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AGENDA

COUNCIL MEETING

MONDAY, 21ST FEBRUARY 2022 – 5.30 PM

Members of the Council are summoned to a meeting of the Babergh District Council at King Edmund Chamber, Endeavour House, 8 Russell Road, Ipswich on Monday, 21st February, 2022 at 5.30 pm.

For those wishing to attend, there will be a time for reflection 5 minutes prior to the commencement of the Council meeting.

Arthur Charvonia
Chief Executive

	BABERGH COUNCIL
DATE:	**MONDAY, 21 FEBRUARY 2022 5.30 PM**
VENUE:	**KING EDMUND CHAMBER, ENDEAVOUR HOUSE, 8 RUSSELL ROAD, IPSWICH**

This meeting will be broadcast live to YouTube and will be capable of repeated viewing. The entirety of the meeting will be filmed except for confidential or exempt items. If you attend the meeting in person you will be deemed to have consented to being filmed and to the possible use of the images and sound recordings for webcasting/ training purposes.

The Council, members of the public and the press may record/film/photograph or broadcast this meeting when the public and the press are not lawfully excluded.

PART 1
MATTERS TO BE CONSIDERED WITH THE PRESS AND PUBLIC PRESENT

Page(s)

1 **APOLOGIES FOR ABSENCE**

To receive apologies for absence.

2 **DECLARATION OF INTERESTS BY COUNCILLORS**

3 **BC/21/29 TO CONFIRM THE MINUTES OF THE MEETING HELD ON 2 FEBRUARY 2022**

To follow

4 **LEADER’S ANNOUNCEMENTS**

5 **TO RECEIVE NOTIFICATION OF PETITIONS IN ACCORDANCE WITH COUNCIL PROCEDURE RULES**

In accordance with Council Procedure Rule No. 11, the Chief Executive will report the receipt of any petitions. There can be no debate or comment upon these matters at the Council meeting.

b **BC/21/32 HOUSING REVENUE ACCOUNT (HRA) 2022/23 BUDGET** 79 - 90

Cabinet Member for Finance

In accordance with Council Procedure Rule 19.3, immediately after any vote is taken at a budget decision meeting of the Council the names of Councillors who cast a vote for the decision or against the decision or who abstained from voting shall be recorded in the Minutes of that meeting.

At its meeting on 7 February 2022, Cabinet considered Paper BCa/21/36, the Housing Revenue Account Budget for 2022/23. Paper BC/21/32 is unchanged from the Cabinet meeting and includes the necessary recommendations.

c **BC/21/33 JOINT CAPITAL, INVESTMENT AND TREASURY MANAGEMENT STRATEGIES 2022/23** 91 - 156

Co-Chair of Joint Audit and Standards Committee

At its informal meeting on 24 January 2022, Joint Audit and Standards Committee considered Paper IRJAC/21/15, the Joint Capital, Investment and Treasury Management Strategies. Paper BC/21/33 now includes all the relevant updated information following consideration by the Joint Audit and Standards Committee, together with the necessary recommendations.

d **IRJAC/21/18 ARRANGEMENTS FOR THE APPOINTMENT OF EXTERNAL AUDITORS** 157 - 162

Co-Chair of Joint Audit and Standards Committee

At its informal meeting on 24 January 2022, Joint Audit and Standards Committee considered Paper IRJAC/21/18 attached.

10 **COUNCILLOR APPOINTMENTS**

Date and Time of next meeting

Please note that the next meeting is scheduled for Tuesday, 22 March 2022 at 5.30 pm.

Webcasting/ Live Streaming

The Webcast of the meeting will be available to view on the Councils YouTube page: https://www.youtube.com/channel/UCSWf_0D13zmegAf5Qv_aZSg

For more information about this meeting, including access arrangements and facilities for people with disabilities, please contact the Committee Officer, Committee Services on: 01473 296472 or Email: Committees@baberghmidsuffolk.gov.uk

Introduction to Public Meetings

Babergh/Mid Suffolk District Councils are committed to Open Government. The proceedings of this meeting are open to the public, apart from any confidential or exempt items which may have to be considered in the absence of the press and public.

Domestic Arrangements:

- Toilets are situated opposite the meeting room.
- Cold water is also available outside opposite the room.
- Please switch off all mobile phones or turn them to silent.

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If you hear the alarm:

1. Leave the building immediately via a Fire Exit and make your way to the Assembly Point (Ipswich Town Football Ground).

2. Follow the signs directing you to the Fire Exits at each end of the floor.

3. Do not enter the Atrium (Ground Floor area and walkways). If you are in the Atrium at the time of the Alarm, follow the signs to the nearest Fire Exit.

4. Use the stairs, not the lifts.

5. Do not re-enter the building until told it is safe to do so.

Agenda Item 8

BABERGH DISTRICT COUNCIL

TO: Council	**REPORT NUMBER: BC/21/30**
FROM: Chair of Overview and Scrutiny Committee	**DATE OF MEETING: 21 February 2022**

17 January 2022 Babergh Overview and Scrutiny Committee – Chair Mary McLaren

4 Committee Members

BOS/21/01 DRAFT GENERAL FUND (GF) 2022/23 AND FOUR-YEAR OUTLOOK.

Councillor Simon Barrett – Cabinet Member for Finance introduced the report to the Committee outlining that the budget had been based on a "no increase in council tax", however an increase would take place if Cabinet decided it was necessary.
In addition to this, the Emergency Reserves held by Babergh District Council would be reduced by £200k to £1Milllion as there had been no expenditure from this fund during the Covid-19 Pandemic. The excess of £200k could be considered for community projects. He also advised that the Budget had shown a surplus of £403k.

Questions raised by Committee Members were wide ranging and demonstrated their appreciation of the various aspects of the Draft General Fund and its importance in maintaining the fiscal integrity of Babergh District Council.
All questions raised were answered with clarity and knowledge by the Cabinet Member for Finance and Katherine Steel Assistant Director for Corporate Services which was appreciated and acknowledged by the Committee.

An overview of questions raised by the Committee.

- Had the cost for the leisure centre moving to a green tariff been cost neutral?
- Was the cost for CCTV a permanent contribution?
- Had future costs for all vehicles and the new fleet of refuse vehicles been factored in?
- What were the sources of finance being used to support the Strategic Policy, Performance and Insight programme?
- Questions in relation to legal costs for planning, enforcement and appeals, the increase of £41k for Senior Leadership Costs and the reduction in ICT costs were raised.
- A possible large residue of Government Funding for Covid was queried and an explanation was requested regarding the funding source of £12million Capital Fund and any proposed projects in the pipeline.

By a unanimous vote

It was RESOLVED:-

1.1 That the Overview and Scrutiny Committee notes the General Fund budget 2022/23 and Four- Year Outlook.

1.2 That the Overview and Scrutiny Committee receives a report from Cabinet on the outcomes of the performance framework on a six-month basis.

