<b>Total</b>
2017/18	17	43	60
2018/19	33	42	75
2019/20	55	27	82
2020/21	14	30	44
2021/22	46	67	113
22 /23	42	31	73
April 2023 to date	47		

67. The Council continues to pay its new apprentices the national minimum wage for age ranging from £6.40 per hour for 16 and 17 year olds rising to £11.44 per hour for those aged 21 or over effective from 1 April 2024. The National Minimum wage rates increase in April each year and are set nationally by the government.

68. For apprentices undertaking a Level 4 apprenticeship or above the Council currently pays a minimum of Grade C being £11.79 per hour April 2023 rates.

### Headcount and FTE

69. Headcount and FTE as at 31 December 2023 compared to previous years is:

	31 December 2023	31 December 2022	31 December 2021	31 December 2020
Headcount	3231	3145	3205	3,218
FTE	2650.9	2554.9	2572	2,551.4

70. Headcount and FTE have remained fairly static over the last 4 years but overall, 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.
71. The Council will continue to manage any service changes, including minimising redundancies, sensitively, proactively and in accordance with our policies.
72. We continue to maintain strong relationships with the Trade Unions, including regular update meetings being held with the Trade Unions and the Chief Executive and Director of Corporate Services. 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

73. 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.
74. 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.
75. 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

76. Members will be aware that allowances have been frozen since 2014 following a 4% reduction and it is proposed that this freeze continues for 2024 to support the Council's financial position.

## SECTION 6 – PRECEPT LEVELS

### Stockton Precept

77. Stockton's current tax level for 2023/24 at Band A (the biggest percentage of its properties) is £1,234.12 (£23.73 per week).

	Band A £	Band D £
2023/24	1,234.12	1,851.18
2024/25	1,295.21	1,942.81

### Police Precept

78. The Police & Crime Commissioner is proposing a £13.00 increase to the Council Tax level, or 4.47%. This is subject to approval.

	Band A £	Band D £
2023/24	193.82	290.73
2024/25	202.49	303.73

## Fire Authority

79. A report to the Fire Authority on xx outlines a proposed Council Tax increase of £x or xx%. This is subject to approval.

	Band A £	Band D £
2023/24	57.91	86.86
2024/25		

## Parishes

80. Details of the Parish precepts are given below:

Parish	2023/24 Precept £	2024/25 Precept £	Precept Increase/ Decrease £	Precept Increase/ Decrease %	Band D Increase/ Decrease %	LCTS Grant Both Years £	2024/25 TOTAL £
Aislaby & Newsham	0	0	0	0.00%	0.00%	0	0
Carlton	8,000	8,000	0	0.00%	0.88%	22	8,022
Castlelevington / Kirklevington	21,000	24,500	3,500	16.67%	8.80%	348	24,848
Egglecliffe & Eaglescliffe	67,458	62,110	( 5,348)	-7.93%	-10.59%	5,446	67,556
Elton	0	0	0	0.00%	0.00%	0	0
Wynyard	21,000	23,110	2,110	10.05%	3.98%	0	23,110
Grindon & Thorpe Thewles	10,088	10,807	719	7.13%	4.00%	0	10,807
Hilton	2,871	3,147	276	9.61%	11.67%	129	3,276
Ingleby Barwick	180,300	180,300	0	0.00%	-0.04%	3,445	183,745
Long Newton	13,764	14,764	1,000	7.27%	9.27%	236	15,000
Maltby	3,504	3,504	0	0.00%	-11.61%	138	3,642
Preston	5,779	5,779	0	0.00%	0.00%	471	6,250
Redmarshall	4,400	4,700	300	6.82%	2.12%	118	4,818
Stillington & Whitton	10,300	10,800	500	4.85%	4.68%	1,243	12,043
Thornaby	160,861	166,768	5,907	3.67%	4.53%	36,050	202,818
Wolviston	14,159	14,867	708	5.00%	6.56%	533	15,400
Yarm	133,550	137,556	4,006	3.00%	3.11%	6,141	143,697
Billingham	308,211	334,201	25,990	8.43%	8.90%	23,509	357,710
<b>Total</b>	<b>965,245</b>	<b>1,004,913</b>	<b>39,668</b>	<b>4.11%</b>	<b>5.31%</b>	<b>77,829</b>	<b>1,082,742</b>

## Overall Tax Position

81. 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 £115,873,657 is given below:

Tax 2024/25			
	Current 2023/24 (Band A) £	Proposed 2024/25 (Band A) £	Increase %
Police	193.82	202.49	4.47%
Fire	57.91		
Stockton BC	1,234.12	1,295.21	4.95%

### Formal Tax Recommendations

82. 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

83. 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 2024/25 incorporating the updates for the prescribed requirements in regulations and to reflect updated income figures in the income table at Schedule 1. The scheme is available here [www.stockton.gov.uk/CTR](http://www.stockton.gov.uk/CTR).
84. 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 21 February to ensure that Governments intentions for additional support is maintained.

## SECTION 8 – CAPITAL STRATEGY

85. 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

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

## SECTION 10 – INVESTMENT STRATEGY

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

## Appendix A – Capital Programme up to 2026 - Summary

CAPITAL PROGRAMME Up to 2026	Current Approved Programme	Programme Revisions	Revised Programme	Expenditure Apr 2017 - December 2023
<b>SCHOOL INVESTMENT PROGRAMME &amp; CHILDRENS SERVICES</b>				
School Investment Programme	39,414,461	406,788	39,821,249	24,374,170
Children Investment	8,411,931	12,174	8,424,105	669,245
<b>SCHOOL INVESTMENT PROGRAMME &amp; CHILDRENS SERVICES</b>	<b>47,826,391</b>	<b>418,962</b>	<b>48,245,353</b>	<b>25,043,416</b>
<b>REGENERATION, DEVELOPMENT &amp; GROWTH</b>				
Inclusive Growth & Development	8,736,642	0	8,736,642	541,827
Office Accommodation	9,500,511	0	9,500,511	3,999,512
<b>REGENERATION, DEVELOPMENT &amp; GROWTH</b>	<b>18,237,153</b>	<b>0</b>	<b>18,237,153</b>	<b>4,541,339</b>
<b>TOWN CENTRES</b>				
Stockton Town Centre Schemes	2,914,451	0	2,914,451	1,188,144
Reshaping Town Centres	28,912,960	0	28,912,960	738,174
Billingham Town Centre	10,000,000	0	10,000,000	285,851
Thornaby Town Centre	29,800,440	0	29,800,440	2,673,038
Re-Development of Castlegate Site	43,635,313	0	43,635,313	17,169,329
Yarm & Eaglescliffe LUF	22,070,000	0	22,070,000	2,447,270
Infrastructure Enhancements, Regeneration & Property Acquisitions	330,334	0	330,334	41,274
<b>TOWN CENTRES</b>	<b>137,663,498</b>	<b>0</b>	<b>137,663,498</b>	<b>24,543,081</b>
<b>TRANSPORTATION</b>				
City Regional Sustainable Transport	19,867,605	0	19,867,605	4,674,638
Other Transport Schemes	20,629,744	70,000	20,699,744	15,490,049
Developer Agreements	3,214,180	63,965	3,278,145	3,182,770
<b>TRANSPORTATION</b>	<b>43,711,529</b>	<b>133,965</b>	<b>43,845,494</b>	<b>23,347,457</b>
<b>COMMUNITY &amp; ENVIRONMENT AND CULTURE &amp; LEISURE</b>				
Energy Efficiency Schemes	1,246,512	1,596	1,248,108	1,246,462
Environment and Green Infrastructure	12,096,663	492,235	12,588,898	2,854,778
Building Management	3,459,918	26,970	3,486,888	1,806,986
Vehicle Replacement	2,918,704	32,345	2,951,049	1,767,254
<b>COMMUNITY &amp; ENVIRONMENT AND CULTURE &amp; LEISURE</b>	<b>19,721,797</b>	<b>553,146</b>	<b>20,274,943</b>	<b>7,675,480</b>
<b>ADULTS, HEALTH &amp; WELLBEING</b>				
Adults & Public Health Investment	466,451	0	466,451	257,555
Housing Regeneration	1,465,311	0	1,465,311	0
Private Sector Housing	2,203,429	10,813	2,214,242	1,773,872
<b>ADULTS, HEALTH &amp; WELLBEING</b>	<b>4,135,191</b>	<b>10,813</b>	<b>4,146,004</b>	<b>2,031,427</b>
<b>Total Approved Capital MTFP</b>	<b>271,295,559</b>	<b>1,116,886</b>	<b>272,412,445</b>	<b>87,182,200</b>