BOS/21/02 DRAFT HOUSING REVENUE ACCOUNT (HRA) AND FOUR-YEAR OUTLOOK

Councillor Simon Barrett – Cabinet Member for Finance introduced the report to the Committee, outlining that the HRA account is in deficit due to additional spending in building services. This had been due to an increased cost of resources such as a competitive labour market which had led to an increased use of subcontractors. There had also been a rent increase of CPI+1.

The Assistant Director for Housing – Gavin Fisk further clarified the various reasons for the overspend. There had been an increased cost of materials over the past year. To decrease the dependence on external contractors there had been additional training for staff. There had also been the costs to replace vehicles and to change the fleet to HVO.

The Committee appreciated the open and realistic responses from the Cabinet Member for Finance, the Assistant Director of Housing with some input from the Cabinet Member for Housing and acknowledged the effort and hard work of the Housing Team over the past 2 years of difficulty and strain.

An overview of questions and comment raised by the Committee.

- The reasons for the overspend were understood by the committee however a reduction in the use of external contractors and more work delivered in house was the ideal to be sought. Questions were raised around the impact of Anti-Social behaviour on repair costs and how legal costs in relation to damage to properties are recovered by the Council.

- The progress in the installation of air source heat pumps in council properties and the seeking of grants to support that work in line with the renewable heat incentive was queried.

- Questions in relation to improved insulation and retro fitting of existing properties and whether there were sufficient funds to undertake this work, identified that there is a stock profile of all properties which will enable the council to prioritise the work- load. One view expressed was that retrofitting should take precedence over insulation. Cabinet will be reviewing the design guide in the spring, which will set out the aspirations for retrofitting existing properties.

- The use of hotels for residents who for many different reasons need temporary accommodation is a costly resource. Managing that efficiently has involved using some of the housing stock as temporary accommodation and leasing some units for Domestic Abuse Victims to the County Council to lessen the use of hotels in an emergency.

- Residents have many varied financial interactions with the council and the Shared Revenue Partnership, however there is no central record that collates all the financial data for each resident, as each department keeps its own record. The question regarding the feasibility of a central system highlighted the enormity of the exercise which is already underway and the expense that will be incurred especially in the software required.

It was RESOLVED:-

1.1 That the Overview and Scrutiny Committee notes the Housing Revenue Account 2022/23 and Four-year Outlook.

1.2 That the Overview and Scrutiny recommends that the Information about the use of sub-contractors be included in the quarterly performance monitoring report. (Financial HRA Outturn report)

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Agenda Item 9a

BABERGH DISTRICT COUNCIL

TO:	**Council**	**REPORT NUMBER: BC/21/31**
FROM:	**Councillor Simon Barrett, Cabinet Member for Finance**	**DATE OF MEETING: 21 February 2022**
OFFICER:	**Katherine Steel, Assistant Director, Corporate Resources**	**KEY DECISION REF NO. N/A**

GENERAL FUND BUDGET 2022/23 AND FOUR-YEAR OUTLOOK

1. PURPOSE OF REPORT

1.1 The purpose of this report is to present the General Fund Budget for 2022/23 and four-year outlook.

1.2 To enable Cabinet Members to consider key aspects of the 2022/23 Budgets, including Council Tax and to approve the final Budget.

2. OPTIONS CONSIDERED

2.1 Setting a balanced budget is a statutory requirement, therefore no other options are appropriate in respect of this.

3. RECOMMENDATIONS

3.1 That the General Fund Budget proposals for 2022/23 and four-year outlook set out in the report be approved.

3.2 That the General Fund Budget for 2022/23 is based on a 2% increase to Band D Council Tax, which is equivalent to £3.48 per annum (7p per week) for a Band D property.

REASON FOR DECISION

To bring together all the relevant information to enable Cabinet Members to review, consider and comment upon the Council's General Fund budget for endorsement and recommendation to Council.

4. KEY INFORMATION

Background and COVID19

4.1 In February 2021 Babergh District Council approved the General Fund Budget 2021/22 and Four-Year Outlook. The budget was prepared during one of the most challenging and uncertain times due to the impacts of COVID19 on the Council's finances, staff, residents, and local economy. Income streams were reviewed when setting the budget and revised where appropriate and any COVID19 related costs were assumed to be funded from the COVID19 reserve.

4.2 The financial impact of COVID19 continues to be monitored during 2021/22 and the current forecast was presented to Cabinet in December as part of the second quarter budget monitoring report. As time passes more information is gathered about the impact and how this may affect the Council's finances going forward, but some uncertainty continues particularly in terms of what permanent changes in behaviour will be seen.

4.3 The Government provided some funding for the impact of COVID19 for the first quarter of 2021/22, in addition to what was allocated during 2020/21, but it is unlikely that any further funding will now be provided, so the Council needs to manage any continuing adverse impacts within the resources available.

2021/22 Budget and Forecast Outturn

4.4 On 23 February 2021 the Council set a balanced budget for 2021/22. This comprised gross expenditure of £33.7m and income of £23.3m, to give a net service budget of £10.4m, which is primarily funded from council tax, business rates and government grants. In addition, there was a new capital allocation totalling £6.2m. Chart 1 below shows how the £33.7m gross expenditure is allocated across the services and Chart 2 below shows the breakdown of the £23.3m income.

Chart 1: Gross Expenditure by service area in 2021/22 (£33.7m)