**Appendix B – Capital Programme up to 2026 - Detail**

<b>CAPITAL PROGRAMME</b>	<b>Approved Programme</b>	<b>New Approvals (part of Report)</b>	<b>Total Programme</b>
<b>SCHOOL CAPITAL</b>			
<b>School Investment Programme</b>			
Planned Maintenance	3,446,482		3,446,482
<b>SEN Investment</b>			
Myton Park Primary School	50,771		50,771
Tees Valley Free Special School	61,500		61,500
Future SEN Investment	46,363		46,363
Bishopton Pru	5,837,436		5,837,436
Ash Trees Satellite at Billingham South	1,000,000		1,000,000
Abbey Hill Satellite at Northshore	185,000		185,000
	<b>7,181,070</b>	<b>0</b>	<b>7,181,070</b>
<b>Secondary</b>			
All Saints Academy	327,026		327,026
Northfield School	294,970		294,970
Our Lady & St Bedes School	988,546		988,546
Egglecliffe School - Partial Rebuild	11,595,413		11,595,413
Secondary School Adaptations - Ian Ramsey	800,000		800,000
Secondary School Adaptations - St Michaels	552,849		552,849
Secondary School Adaptations - Northshore	300,000		300,000
Outwood Academy Expansion	6,207,830		6,207,830
	<b>21,066,634</b>	<b>0</b>	<b>21,066,634</b>
<b>Primary</b>			
Oxbridge Primary	7,538,000		7,538,000
	<b>7,538,000</b>	<b>0</b>	<b>7,538,000</b>
<b>Other</b>			
Retained Future Investment Fund	182,275		182,275
Childcare Expansion Fund	406,788		406,788
	<b>589,063</b>	<b>0</b>	<b>589,063</b>
<b>SCHOOLS CAPITAL</b>	<b>39,821,249</b>	<b>0</b>	<b>39,821,249</b>
<b>Childrens Services Investment</b>			
King Edwin Developments	4,800,000		4,800,000
Childrens homes investments	2,192,580		2,192,580
Children's Carer adaptation/ extension	628,525		628,525
Education Case Management System	803,000		803,000
	<b>8,424,105</b>	<b>0</b>	<b>8,424,105</b>
<b>SCHOOL INVESTMENT PROGRAMME &amp; CHILDRENS SERVICES</b>	<b>48,245,353</b>	<b>0</b>	<b>48,245,353</b>
<b>DEVELOPMENT, REGENERATION &amp; GROWTH</b>			
<b>Inclusive Growth &amp; Development</b>			



<b>CAPITAL PROGRAMME</b>	<b>Approved Programme</b>	<b>New Approvals (part of Report)</b>	<b>Total Programme</b>
<b>Growth Fund</b>			
Acquisition & Investment	1,000,000		1,000,000
Investment Site Infrastructure Durham Lane Industrial Estate	3,971,909		3,971,909
Infrastructure delivery	0		0
Highway Junction Improvements - Dynamo Park, Cheltnam Road	14,733		14,733
Inward Investment Strategy	500,000		500,000
Business Growth fund	1,000,000		1,000,000
Regeneration Investment	2,250,000		2,250,000
	8,736,642	0	8,736,642
<b>Office Accommodation</b>			
Accommodation	9,500,511		9,500,511
	9,500,511	0	9,500,511
<b>DEVELOPMENT, REGENERATION &amp; GROWTH</b>	<b>18,237,153</b>	<b>0</b>	<b>18,237,153</b>
<b>TOWN CENTRES</b>			
<b>Stockton Town Centre</b>			
Stockton Town Centre - Infrastructure Projects	217,419		217,419
Townscape Heritage	2,697,032		2,697,032
	2,914,451	0	2,914,451
<b>Reshaping Town Centres</b>			
Unused borrowing approvals	7,662,960		7,662,960
Billingham Town Centre	10,000,000		10,000,000
Ingleby Barwick	500,000		500,000
Norton	1,750,000		1,750,000
Town Centre Regeneration Funding	19,000,000		19,000,000
	38,912,960	0	38,912,960
<b>Thornaby Town Centre</b>			
Cycleways	4,710,440		4,710,440
Skills Development	4,465,000		4,465,000
Regeneration of Town Centre	10,640,000		10,640,000
North Thornaby	3,040,000		3,040,000
Project Management	1,195,000		1,195,000
Pheonix House	750,000		750,000
Thornaby Town Centre	5,000,000		5,000,000
	29,800,440	0	29,800,440
<b>Redevelopment of Castlegate Site</b>			
Demolition	7,542,360		7,542,360
Urban Park	28,804,768		28,804,768
Relocation	7,288,185		7,288,185
	43,635,313	0	43,635,313
<b>Yarm &amp; Eaglescliffe Levelling Up Fund</b>			
Cycleways	5,000,000		5,000,000
Public Realm	3,650,000		3,650,000
Preston Park	12,570,000		12,570,000
Yarm Town Hall and Toilets	850,000		850,000

<b>CAPITAL PROGRAMME</b>	<b>Approved Programme</b>	<b>New Approvals (part of Report)</b>	<b>Total Programme</b>
	22,070,000	0	22,070,000
<b>Other Regeneration Schemes</b>			
Infrastructure Enhancements & Property Acquisition	291,717		291,717
Glam Post Office	38,617		38,617
	330,334	0	330,334
<b>TOWN CENTRES</b>	<b>137,663,498</b>	<b>0</b>	<b>137,663,498</b>
<b>COMMUNITY SERVICES, ENVIRONMENT &amp; CULTURE</b>			
<b>TRANSPORTATION</b>			
<b>City Regional Sustainable Transport</b>			
Integrated Transport	1,027,337		1,027,337
Structural Maintenance	836,034		836,034
Carriageways	2,534,963		2,534,963
Bridges	1,286,911		1,286,911
Eaglescliffe Station New car park & access	2,372,464		2,372,464
Other	11,809,896		11,809,896
	19,867,605	0	19,867,605
<b>Other</b>			
TVCA A689 Wynyard Feasibility	462,841		462,841
Developer Agreement Schemes	3,278,145		3,278,145
Sandgate Shops	50,000		50,000
Strategic Urban Expansion - West Stockton	19,285,853		19,285,853
Cycleway feasibility	241,050		241,050
A19/A689 Interchange Improvements (feasibility)	660,000		660,000
	23,977,889	0	23,977,889
<b>TRANSPORTATION</b>	<b>43,845,494</b>	<b>0</b>	<b>43,845,494</b>
<b>OTHER SCHEMES</b>			
<b>Energy Efficiency Schemes</b>			
Green Homes Grant - LAD2	1,132,724		1,132,724
IBLF Solar Panels	115,384		115,384
	1,248,108	0	1,248,108
<b>Environment, Leisure &amp; Green Infrastructure</b>			
Parks Improvement Programme	2,329,149		2,329,149
Waste Management Procurement Project	1,132,039		1,132,039
Flood Coastal Resilience Innovation Programme - Tees Tidelands	7,077,710		7,077,710
Household Waste Recycling Centre	2,000,000		2,000,000
Libraries - Mark up Space	50,000		50,000
	12,588,898	0	12,588,898
<b>Building Management &amp; Asset Review</b>			
Building Maintenance Programme	2,428,893		2,428,893
Cemeteries	385,305		385,305
Travellers Site Maintenance	152,690		152,690

<b>CAPITAL PROGRAMME</b>	<b>Approved Programme</b>	<b>New Approvals (part of Report)</b>	<b>Total Programme</b>
Allotments	100,000		100,000
White Water Course	420,000		420,000
	<b>3,486,888</b>	<b>0</b>	<b>3,486,888</b>
<b>Vehicle Replacement</b>			
Vehicle Replacement Fund	2,708,884		2,708,884
Library Bus Replacement	242,165		242,165
	<b>2,951,049</b>	<b>0</b>	<b>2,951,049</b>
<b>COMMUNITY SERVICES, ENVIRONMENT &amp; CULTURE</b>	<b>64,120,437</b>	<b>0</b>	<b>64,120,437</b>
<b>ADULTS, HEALTH AND WELLBEING</b>			
<b>Adults &amp; Health</b>			
Independent Living LD Bid	202,000		202,000
Changing Places Toilets	94,451		94,451
Works at Whitton Landfill site	170,000		170,000
	<b>466,451</b>	<b>0</b>	<b>466,451</b>
<b>Housing Regeneration</b>			
Victoria Estate Regeneration	555,311		555,311
Affordable Housing	910,000		910,000
	<b>1,465,311</b>	<b>0</b>	<b>1,465,311</b>
<b>Private Sector Housing</b>			
Disabled Adaptations	1,972,842		1,972,842
Homeowner Improvement Scheme	241,400		241,400
	<b>2,214,242</b>	<b>0</b>	<b>2,214,242</b>
<b>ADULTS, HEALTH AND WELLBEING</b>	<b>4,146,004</b>	<b>0</b>	<b>4,146,004</b>
<b>Total Approved Capital MTFP</b>	<b>272,412,445</b>	<b>0</b>	<b>272,412,445</b>

<b>CAPITAL PROGRAMME</b>	<b>Approved Programme</b>	<b>New Approvals (part of Report)</b>	<b>Total Programme</b>
Government Support	171,822,249		171,822,249
Earmarked Resources / Receipts	8,594,064		8,594,064
Earmarked Housing Regeneration Receipts	175,913		175,913
Prudential Borrowing	63,088,410		63,088,410
Other Contributions	17,092,627		17,092,627
Corporate One-Off Resources	11,639,182		11,639,182
<b>Total Approved Funding Capital MTFP</b>	<b>272,412,445</b>	<b>0</b>	<b>272,412,445</b>



**Stockton on Tees**  
**Borough Council**

**Pay Policy Statement**  
**2024/25**

## CONTENTS

	<b>Page</b>
<b>1. Introduction</b>	<b>2</b>
<b>2. Definitions</b>	<b>2</b>
<b>3. National and Other Conditions of Service</b>	<b>3</b>
<b>4. Pay Structure</b>	<b>3</b>
<b>5. Chief Officers</b>	<b>4</b>
<b>6. Payments to Employees upon Termination of their Employment (including Chief Officers)</b>	<b>5</b>
<b>7. Employment of Individuals already in Receipt of Local Government Pension</b>	<b>5</b>
<b>8. Employment or Engagement of Former Employees</b>	<b>5</b>
<b>9. The Council's Approach to the Pay of its Lowest Paid Employees</b>	<b>6</b>
<b>10. Relationship Between Chief Officers and Other Employees' Remuneration</b>	<b>6</b>
<b>11. General Principles Regarding the Recruitment of Employees</b>	<b>6</b>
<b>12. Publication of and Access to Information Relating to Remuneration of Employees</b>	<b>7</b>

## 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 Service - 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.

<b>Negotiating Body</b>	<b>Employees</b>
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 2023 are:

<b>Job Title</b>	<b>Salary</b>
Chief Executive	£169,026
Deputy Chief Executive (additional payment of £10,930 in addition to Director Salary)	£146,865
Director	£135,935
Assistant Director – Level 1 (including Director of Public Health)	£102,232
Assistant Director – Level 2	£96,503

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

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

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

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



- 6.3. The Council's Pensions and Retirement Policy also sets out the applicable provisions in respect of awarding additional pension entitlement by way of augmentation or otherwise.
- 6.4 Under 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 2023.
- 9.2 The Council's grading structure begins at scp 3 Grade C, which currently is £11.79 per hour which is above the current National Living Wage which is £10.42 per hour from 1 April 2023. The National Living Wage is increasing to £11.44 per hour with effect from 1 April 2024. The trade union pay claim for 1 April 2024 has not been issued however, the Council's lowest pay point will be above the 2024 NLW rate regardless of the pay award.
- 9.3 The Council has also agreed that apprentices, undertaking level 1, 2 and 3 apprenticeships, will be paid the National Living Wage for age. From 1 April 2024 these will start at £6.40 per hour for 16 and 17 year olds, rising to £11.44 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 £11.79 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 2023. The Council's Median Hourly Rate is £14.91 as at 31 December 2023 (£13.66 at 31 December 2022) and the Pay Multiple is 5.88 as at 31 December 2023 (6.20 at 31 December 2022). 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 £1,925 which was paid to all employees up to and including SCP 43 (pro rata for part time employees) and a 3.88% increase on SCP's 44-58. The Chief Executive pay award was 3.5% 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**

<b>Body</b>	<b>Role</b>	<b>Officer</b>
Spark of Genius NE LLP	Board Member	Garry Cummings Director of Finance, Transformation & Performance & Deputy Chief Executive Director of Children Services (vacant)
Stockton Borough Holding Company Limited and Stockton Hotels Company Limited	Director	Reuben Kench, Director of the Community Services, Environment, & Culture Chris Renahan, Assistant Director (Inclusive Growth and Development), Clare Harper, Assistant Director (Finance) Jill Douglas (Winship), Assistant Director (Corporate Services)
	Company Secretary	Jill Douglas (Winship), Assistant Director (Corporate Services)
Saltburn Artists Project	Director	Reuben Kench, Director of the 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	Iain Robinson, Assistant Director, Town Centres Development
Crooksbar Primary School	Vice Chair of Rapid Impact Board	Vanessa Housley, Service Lead Education and Wellbeing
St Patrick's College	Vice Chair of Governing Body	Vanessa Housley, Service Lead Education and Wellbeing

Appendix D – Council Tax Resolution – *to follow*

## CAPITAL STRATEGY REPORT 2024/25

### 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 2024/25, the Council is planning capital expenditure of £87.842m as summarised below:

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

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
School Investment Programme and Children's Services	14.239	14.547	11.606	7.856	0.207
Housing Regeneration, Development and Growth	2.896	9.631	6.041	2.000	0.000
Town Centres	10.057	16.428	55.026	49.718	0.000
Transportation	14.490	13.213	7.354	5.222	4.525
Community & Environment, Culture & Leisure	2.238	7.037	7.427	2.050	0.096
Adults & Public Health	3.863	2.247	0.388	0.910	0.555
<b>TOTAL</b>	<b>47.783</b>	<b>63.103</b>	<b>87.842</b>	<b>67.756</b>	<b>5.383</b>

The main General Fund capital projects in 2024/25 include programme of works for the School Investment Strategy, Children's Investment Strategy, Town Centre investment works across the Borough and a number of Transport schemes. The Council has no plans to incur capital expenditure on investments.

**Governance:** The details of the new governance arrangements for the Capital Programme are outlined in Schedule 2 and 3 below. **These new Capital Programme Management Arrangements are included for approval.**

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. The focus is on ensuring systems and processes are robust and effective in terms of minimising risk to the Council.

Throughout the year Service Managers 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 3.

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 3) 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.

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 new 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.

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*

	<b>2022/23 actual</b>	<b>2023/24 forecast</b>	<b>2024/25 budget</b>	<b>2025/26 budget</b>	<b>2026/27 budget</b>
Capital receipts	1.000	0.935	3.170	0.910	0.555
Capital grants	28.733	39.191	61.694	28.028	4.533
Capital contributions	12.814	11.591	5.402	2.200	0.295
Revenue	3.243	3.580	2.176	0.053	0.000
Borrowing	1.993	7.806	15.400	36.565	0.000
<b>TOTAL</b>	<b>47.783</b>	<b>63.103</b>	<b>87.842</b>	<b>67.756</b>	<b>5.383</b>

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*

	<b>2022/23 actual</b>	<b>2023/24 forecast</b>	<b>2024/25 budget</b>	<b>2025/26 budget</b>	<b>2026/27 budget</b>
Own resources	3.418	3.244	3.762	3.973	2.877

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

The Council’s cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £12.338m during 2024/25. 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*

	<b>2022/23 actual</b>	<b>2023/24 forecast</b>	<b>2024/25 budget</b>	<b>2025/26 budget</b>	<b>2026/27 budget</b>
General Fund services	184.160	189.422	201.760	234.864	231.288
Capital investments	0.000	0.000	0.000	0.000	0.000
<b>TOTAL CFR</b>	<b>184.160</b>	<b>189.422</b>	<b>201.760</b>	<b>234.864</b>	<b>231.288</b>

**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 £0.973m of capital receipts and loan repayments in the coming financial year as follows:

*Table 5: Capital receipts receivable in £ millions*

	<b>2022/23 actual</b>	<b>2023/24 forecast</b>	<b>2024/25 budget</b>	<b>2025/26 budget</b>	<b>2026/27 budget</b>
Asset sales	0.691	1.038	0.873	0.075	0.000
Loans repaid	0.900	0.624	0.100	0.090	0.090
<b>TOTAL</b>	<b>1.591</b>	<b>1.662</b>	<b>0.973</b>	<b>0.165</b>	<b>0.090</b>

### **Flexible Use of Capital Receipt's Strategy**

DLUHC permit local authorities to treat revenue expenditure "incurred on projects designed to reduce future revenue costs and/or transform service delivery" as capital expenditure until 2025/26.