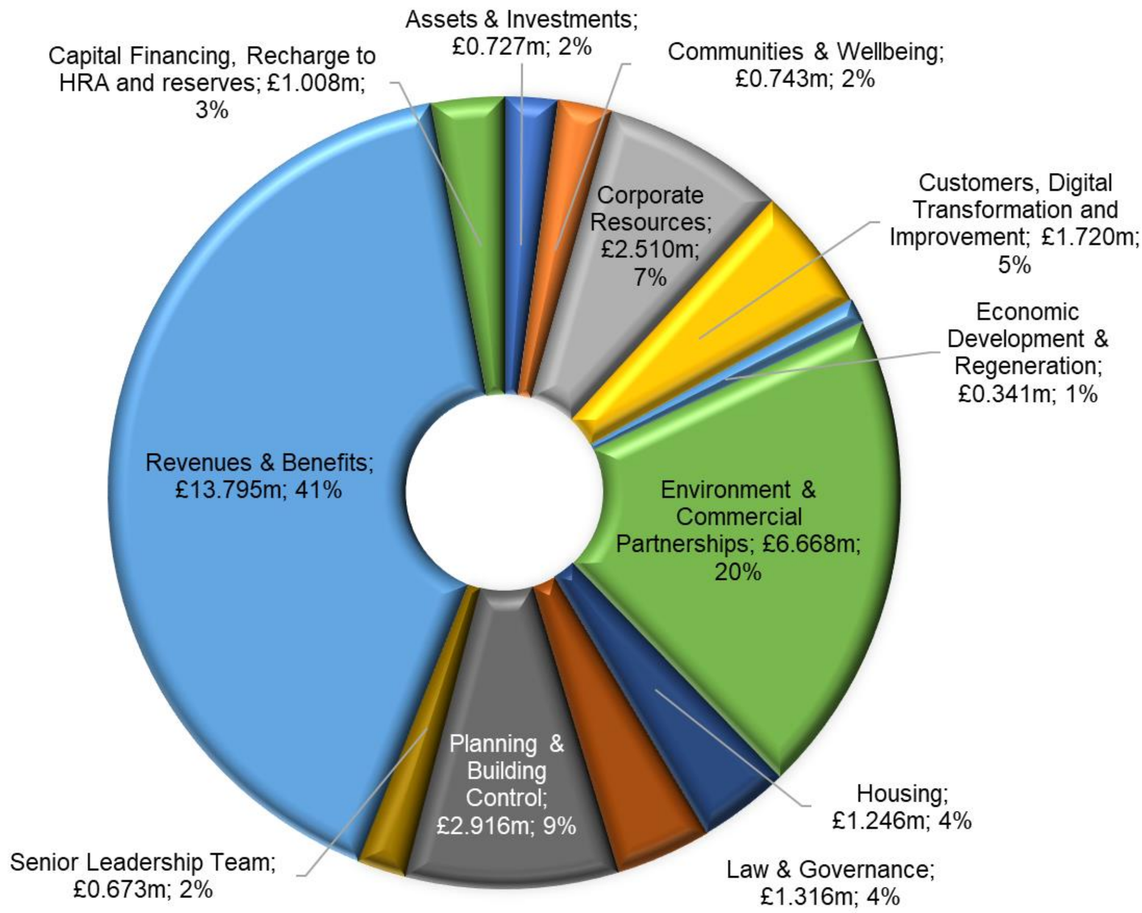
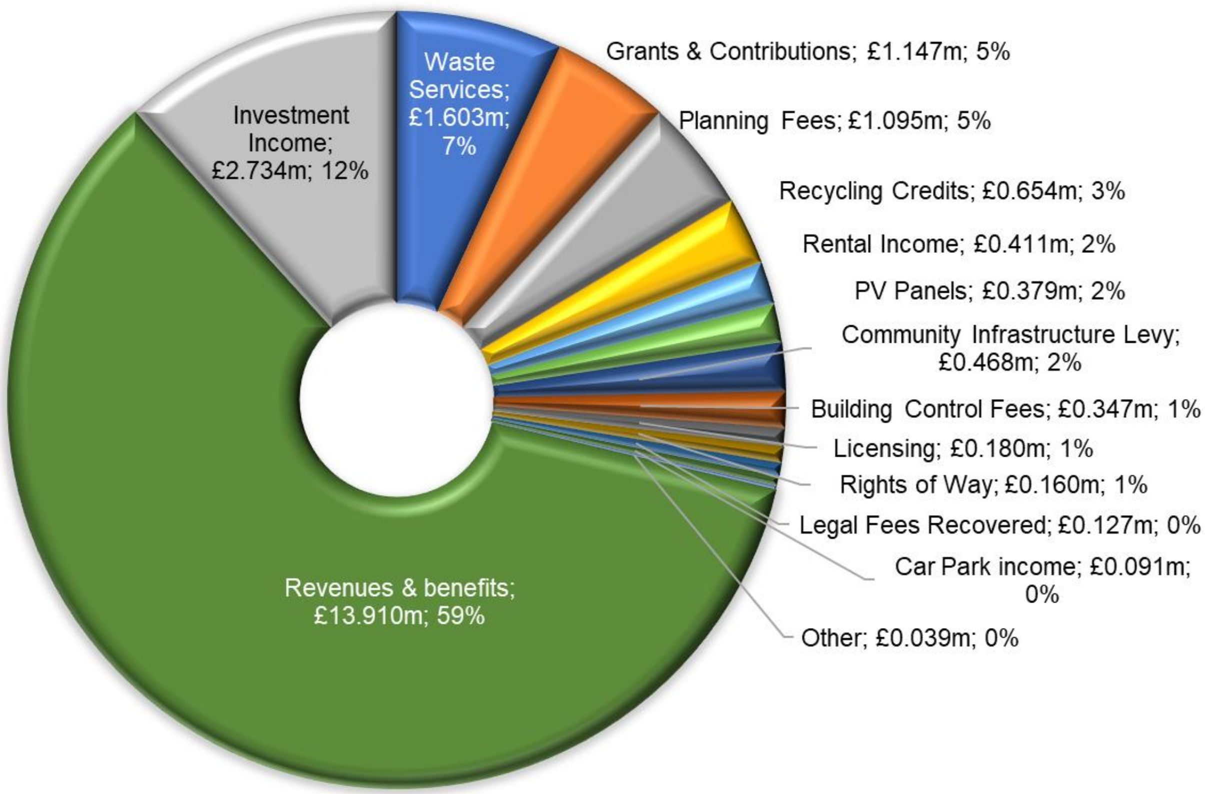


Chart 2: Service Income in 2021/22 (£23.3m)



4.5 The second quarter budget monitoring report was presented to Cabinet on 6 December 2021 showing a forecast surplus position as at 31 March 2022 of £320k. There are several variances which contribute to the overall position, that are detailed in the report, but two key factors are planning application income continues to exceed the budget and one-off additional income from the Suffolk business rates pool.

4.6 The third quarter position will be presented to Cabinet on 7 March 2022.

Medium Term Financial Strategy (MTFS) 2022-2026

4.7 To achieve the Vision, the Council needs to take a medium-term view of the budget through a robust financial strategy that is focused on delivering the six corporate strategic priorities.

4.8 The Council's main strategic financial aim remains to become self-financing i.e., not reliant on Government funding. The Council's parallel aim is to generate more funds than are required purely for core services, to enable additional investment into the district.

4.9 There are 3 key elements that need to be carefully balanced to ensure success, which are:

- Cost management
- Income generation and
- Service levels.

4.10 The approach over the medium term is to transform the Council into an organisation that is thriving, by continuously reviewing, remodelling, and reinventing the way the Council operates. For the Council to thrive, a strong focus is placed on the wellbeing of our staff and residents.