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

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

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

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

### **Treasury Management**

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue

income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Due to decisions taken in the past, at the 31<sup>st</sup> December 2023 the Council has £102.8m borrowing at an average interest rate of 3.81% and £41.7m treasury investments at an average rate of 5.4%.

**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.

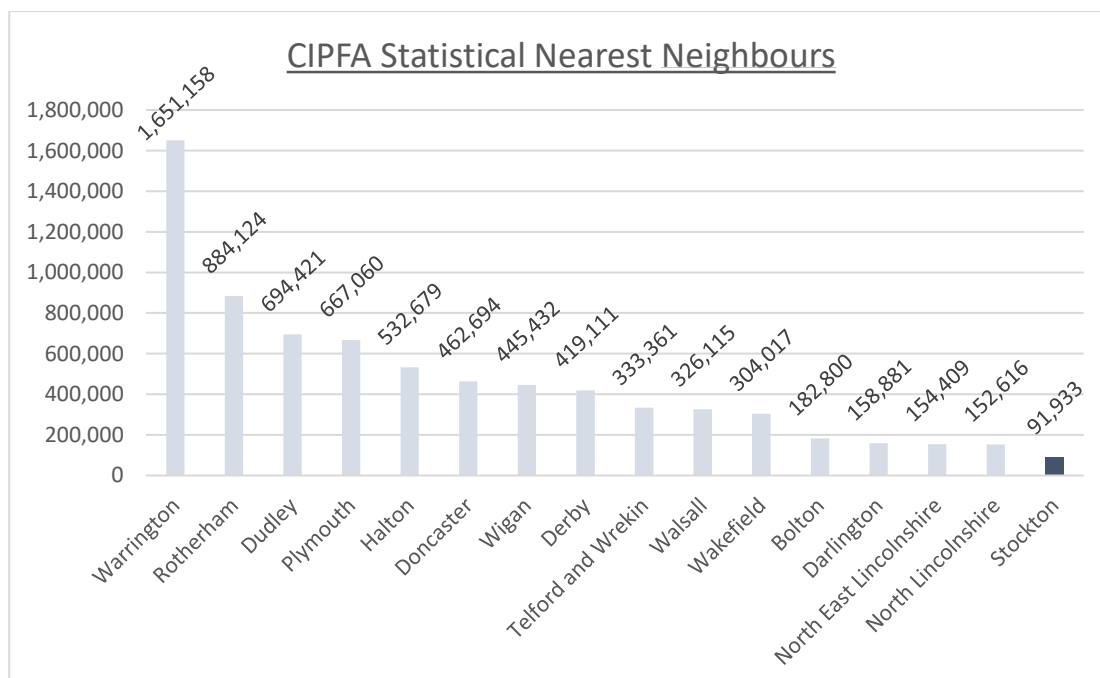
Projected levels of the Council’s total outstanding debt (which comprises borrowing, PFI liabilities and leases) are shown below, compared with the capital financing requirement (see above).

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

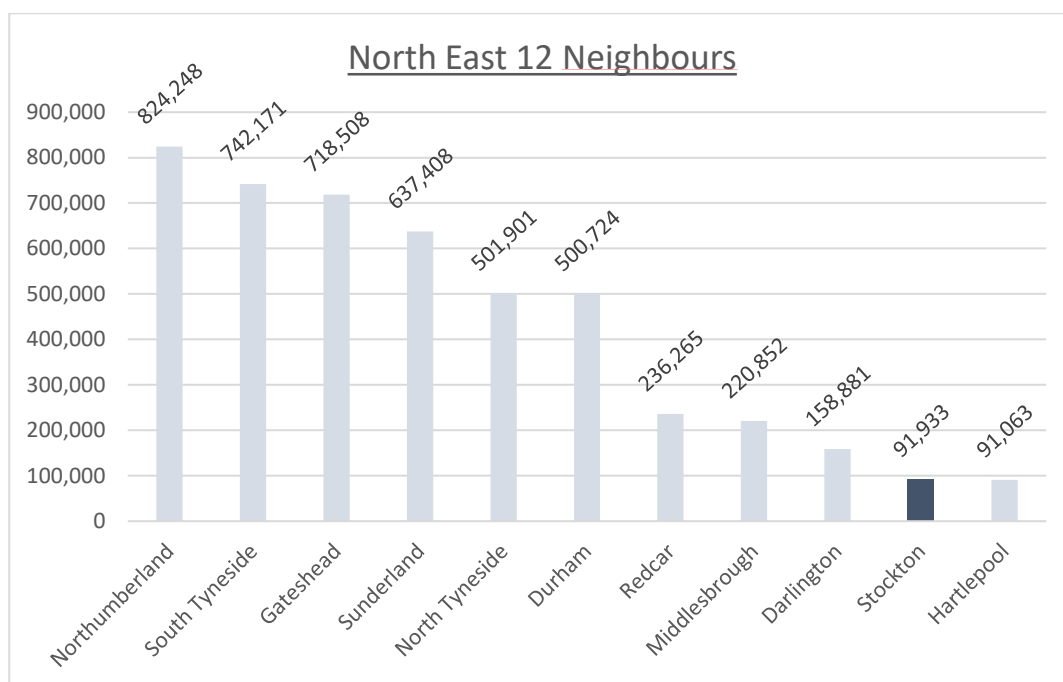
	31.3.2023 actual	31.3.2024 forecast	31.3.2025 budget	31.3.2026 budget	31.3.2027 budget
Debt (incl. PFI & leases)	101.033	108.749	155.312	208.148	205.953
Capital Financing Requirement	184.160	189.422	201.760	234.864	231.288

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 are shown in the two graphs below;







Please note that the above charts are based on 2021/22 data as CIPFA have not yet updated their resilience index for the 2022/23 financial year.

**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 £101.5 at 31<sup>st</sup> March 2024 and is forecast to rise to £204.2m over the next three years.

Table 7: Borrowing and the Liability Benchmark in £ millions

	31.3.2023 actual	31.3.2024 forecast	31.3.2025 budget	31.3.2026 budget	31.3.2027 budget
Outstanding borrowing	94.2	102.9	150.8	205.0	204.3
Liability benchmark	89.0	101.5	150.6	204.8	204.2

**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

	2023/24 limit	2024/25 limit	2025/26 limit	2026/27 limit
Authorised limit	204.4	219.8	252.9	249.3
Operational boundary	189.4	204.8	237.9	234.3

- 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*

	<b>31.3.2023 actual</b>	<b>31.3.2024 forecast</b>	<b>31.3.2025 budget</b>	<b>31.3.2026 budget</b>	<b>31.3.2027 budget</b>
Near-term investments	15.3	6.2	5.0	5.0	5.0
Long-term investments	13.6	13.1	13.1	13.1	13.1
<b>TOTAL</b>	<b>28.9</b>	<b>19.3</b>	<b>18.1</b>	<b>18.1</b>	<b>18.1</b>

- 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 31<sup>st</sup> March 2023 were valued at £16.558m 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*

	<b>31.3.2023 actual</b>	<b>31.3.2024 forecast</b>	<b>31.3.2025 budget</b>	<b>31.3.2026 budget</b>	<b>31.3.2027 budget</b>
Total net income from service and commercial investments £m	1.053	1.093	1.093	1.093	1.093
Proportion of net revenue stream	0.62%	0.64%	0.61%	0.59%	0.58%

### **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*

<b>Total Investment Exposure</b>	<b>2022/23 Actual £m</b>	<b>2023/24 Forecast £m</b>	<b>2024/25 Budget £m</b>
Treasury management investments	28.820	18.580	18.580
Service investments: Loans	0.728	0.236	0.226
Service investments: Shares	0.000	0.000	0.000
Commercial investments: Property	16.558	16.558	16.558
<b>TOTAL INVESTMENTS</b>	<b>46.106</b>	<b>35.374</b>	<b>35.365</b>

**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*

<b>Investments funded by borrowing</b>	<b>31.03.2023 Actual £m</b>	<b>31.03.2024 Forecast £m</b>	<b>31.03.2025 Forecast £m</b>
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
<b>Total Funded by Borrowing</b>	<b>17.000</b>	<b>17.000</b>	<b>17.000</b>

**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)*

<b>Investments net rate of return</b>	<b>2022/23 Actual £m</b>	<b>2023/24 Forecast £m</b>	<b>2024/25 Budget £m</b>
Treasury management investments	3.0%	5.3%	4.6%
Service investments: Loans	4.5%	9.3%	0.0%
Commercial investments: Property	3.5%	3.5%	3.5%
<b>ALL INVESTMENTS</b>	<b>3.1%</b>	<b>4.8%</b>	<b>4.1%</b>

### **Other Liabilities**

In addition to debt detailed in Table 6, the Council has also agree to guarantee the performance of the ARCC (Achieving Real Change in Communities) under the service agreement pursuant to a guarantee with the Secretary of State.

**Governance:** Decisions on incurring new discretionary 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 57 of the draft 2022/23 Statement of Accounts.

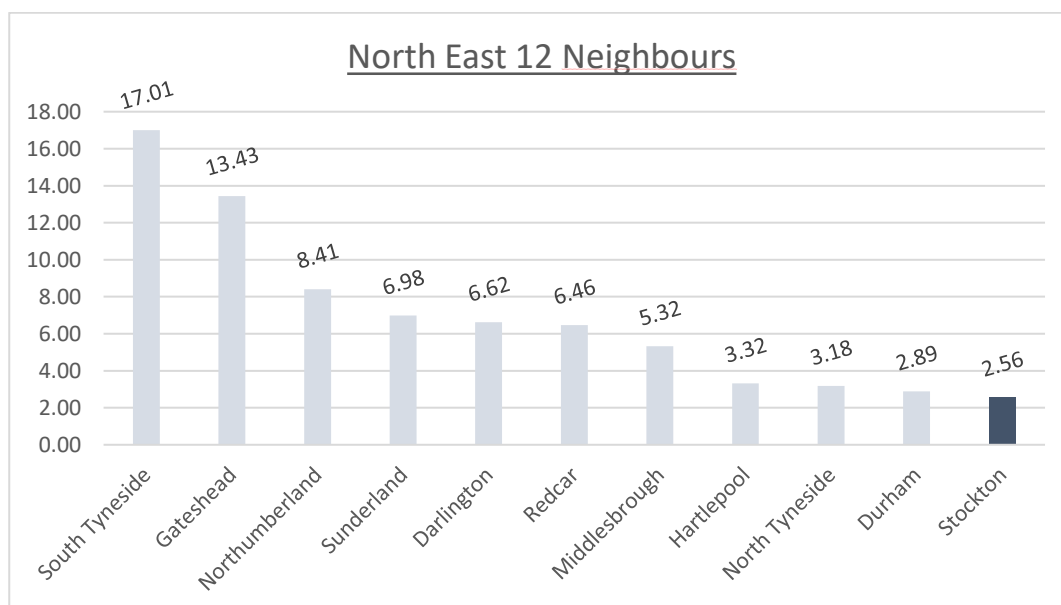
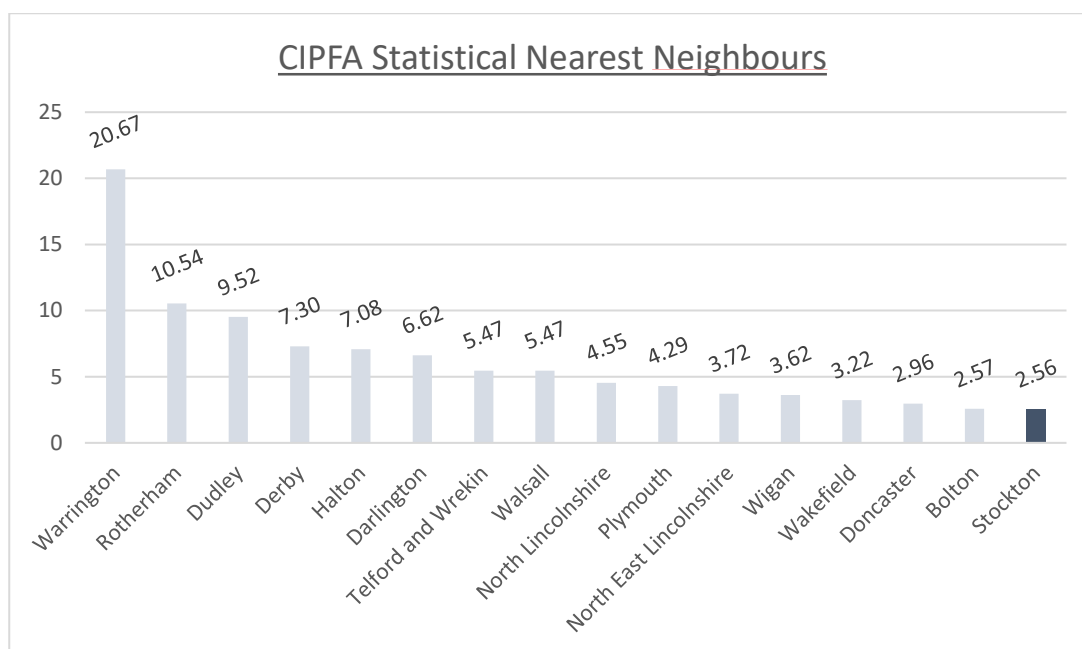
### **Revenue Budget Implications**

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*

	<b>31.3.2023 actual</b>	<b>31.3.2024 forecast</b>	<b>31.3.2025 budget</b>	<b>31.3.2026 budget</b>	<b>31.3.2027 budget</b>
Financing costs (£m)	4.5	5.1	6.8	9.1	10.1
Proportion of net revenue stream	2.6%	3.0%	3.8%	4.9%	5.4%

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.



*Please note that the above charts are based on 2021/22 data as CIPFA have not yet updated their resilience index for the 2022/23 financial year.*

**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 2024/25**

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 DLUHC Guidance) most recently issued in 2018.