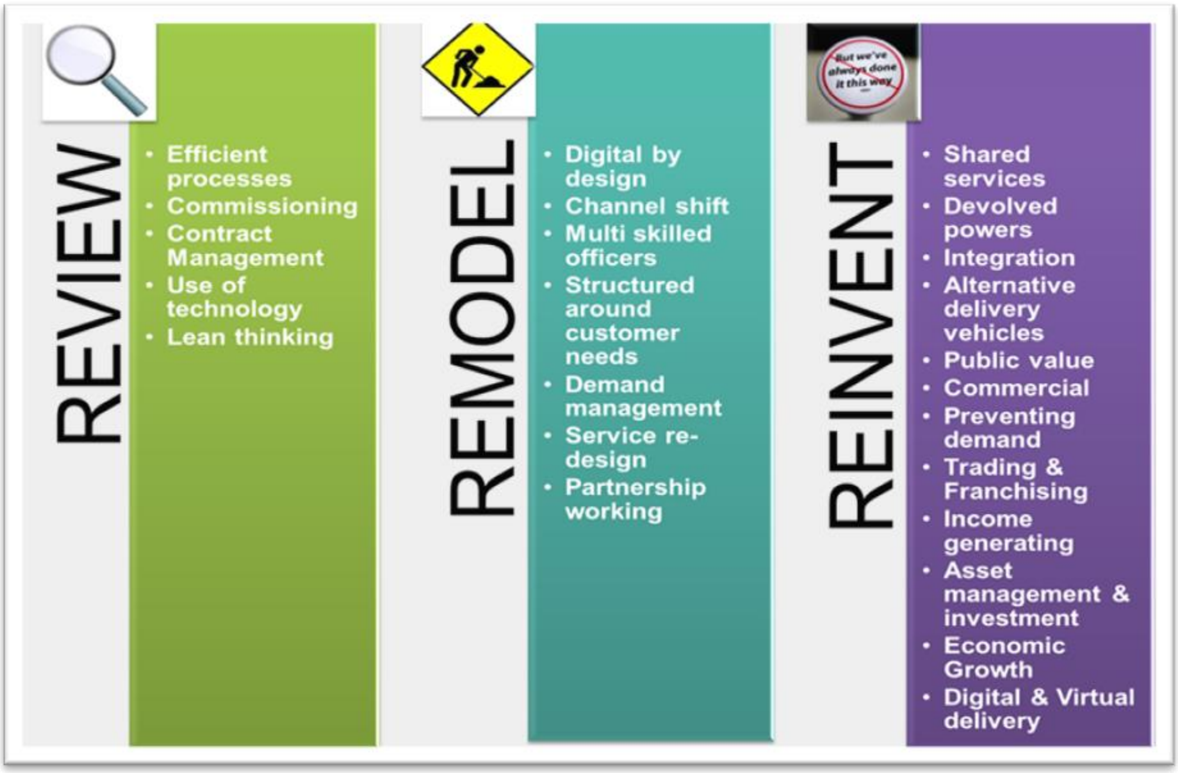
The following overarching principles are considered when evaluating ideas and opportunities for change:

- Reduce our costs (both internally and across the wider system)
- Increase our income
- Provide better / “best” value
- Increased social value
- Provide a better service for our customers
- Reduction in administration costs, without compromising service
- Reduced climate change and biodiversity impact, where financially viable

4.11 The focus is on:

- internal efficiencies and improvements
- continuously streamlining work and reducing waste in processes
- greater cross-functional working and multi-skilling
- improving ways of working to move away from ‘professional silos and toward integrated services for the public
- customer demand understood, analysed, and met through new services and business models
- demand is re-shaped and managed while engaging service users to ascertain priorities.

4.12 The approach below shows in more detail for each element the methodology that has been adopted to achieve this.



4.13 Further work will continue in 2022/23 and a corporate plan will be established early in the new year to drive out inefficiencies across the organisation, but this is likely to require additional resources and investment. The Council will continue this approach to further transform the way it operates over the next three years, including looking at new working methods by building on the changes made to practices during the COVID19 pandemic.

4.14 A further key element of the Strategy is having adequate reserves available to manage any unexpected changes to spending and funding plans. They are a fundamental part of the way the Council manages its business risks and maintains a stable financial position.

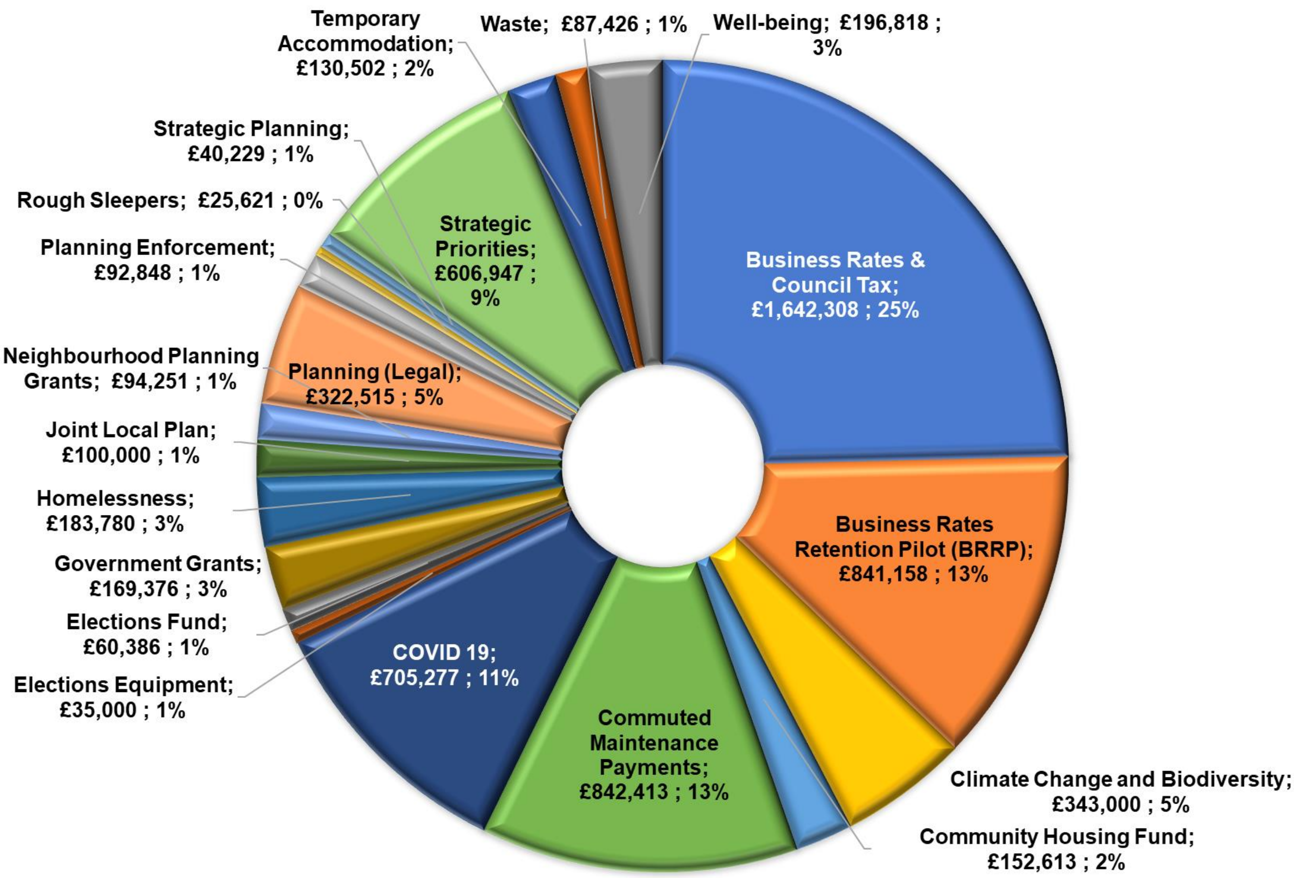
4.15 Section 43 of the Local Government Finance Act 1992 requires that, when setting the budget for the forthcoming year, authorities should have regard to the level of reserves needed to provide sufficient resources to finance estimated future expenditure, plus any appropriate allowances that should be made for contingencies.