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

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

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

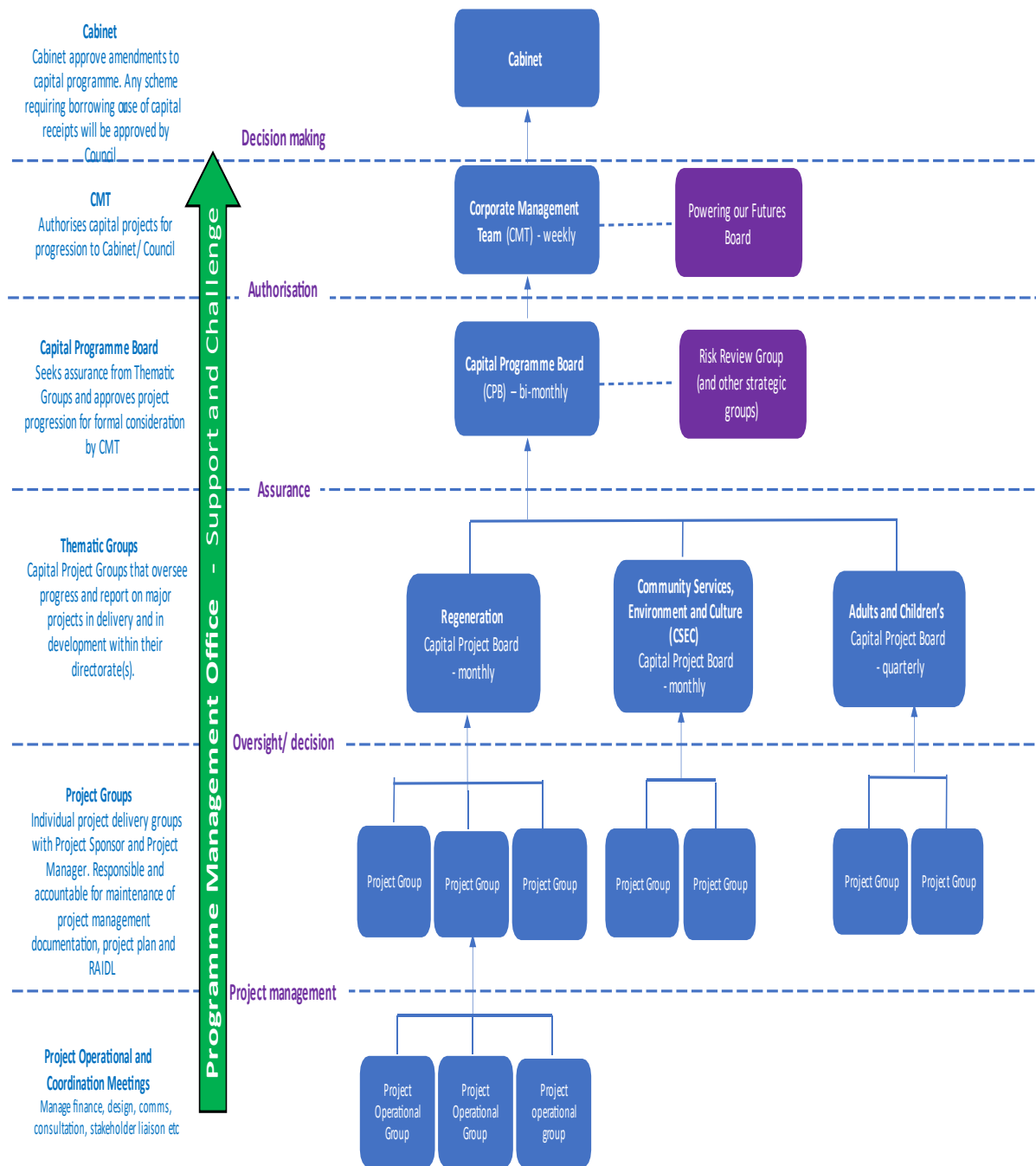
For unsupported capital expenditure incurred after 31<sup>st</sup> March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset equal to the average relevant PWLB rate for the year of expenditure determined on an annuity method starting in the year 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 expenditure incurred during 2024/25 will not be subject to a MRP charge until the year following the year in which the relevant assets become operational.

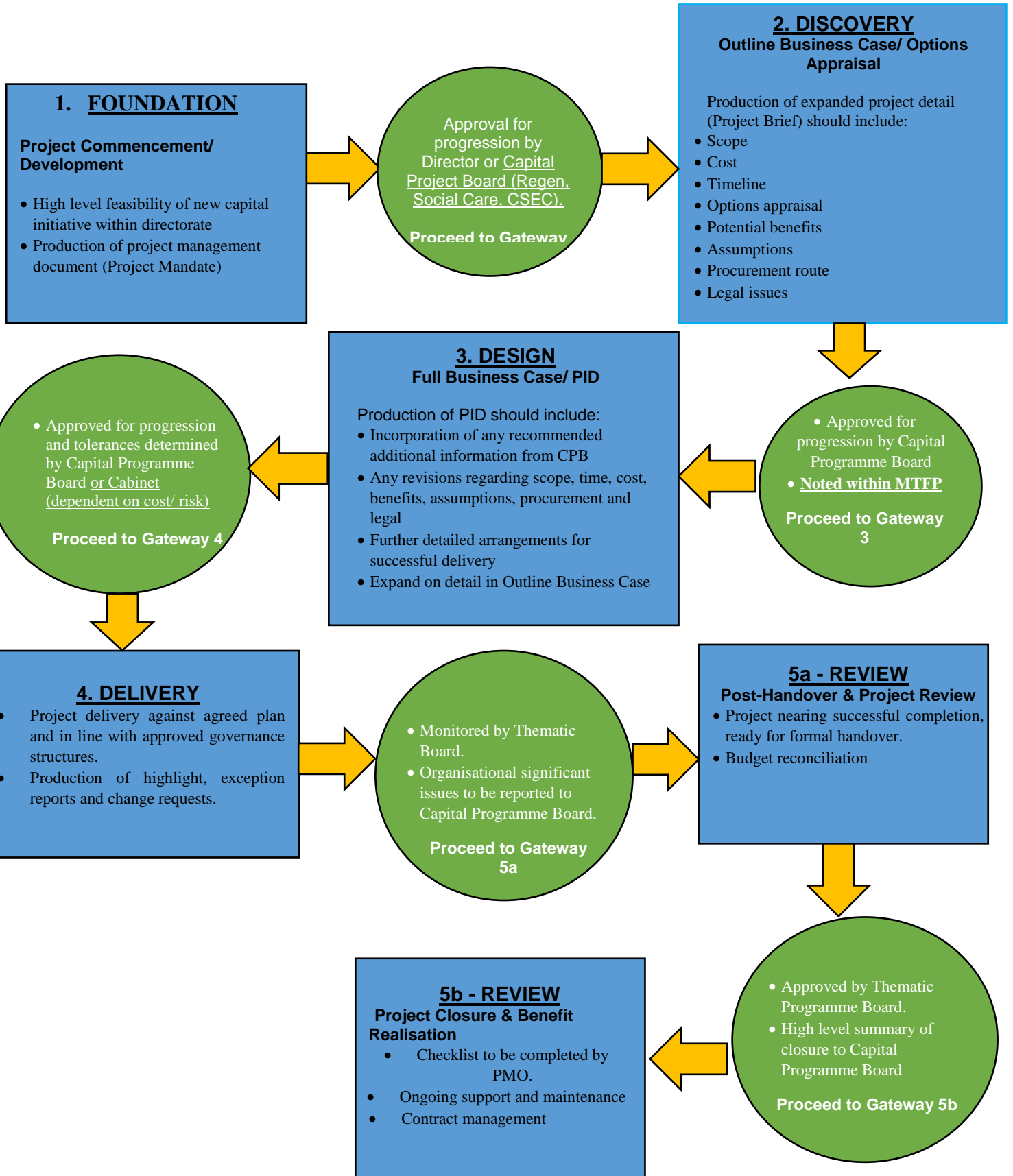
## Schedule 2 – Capital Programme Management Arrangements – Capital Programme Governance

This document was classified as: OFFICIAL





**Schedule 3 – Capital Programme Management Arrangements – Capital Programme Lifecycle**



## STOCKTON ON TEES TREASURY MANAGEMENT STRATEGY 2024/25

### 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 higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the Authority's treasury management strategy for 2024/25.

The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level for the rest of 2023. In December 2023, members of the BoE's Monetary Policy Committee voted 6-3 in favour of keeping Bank Rate at 5.25%. The three dissenters wanted to increase rates by another 0.25%.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with upside risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

Office for National Statistics (ONS) figures showed CPI inflation was 3.9% in November 2023, down from a 4.6% rate in the previous month and, in line with the recent trend, lower than expected. The core CPI inflation rate declined to 5.1% from the previous month's 5.7%, again lower than predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling slowly, but taking until early 2025 to reach the 2% target before dropping below target during the second half 2025 and into 2026.

ONS figures showed the UK economy contracted by 0.1% between July and September 2023. The BoE forecasts GDP will likely stagnate through 2024. The BoE forecasts that higher interest rates will constrain GDP growth, which will remain weak over the entire forecast horizon.

**Credit outlook:** Credit Default Swap (CDS) prices were volatile during 2023, spiking in March on the back of banking sector contagion concerns following the major events of Silicon Valley Bank becoming insolvent and the takeover of Credit Suisse by UBS. After then falling back in Q2 of calendar 2023, in the second half of the year, higher interest rates and inflation, the ongoing war in Ukraine, and now the Middle East, have led to CDS prices increasing steadily.

On an annual basis, CDS price volatility has so far been lower in 2023 compared to 2022, but this year has seen more of a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

Moody's revised its outlook on the UK sovereign to stable from negative to reflect its view of restored political predictability following the volatility after the 2022 mini-budget. Moody's also affirmed the Aa3 rating in recognition of the UK's economic resilience and strong institutional framework.

Following its rating action on the UK sovereign, Moody's revised the outlook on five UK banks to stable from negative and then followed this by the same action on five rated local authorities. However, within the same update the long-term ratings of those five local authorities were downgraded.

There remain competing tensions in the banking sector, on one side from higher interest rates boosting net income and profitability against another of a weakening economic outlook and likely recessions that increase the possibility of a deterioration in the quality of banks' assets.

However, 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 (November 2023):** Although UK inflation and wage growth remain elevated, the Authority's treasury management adviser Arlingclose forecasts that Bank Rate has peaked at 5.25%. The Bank of England's Monetary Policy Committee will start reducing rates in 2024 to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.

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

### **Local Context**

On 31<sup>st</sup> December 2023, the Authority held £102.8m of borrowing and £41.7m 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*

	<b>31.3.23 Actual £m</b>	<b>31.3.24 Forecast £m</b>	<b>31.3.25 Forecast £m</b>	<b>31.3.26 Forecast £m</b>	<b>31.3.27 Forecast £m</b>
General Fund CFR	184.2	189.4	201.8	234.9	231.3
Less: Other debt liabilities	(6.8)	(5.8)	(4.5)	(3.2)	(1.6)
<b>Loans CFR</b>	<b>177.4</b>	<b>183.6</b>	<b>197.2</b>	<b>231.7</b>	<b>229.7</b>
Less: External borrowing	(94.2)	(104.2)	(153.6)	(207.8)	(212.2)
<b>Internal (over) borrowing</b>	<b>83.1</b>	<b>79.3</b>	<b>43.6</b>	<b>23.9</b>	<b>17.5</b>
Less: Balance Sheet Resources	(112.0)	(100.2)	(64.7)	(45.0)	(43.6)
<b>(Investments) / New borrowing</b>	<b>(28.9)</b>	<b>(20.9)</b>	<b>(21.1)</b>	<b>(21.1)</b>	<b>(26.2)</b>

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 £212.2m 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.

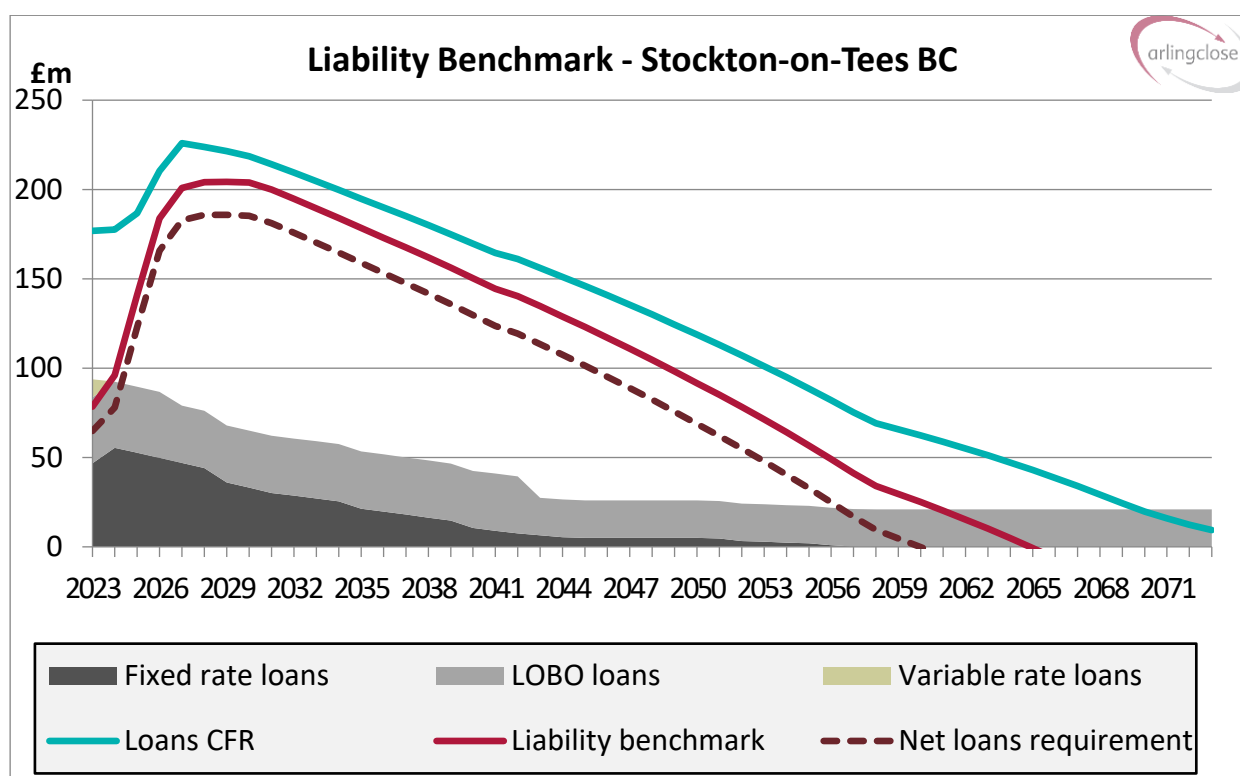
**Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level 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

	31.3.23 Actual £m	31.3.24 Forecast £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m
Loans CFR	177.4	183.6	197.2	231.7	229.7
Less: Balance Sheet Resources	(112.0)	(100.2)	(64.7)	(45.0)	(43.6)
Plus: Liquidity Allowance	23.6	18.1	18.1	18.1	18.1
<b>Liability Benchmark</b>	<b>89.0</b>	<b>101.5</b>	<b>150.6</b>	<b>204.8</b>	<b>204.2</b>

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 31<sup>st</sup> December 2023 had £102.9m of loans, an increase of £23.9m 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 £153.6m in 2024/25. The Authority may also borrow additional sums to pre-fund future years’ requirements, providing this does not exceed the authorised limit for borrowing of £219.8m.

**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 at a 15-year high but are expected to fall in the coming years 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.

By doing so, the Authority will be able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this ‘cost of carry’ and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2024/24 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

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

longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.

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

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

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

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- UK Infrastructure Bank
- 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 £37m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. With interest rates having risen recently, there is now a reasonable chance that lenders will exercise their options. If they do, the Authority will take the option to repay LOBO loans to reduce refinancing risk in later years.

**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 £65.5m and £28.5m, but levels are estimated to reduce due to planned expenditure on the capital programme and use of reserves.

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

<b>Sector</b>	<b>Time limit</b>	<b>Counterparty limit</b>	<b>Sector limit</b>
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

*As the authority needs to borrow in 2024/25 time limits have been set for no longer than 3 years to avoid the impression of borrowing to invest primarily for financial return in contravention of the TM Code.*

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

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

**Government:** Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 3 years.

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

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

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

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

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



performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

**Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

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

**Operational bank accounts:** The Authority may incur operational exposures, for example 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 available to cover investment losses are forecast to be £41.5million on 31<sup>st</sup> March 2024. 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*

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

**Liquidity management:** The Authority uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority’s medium term financial plan and cash flow forecast.

The Authority will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

**Treasury Management Prudential Indicators**

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

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

<b>Liquidity risk indicator</b>	<b>Target</b>
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:

<b>Interest rate risk indicator</b>	<b>£m</b>
One-year revenue impact of a 1% <u>rise</u> in interest rates	-£0.207m
One-year revenue impact of a 1% <u>fall</u> in interest rates	£0.207m

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:

	2023/24	2024/25	2025/26	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 2024/25 is £2.103m, and the budget for debt interest to be paid in 2024/25 is £5.014m. 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.

<b>Alternative</b>	<b>Impact on income and expenditure</b>	<b>Impact on risk management</b>
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 November 2023

### Underlying assumptions:

- UK inflation and wage growth remain elevated but have eased over the past two months fuelling rate cuts expectations. Near-term rate cuts remain unlikely, although downside risks will increase as the UK economy likely slides into recession.
- The MPC's message remains unchanged as the Committee seeks to maintain tighter financial conditions. Monetary policy will remain tight as inflation is expected to moderate to target slowly, although some wage and inflation measures are below the Bank's last forecasts.
- Despite some deterioration in activity data, the UK economy remains resilient in the face of tighter monetary policy. Recent data has been soft but mixed; the more timely PMI figures suggest that the services sector is recovering from a weak Q3. Tighter policy will however bear down on domestic and external activity as interest rates bite.
- Employment demand is easing. Anecdotal evidence suggests slowing recruitment and pay growth, and we expect unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household and business spending will therefore be weak.
- Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC's attention will remain on underlying inflation measures and wage data. We believe policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further 'second-round' effects has diminished.
- Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant loosening in the future to boost activity.
- Global bond yields will remain volatile. Markets are currently running with expectations of near-term US rate cuts, fuelled somewhat unexpectedly by US policymakers themselves. Term premia and bond yields have experienced a marked decline. It would not be a surprise to see a reversal if data points do not support the narrative, but the current 10-year yield appears broadly reflective of a lower medium-term level for Bank Rate.
- There is a heightened risk of fiscal policy and/or geo-political events causing substantial volatility in yields.