4.16 Reserves only provide one-off funding, so a core principle is that reserves should not be used to cover ongoing gaps between expenditure and funding and should be replenished as soon as practicable when used.

4.17 There are generally two types of reserves: unallocated and earmarked. The unallocated reserve is known as the General Fund Balance and is held by the Council to manage the financial risks it faces, and to ensure that it can remain solvent should any of these risks become realised. This reserve currently stands at £1.2m. It traditionally represents about 10% of the net budget, but is currently standing at 12%. As it was not used during the COVID19 pandemic. it has been reviewed and it is proposed to reduce it to £1m for 2022/23 and the remaining £0.2m be used to supplement the communities grant programme.

Earmarked reserves are held by the Council's services and used to pay for specific commitments or set aside for anticipated projects and programmes. The projected earmarked reserves position as at 31 March 2022 is shown in the chart below.

Chart 3: Projected Earmarked Reserves Balances at 31st March 2022 (£6.7m)



Changing Landscape for Local Government

4.18 Over recent months there have been some consultations and announcements that indicate the Government's wish to ensure that local government focuses on its core functions rather than expanding into what are seen as more 'commercial' or 'private sector' type activities. Some examples are:

- Changes to the Public Works Loan Board (PWLB) lending criteria to exclude the ability to borrow to invest in commercial property to generate income.
- Consultations on the CIPFA Treasury Management and Prudential Codes to strengthen the intention around commercial investments and provide clarity about borrowing and investments
- Government consultation about minimum revenue provision and use of capital receipts from commercial activity

4.19 The Council will need to have regard to these changes and the new operating parameters when considering future activity under the MTFS.

National Economic Position

4.20 The Office for Budget Responsibility's (OBR) economic forecasts, provided alongside the Chancellor's Comprehensive Spending Review (SR21) in October, show improvement compared with the numbers from March 2021. The economic scarring from the pandemic is now forecast to be 2% of Gross Domestic Product (GDP) compared to 3% forecast in March 2021 and economic growth is forecast to be 6.5% in 2021, 6% in 2022 and 2.1% in 2023 showing a strong recovery from last year's deep recession. The forecasts for the years beyond are more worrying at 1.3% in 2024, 1.6% in 2025 and 1.7% in 2026, as this is below the long-term trend of 2% and may signal difficulty in the ability to generate tax receipts to fund growing spending pressures for social care and the NHS.

4.21 The central government budget deficit peaked at £320bn in 2020/21 before falling to an estimated £183bn in 2021/22. The figure for the current year is about £35bn less than the March 2021 estimate and net borrowing is expected to settle around £50bn per annum.

4.22 The Consumer Price Index (CPI) dropped significantly in 2020 during the pandemic but had risen to 3.1% in September and has gone up further to 5.1% in November and 5.4% in December 2021. It is expected to hit a peak in the next few months before returning to its target level of 2% by 2023 or 2024, although economic commentators are increasingly challenging that assumption.

4.23 The Chancellor presented the Comprehensive Spending Review (SR21) on 27 October 2021 in the context of the national economic position as detailed above. Some of the key headlines for local government and specifically our council, ahead of the provisional finance settlement set out in paragraph 4.25 below, are as follows:

- Core spending power estimated to increase annually by an average of 3.2%, but this assumes maximum council tax increases. Real terms average increase of 1%.

- Additional £4.8bn in grant over the next 3 years.

- An increase in grant in 2022/23 of £1.5bn to be distributed via the finance settlement but then no further growth. Any increase in funding beyond 2022/23 will have to come from council tax.

- Core council tax increase thresholds assumed as 1.99% and a further 1% for social care.

- No announcements at that time about New Homes Bonus, Fair Funding Review, Business Rates Reset or the length of the settlement.

- Business rates announcements
    - Freezing the multiplier for 2022/23
    - 50% discount for retail, hospitality, and leisure sectors up to a maximum of £110k per business in 2022/23
    - Targeted reliefs and exemptions from April 2023 to support the decarbonisation of buildings
    - 100% relief on eligible property improvements to be implemented in 2023 (any increase in rates payable delayed for 12 months)

    - Extend transitional relief for small and medium-sized businesses for 1 year
    - Local authorities will be fully funded for the loss of income from the multiplier, reliefs, and discounts
    - Revaluations every 3 years from 2023

- Specific funding allocations announced that the Council may be eligible to bid for across a range of initiatives.

4.24 After the Chancellor's announcements, the Minister for the Department for Levelling-Up, Housing and Communities (DLUHC) announced that the move to 75% retention of business rates would be placed on hold as it was seen to contradict the aims of the levelling-up agenda.

Funding

4.25 The provisional local government finance settlement for 2022/23 was announced on 16 December 2021. The key headlines are as follows:

- The settlement is for one-year only.

- A new one-off Services Grant in 2022/23 distributed via the Settlement Funding Formula. Distribution for 2023/24 and beyond will be considered in consultation with councils.

- For shire district councils' council tax can be increased by the higher of 2% or £5, which the Government believes protects local taxpayers from excessive council tax increases.

- The current approach to the New Homes Bonus is being applied to 2022/23 with a further one-year allocation for housing growth between October 2020 and October 2021.

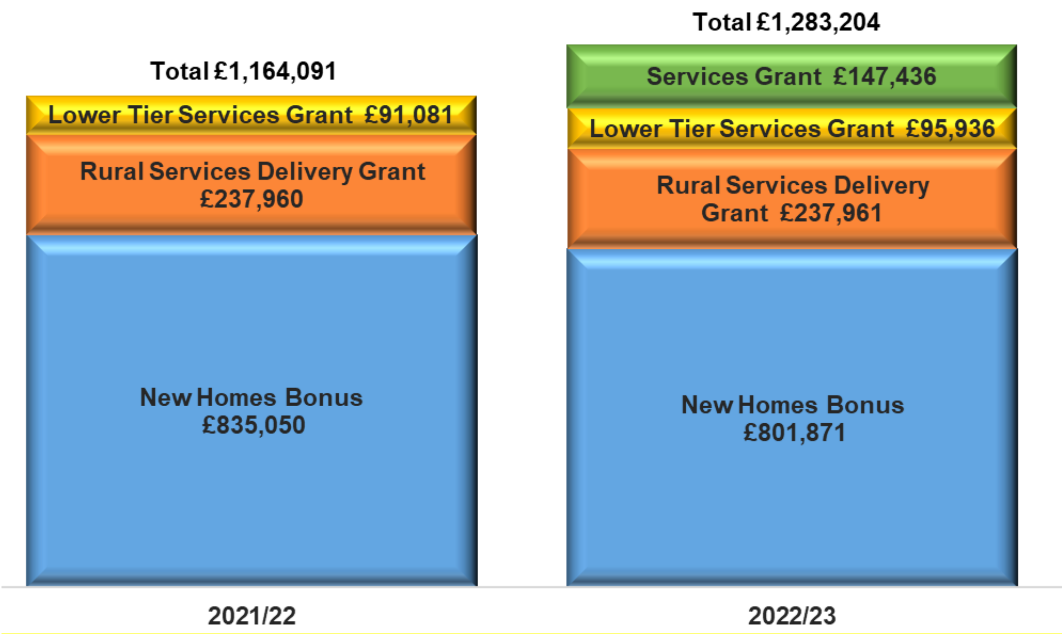
- Rural Services Delivery Grant is being maintained at the same level as 2021/22.