### Forecast:

- The MPC held Bank Rate at 5.25% in December. We believe this is the peak for Bank Rate.
- The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. We see rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.
- The immediate risks around Bank Rate have become more balanced, due to the weakening UK economy and dampening effects on inflation. This shifts to the downside in the short term as the economy weakens.
- Long-term gilt yields are now substantially lower. Arlingclose expects yields to be flat from here over the short-term reflecting medium term Bank Rate forecasts. Periodic volatility is likely.

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
<b>Official Bank Rate</b>													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
<b>3-month money market rate</b>													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.40	5.40	5.40	5.30	5.15	4.80	4.30	4.10	3.80	3.50	3.25	3.05	3.05
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
<b>5yr gilt yield</b>													
Upside risk	0.00	0.25	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.77	3.75	3.75	3.75	3.70	3.60	3.50	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
<b>10yr gilt yield</b>													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.72	3.75	3.80	3.80	3.80	3.80	3.80	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
<b>20yr gilt yield</b>													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.16	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.25
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
<b>50yr gilt yield</b>													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.76	3.80	3.85	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.95	3.95	3.95
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

**Schedule 2 – Existing Investment & Debt Portfolio Position**

	<b>31/12/2023 Actual Portfolio £m</b>	<b>31/12/2023 Average Rate %</b>
<b>External borrowing:</b>		
Public Works Loan Board	54.6	2.93%
Local authorities	11.1	0.53%
LOBO loans from banks	37.0	4.79%
<b>Total external borrowing</b>	<b>102.8</b>	
<b>Other long-term liabilities:</b>		
Private Finance Initiative	3.3	
Finance Leases	3.5	
<b>Total other long-term liabilities</b>	<b>6.8</b>	
<b>Total gross external debt</b>	<b>109.6</b>	
<b>Treasury investments:</b>		
Banks & building societies	1.7	0.80%
Government (incl. local authorities)	10.0	5.50%
Money Market Funds	16.9	5.30%
Other pooled funds	13.1	4.21%
<b>Total treasury investments</b>	<b>41.7</b>	
<b>Net Debt</b>	<b>67.8</b>	

## NON TREASURY INVESTMENT STRATEGY REPORT 2024/25

### 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 2024/25 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 31<sup>st</sup> March 2023 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	31.3.2023 actual			2024/25
	Balance owing £m	Loss allowance £m	Net figure in accounts £m	Approved Limit £m
Subsidiaries / Joint Ventures	0.475	0.001	0.476	5.000
Local businesses	0.038	0.011	0.048	2.000
Local residents	0.203	0.000	0.204	1.000
Employees	0.000	0.000	0.000	0.050
<b>TOTAL</b>	<b>0.716</b>	<b>0.011</b>	<b>0.728</b>	<b>8.050</b>

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	31.3.2023 actual			2024/25
	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
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7.000</b>

**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*

<b>Property</b>	<b>31.3.2023 Value £m</b>
Estate Shops	0.508
Hampton by Hilton Hotel	10.600
Town Centre	1.500
Ground Leases	2.480
Garages	0.011
Agricultural	1.350
Advertising Hoardings	0.109
<b>TOTAL</b>	<b>16.558</b>

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

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

A fair value assessment of the Council's investment property portfolio has been made by the Council's Valuer and a specialist external valuer as at 31st March 2023. 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*

	<b>2022/23 Actual £m</b>	<b>2023/24 Forecast £m</b>	<b>2024/25 Budget £m</b>
Gross service expenditure	482.220	437.339	
Investment income	2.638	3.665	2.053
<b>Proportion</b>	<b>0.55%</b>	<b>0.84%</b>	

## **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*

<b>Total Investment Exposure</b>	<b>2022/23 Actual £m</b>	<b>2023/24 Forecast £m</b>	<b>2024/25 Budget £m</b>
Treasury management investments	28.820	18.580	18.580
Service investments: Loans	0.728	0.236	0.226
Service investments: Shares	0.000	0.000	0.000
Commercial investments: Property	16.558	16.558	16.558
<b>TOTAL INVESTMENTS</b>	<b>46.106</b>	<b>35.374</b>	<b>35.365</b>

**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*

<b>Investments funded by borrowing</b>	<b>2022/23 Actual £m</b>	<b>2023/24 Forecast £m</b>	<b>2024/25 Budget £m</b>
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
<b>Total Funded by Borrowing</b>	<b>17.000</b>	<b>17.000</b>	<b>17.000</b>

**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)*

<b>Investments net rate of return</b>	<b>2022/23 Actual £m</b>	<b>2023/24 Forecast £m</b>	<b>2024/25 Budget £m</b>
Treasury management investments	3.0%	5.3%	4.6%
Service investments: Loans	4.5%	9.3%	0.0%
Commercial investments: Property	3.5%	3.5%	3.5%
<b>ALL INVESTMENTS</b>	<b>3.1%</b>	<b>4.8%</b>	<b>4.1%</b>

**SECTION 151 OFFICERS STATEMENT ON THE ROBUSTNESS OF THE BUDGET AND ADEQUACY OF BALANCES –YEAR 2023/24**

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 2021/22 for Stockton 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 Director of Finance, Transformation & Performance and Deputy Chief Executive has responsibility for ensuring that an effective system of internal control is in place and identify any areas for improvement where appropriate. The Audit and Governance Committee receives regular updates on internal controls as well as the Annual Governance Statement which clearly identifies the strength of the governance arrangements in place on an annual basis.
5. There is a rigorous system for budget monitoring and reporting, with Cabinet receiving regular reports throughout the financial year.
6. The MTFP has been reviewed in full and updated for future years. It includes all known changes to funding levels as well as estimates for those funding streams for which we have not received confirmation.
7. All current savings have been tested for deliverability and where adjustments have been required these have been made.
8. Financial risks have been quantified where appropriate and either provision has been made or mitigations have been identified. There are a number of external factors which are posing key risks to the Medium Term Financial Plan impacting on both expenditure pressures as well as income sources. Inflation and growth in service demand continue to put significant pressure on expenditure budgets. Inflation has begun to fall from the record high levels earlier in the year, however costs remain higher than recent years, which is continuing to impact across budgets including interest rates, pay award and construction costs. The growth in demand for Social Care services continues to increase which results in greater costs incurred. Additional resources for these areas are recommended for inclusion in the budget to reflect this.

9. A review has been undertaken to ensure the suitability of the provisions and assumed collection rates relating to Council tax and Business Rates which is described in the report.
10. The plan includes 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.
11. The Powering our Futures programme includes a programme of transformation which will consider alternative ways of delivering services across the Council. It also looks at how we can regenerate the borough to encourage business growth and make it a more attractive place to live. The plan expects the Powering our Futures programme to deliver savings and generate increased income. There is a robust programme of governance to support the achievement of these savings. If the required savings are not anticipated to be achieved, this will be flagged early enough to develop alternative ways to ensure a balanced Medium Term Financial Plan.
12. The construction of the budget for 2024/25 and examination and validation of the budget proposals has been subject to challenge by the Council's Corporate Management Team.
13. The Local Government Finance Act 1992 requires a local authority to have due regard to the level of balances and reserves needs for meeting future estimates of future expenditure when calculating the Council Tax requirement.
14. 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
15. 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. In February 2022, Council approved an increase in General Fund balances to a revised level of £8,000,000, which is reflective of the level of risk the Council faces. The Section 151 Officer (Director of Finance, Development & Regeneration and Deputy Chief Executive) has reviewed the level of general fund balances and earmarked reserves in light of the latest financial climate described in the report. 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. 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, or take the decision to cease those commitments.