- Lower Tier Services Grant is being maintained at the same level in 2022/23 despite the announcement when it was brought in last year that it was for one year only.

- A commitment to ensuring that funding allocations for councils are based on an up-to-date assessment of our needs and resources. The Government will work closely with the sector to look at challenges and opportunities before consulting on any potential changes. Part of this will look at options to support local authorities through transitional protection.

4.26 The 2022/23 grant allocations for Babergh compared to the budget for 2021/22 are shown below.

Chart 4: government grant allocations 2021/22 and 2022/23



New Homes Bonus

4.27 Since NHB was introduced in 2011/12 the Council has received £11.8m in total. The Council continues to be reliant on NHB to support the budget, but in the last three years has been able to use some to supplement the Transformation Fund. For 2022/23, reliance on NHB to balance the budget equates to £275k.

4.28 As shown in Table 1 below, the use of NHB to balance the budget increased from 99% in 2017/18 to 100% in 2018/19 and 2019/20 and then reduces to 34% in 2022/23.

Table 1: New Homes Bonus used from 2017/18 to 2021/22

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Amount of NHB received	1,212	866	683	1,055	835	802
NHB used to balance the budget	1,197	866	683	343	692	275
% of NHB allocation to balance budget	**99%**	**100%**	**100%**	**33%**	**83%**	**34%**

4.29 Table 2 and Graph 1 below shows the NHB over the last eleven years plus the estimated allocations for 2023/24 to 2025/26. This assumes tax base growth of 1.86% in 2023/24, 1.5% in 2024/25 and 1.05% in 2025/26 and all the legacy payments having been phased out.

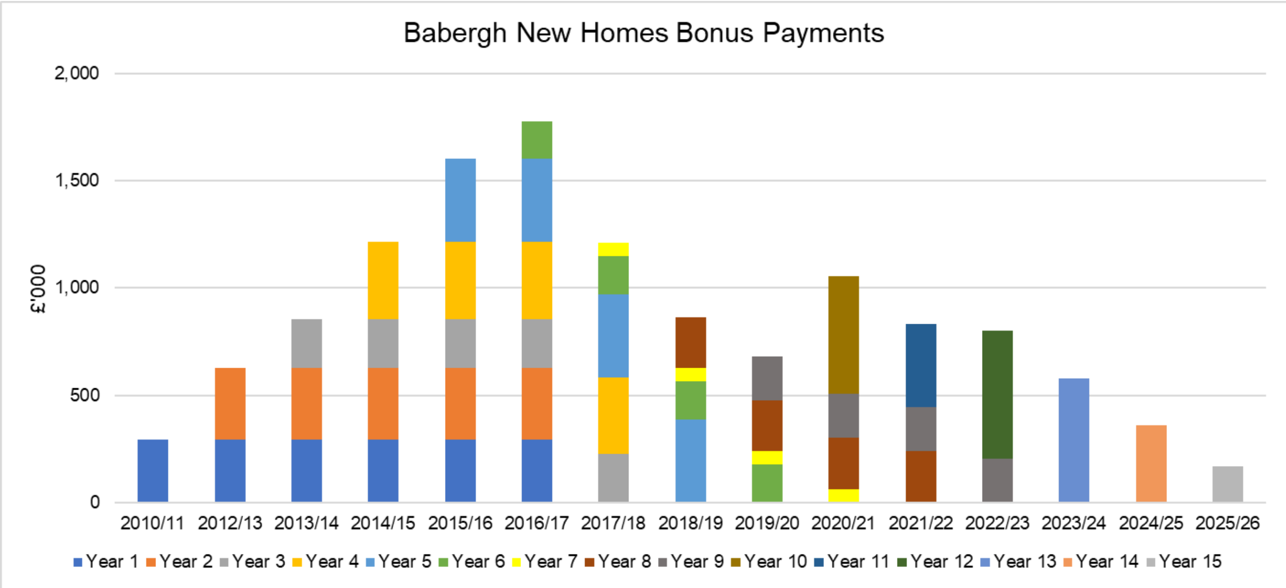
4.30 This shows how NHB has declined from a peak of £1.8m in 2016/17 to £802k in 2022/23, after the Government announced it would reduce the allocation from 6 years to 5 years in 2017/18 and to 4 years in 2018/19 and continued to phase out the legacy payments, as well as introducing a 0.4% growth baseline in 2017/18.

4.31 For 2022/23 the 0.4% growth baseline for Babergh means that the first 157 new homes built received no payment.

Table 2: New Homes Bonus sums per year

												Provisional	Estimate		
Payments	**2010/11**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Year 1	295	295	295	295	295	295									
Year 2		334	334	334	334	334									
Year 3			226	226	226	226	226								
Year 4				360	360	360	360								
Year 5					387	387	387	387							
Year 6						177	177	177	177						
Year 7							63	63	63	63					
Year 8								239	239	239	239				
Year 9									205	205	205	205			
Year 10										548					
Year 11											391				
Year 12												597			
Year 13													579		
Year 14														359	
Year 15															171
Total	**295**	**630**	**856**	**1,215**	**1,602**	**1,779**	**1,212**	**866**	**683**	**1,055**	**835**	**802**	**579**	**359**	**171**

Graph 1: New Homes Bonus Payments - Estimated for 2023/24 to 2025/26



Council Tax

4.32 The impact from Covid on collection rates, the number of Local Council Tax Reduction (LCTR) claimants and the build rate of new homes across the district has been less than anticipated when the budget for 2021/22 was set. This means that a 4.31% increase has been calculated for the tax base for 2022/23, which will generate additional council tax income of £251k.

4.33 An increase in Band D Council Tax of 2% has been included for 2022/23, which would generate additional income of £121k.

4.34 Due to the impact from Covid being less than anticipated in 2021/22, a surplus of £116k is currently projected for the Collection Fund in 2021/22, which is £181k more than in 2021/22. The way that the Collection Fund operates means that this surplus will be recognised in the Council's budget in 2022/23.

Business Rates

4.35 The headlines for Business Rates are as follows:

- No change to the business rates baseline funding or levy.
- The benefit from being part of the Suffolk business rates pool will increase by £21k and the impact of the Collection Fund forecast balance at the end of March 2022 increases the resources available by £4k.
- A Government return (NNDR1) that is required to be submitted by 31 January 2022, may result in some further changes to the business rates figures, but any impact will be managed through the Business Rates Reserve and hence will not change the bottom line.
- Additional income of £216k is forecast from the Enterprise Zone at Sproughton.

5. FORECAST BUDGET GAP TO 2025/26

5.1 To establish the medium-term position several assumptions have been made as to the expected level of funding and a number of cost pressures and savings have been identified over the period.

Funding

5.2 Funding arrangements for councils have changed significantly in recent years, the revenue support grant has been completely removed for the Council and New Homes Bonus (NHB) legacy payments continue to be phased out with one remaining legacy payment in 2022/23. Government undertook a consultation on the future of NHB that concluded on 7 April 2021. The outcome of the consultation is still awaited and changes are now expected to be implemented from 2023/24.

5.3 The provisional settlement for 2022/23 is a one-year settlement. DLUHC is still committed to delivering the wider reforms to local government funding and changes are expected to be implemented for 2023/24. Therefore, the medium-term position continues to be more difficult to forecast.

5.4 Government has recognised that councils are now more reliant on council tax and business rates as the main sources of funding. A full review of the business rates system was published in October 2021. The government announced new support for businesses to help our high streets and town centres evolve and adapt to changing consumer demands ahead of the next revaluation; new support for investment in green technology and property improvements; changes to support more frequent revaluations; a further freeze in the business rates multiplier; and significant investment in the Valuation Office Agency (VOA). The government is currently consulting on the technical detail of these proposed changes.

5.5 In calculating the expected level of funding across all sources, the following assumptions have been made:

a) Minimal use of reserves after 2023/24.

b) NHB to continue on the current basis, with estimated tax base growth of 1.86% in 2023/24, 1.5% in 2024/25 and 1.05% in 2025/26.

c) Nothing has been included for forecast Business Rates surplus or deficit beyond 2023/24 based on the assumption that the equalisation earmarked reserve will accommodate this. The 2020/21 forecast deficit of £753k, has been spread over three years as required by Government.

d) Receipt of government grants as set out in paragraph 4.26 above.

e) No Council Tax increase beyond 2022/23 as the base case, but an alternative option of the maximum £5 increase for each of the years from 2023/24 to 2025/26 has also been included in Table 8 in paragraph 5.27 below.

f) Tax base growth of 4.31% in 2022/23, 1.86% in 2023/24, 1.50% in 2024/25 and 1.05% in 2025/26, which generates approximately £113k, £92k and £66k more council tax income in each year respectively beyond 2022/23.

g) Due to the impact from Covid being less than anticipated in 2021/22, a surplus of £116k is currently projected for the Collection Fund in 2021/22. The way that the Collection Fund operates means that this surplus will be recognised in the Council's budget in 2022/23.

5.6 Table 3 below shows the forecast funding from 2022/23 to 2025/26. Funding decreases by 4% over the 4-year period. This is mainly due to the forecast decrease in New Homes Bonus.

5.7 In 2022/23 the Council will be using 100% of S31 grant and 34% of NHB to achieve a balanced budget.

Table 3: Forecast Funding 2022/23 – 2025/26

Description	2021/22 Budget £000	2022/23 Budget £000	2023/24 Forecast £000	2024/25 Forecast £000	2025/26 Forecast £000
Funding:					
Government Grants					
New Homes Bonus	(835)	(802)	(579)	(359)	(171)
S31 Business Rates Grant	(1,486)	(1,486)	(1,486)	(1,486)	(1,486)
Services Grant	-	(147)	-	-	-
Rural Services Delivery Grant	(238)	(238)	(238)	(238)	(238)
Lower Tier Services Grant	(91)	(96)	-	-	-
Business Rates					
Baseline Business Rates less Levy	(1,555)	(1,555)	(1,555)	(1,555)	(1,555)
Growth / Pooling Benefit	(312)	(333)	(333)	(333)	(333)
Enterprise Zone income	-	(216)	(225)	(225)	(225)
Prior Year Deficit/(Surplus)	222	218	218	-	-
Council Tax					
Council Tax	(5,813)	(6,185)	(6,301)	(6,395)	(6,462)
Council Tax Collection Fund (surplus) / deficit	64	(116)	46	-	-
Local Council Tax Support Grant - Babergh	(77)				
Local Council Tax Support Grant - Town & Parish Councils	(39)				
Total Funding	**(10,159)**	**(10,957)**	**(10,452)**	**(10,591)**	**(10,470)**

2022/23 Budget

5.8 In recent years the Council has tended to underspend the budget that has been set. The reasons for this have been reviewed and it has generally been due to additional income being received rather than expenditure proposals not being achieved.

5.9 Managers traditionally err on the side of caution when putting their budget proposals together, particularly in relation to income. Amalgamating these assumptions across the whole organisation has, in recent years, resulted in underspends at the year-end. The unintended consequence is that resources are committed during the budget process that could be used for other priorities or alternatively savings have to be made that are not actually needed.

5.10 For 2022/23, managers have looked to use stretching, but realistic assumptions when putting their budget proposals together across both expenditure and income. This should result in the overall outturn position being closer to the budget.

5.11 There is the risk that adopting the approach and events that happen during the year could result in an overspend position, but this will be monitored through the regular quarterly reporting to Cabinet and action taken if necessary. The Council has sufficient reserves to be able to manage that scenario should it come to fruition and would then be corrected when setting the budget for 2023/24.

5.12 The summary in Table 4 below shows the breakdown of the Council's net cost of service for 2022/23 (£10.430m) compared to 2021/22 (£10.016m), an increase of £414k.

5.13 The Council's 2022/23 gross expenditure is £33.5m and income is £23.1m giving a net cost of service of £10.4m. Bringing in the funding from business rates, council tax and government grants shows a net surplus of £527k for the 2022/23 budget, which will be transferred to the Strategic Priorities Reserve.

Table 4: General Fund Budget Summary 2022/23

Description	2021/22 Budget £000	2022/23 Budget £000	2021/22 to 2022/23 Movement £000
Expenditure			
Employees	8,230	9,983	1,753
Premises Costs	1,164	1,536	372
Supplies & Services	4,338	4,444	107
Transport Costs	307	352	45
Contracts	4,829	4,270	(559)
Transfer Payments	13,795	12,972	(823)
Income			
Grants and Contributions	(15,278)	(14,488)	789
Sales, Fees & Charges	(3,792)	(4,109)	(317)
Other income (incl. rental & PV panel income)	(1,604)	(1,771)	(167)
Net transfers to/(from) reserves	309	(545)	(854)
Net Service Expenditure	**12,299**	**12,645**	**345**
Recharge to HRA / Capital	(1,195)	(1,347)	(152)
Investment Income			
CIFCO - Net Interest Receivable	(2,180)	(2,169)	11
Pooled Funds - Net Income	(569)	(569)	-
Other interest receivable	(15)	(15)	-
Capital Financing Charges			
CIFCO - Interest Payable	380	380	-
Interest Payable - Other	30	60	30
MRP	1,266	1,445	179
Total Cost of Services	**10,016**	**10,430**	**414**
Funding:			
Government Grants			
New Homes Bonus	(835)	(802)	33
S31 Business Rates Grant	(1,486)	(1,486)	-
Services Grant	-	(147)	(147)
Rural Services Delivery Grant	(238)	(238)	(0)
Lower Tier Services Grant	(91)	(96)	(5)
Business Rates			
Baseline Business Rates less Levy	(1,555)	(1,555)	-
Levy			-
Growth / Pooling Benefit	(312)	(333)	(21)
Enterprise Zone income	-	(216)	(216)
Prior Year Deficit/(Surplus)	222	218	(4)
Council Tax			
Council Tax	(5,813)	(6,185)	(372)
Council Tax Collection Fund (surplus) / deficit	64	(116)	(181)
Local Council Tax Support Grant - Babergh	(77)		77
Local Council Tax Support Grant - Town & Parish Councils	(39)		39
Total Funding	**(10,159)**	**(10,957)**	**(798)**
Transfers to/from Reserves			
Climate Change & Biodiversity Reserve	143	-	
Strategic Priorities Reserve	-	527	
Shortfall / (Surplus) funding	**0**	**0**	**(384)**

2022/23 Budget Assumptions and Risks

5.14 Constructing a budget that runs to 13 months beyond when it was approved means that several assumptions have to be made about the conditions that are likely to exist over an extended period.

5.15 In calculating the 2022/23 budget, the following assumptions and amendments have been made, which highlight the key reasons for the changes from the current year to next year's proposed budget:

Staffing

- Increase in staff costs as a result of the Public Realm contract ceasing and moving to an in-house service during 2021/22 of £662k, offset by contract savings.
- Grant funding and reserves of £683k is being used to fund additional staffing costs in 2022/23.
- Additional staff costs of £155k for new roles are included in the base budget.
- 2% pay award for 2021/22 (still outstanding) and 2022/23, however this will depend on the agreement reached between the national employers' body and the relevant trade unions. This amounts to £189k.
- Incremental progression through grades to the value of £128k has been included.
- The vacancy management factor remains at 5%. The Council's vacancy rate as at 30th September 2021 was 17% and the average rate for 2021/22 to the end of November to date is 12%. However, this is considered to be a temporary position with many posts being recruited to, so no change is proposed. An adjustment of £86k has been made to the vacancy management factor to reflect 5% of the 2022/23 staffing budget.
- Pension fund assumptions
  - future rate contribution - 23%, no change from 2021/22.
  - increase of £84k to correct an historic position, partially offset by a 1% reduction agreed from the last triennial valuation of the fund. The overall position is a net increase of £22k.
  - The next triennial valuation is due as at 31 March 2022 and any changes to the employer contributions will take effect from 1 April 2023. It is anticipated that the funding position will have further improved at the next valuation date and therefore the Council's contributions could be reduced for the 3 years commencing 2023/24.

Premises

- Increase for property repairs of £11k.
- Increase to expenses for gas and electricity on the leisure centres of £259k to move to a green tariff. Babergh is making the payments but will be fully reimbursed by Abbeycroft.
- £55k built into the budget for business rates on a car park in Sudbury.
- Increase in the rent payable budget for the Guaranteed Rent Scheme of £53k.

Supplies & Services

- £45k saving from a reduction of the Endeavour House floorplate assumed in the second half of the year.
- £93k additional cost for professional and consultancy fees for Assets and Investments.
- £28k cost for well-being projects.
- Additional costs of £22k included for equipment, tools and materials from bringing the public realm contract back in house has been offset by reductions in equipment costs due to short-term car parking charges not being introduced.
- CCTV contract from West Suffolk is an additional £30k cost, but is offset by a contribution from Sudbury and Hadleigh Town Councils.

Transport

- Fuel costs increase of £56k due to the Public Realm contract being brought back in house.
- Increase in car mileage and essential user allowances £32k.
- Reduction in budget for HVO fuel costs £35k.
- Removal of £8k budget for fuel no longer required.

Contracts

- Contracts – general increases totalling £51k that includes Leisure, SRP and some ICT contracts.
- Reduction of £852k for the Public Realm contract being brought in-house.
- Major contracts – Waste increase of £242k due to a 4% inflationary increase on the contract with Serco and property/subscriber growth.

Transfer Payments

- Reduction of £823k is due to the migration of Housing Benefit customers to Universal Credit.

Income

- Reduction in Grants and Contributions of £820k from Housing Benefits migration to Universal Credit.
- A reduction in grants of £414k for Covid grant received in 2021/22.
- An increase in grants for Housing Solutions of £149k and an increase in other income of £51k.
- Reimbursement of electricity and gas by Abbeycroft Leisure increases income by £259k.
- Contribution from Sudbury and Hadleigh Town Councils of £18k for CCTV costs.
- Car parking income projections have been reduced by £22k from the 2021/22 budget due to short-term charges being put on hold.

- Increase of £2.00 to Garden Waste Subscription to fund the contractual inflationary increase for this service and an increase in subscriber numbers generating an additional £110k.
- Increase in income for planning and building control based on expected demand totalling £190k.
- £43k increase in recycling credit based on latest tonnage rates.
- Additional income of £50k expected for New Burden payment from migration to the national Local Land Charges Register. However, a reduction in income of £17k is expected for 2022/23 from ceasing charging for Local Land Charges.
- Additional income of £23k for civil parking enforcement.
- Anticipated increase in income totalling £73k for charges from food and safety, street naming and numbering, public rights of way, rents, emptying of dog and litter bins, waste, licensing, and land charges.

Capital Financing Charges and Investment Income

- An increase to the Council's borrowing requirements to fund the Capital Programme in 2022/23 and the end of a Minimum Revenue Provision (MRP) 'holiday' has resulted in additional MRP of £179k.
- The Council is continuing to take advantage of low short-term interest rates for both CIFCO and borrowing for the capital programme, resulting in additional costs of £30k.
- With CIFCO now fully invested the budget includes just a small reduction for the annuity nature of loans to the company of £11k. CIFCO continues to provide income in excess of the cost to the Council of taking out the loans.

Recharges to the Housing Revenue Account (HRA) and Capital

- These are assessed each year as part of the budget process and are currently expected to generate additional income of £152k to the General Fund.

5.16 The charts below show the breakdown of expenditure and income excluding transfer payments and grant income for Housing Benefits. Chart 5 below shows how the £20.6m service expenditure is allocated across the services. Chart 6 shows the total budget expenditure of £22.7m by expenditure type. Chart 7 shows the breakdown of total income of £23.2m and Chart 8 shows the breakdown of service income (£7.3m).

Chart 5: Expenditure by Service Area (excl. housing benefits) 2022/23 (£20.6m)

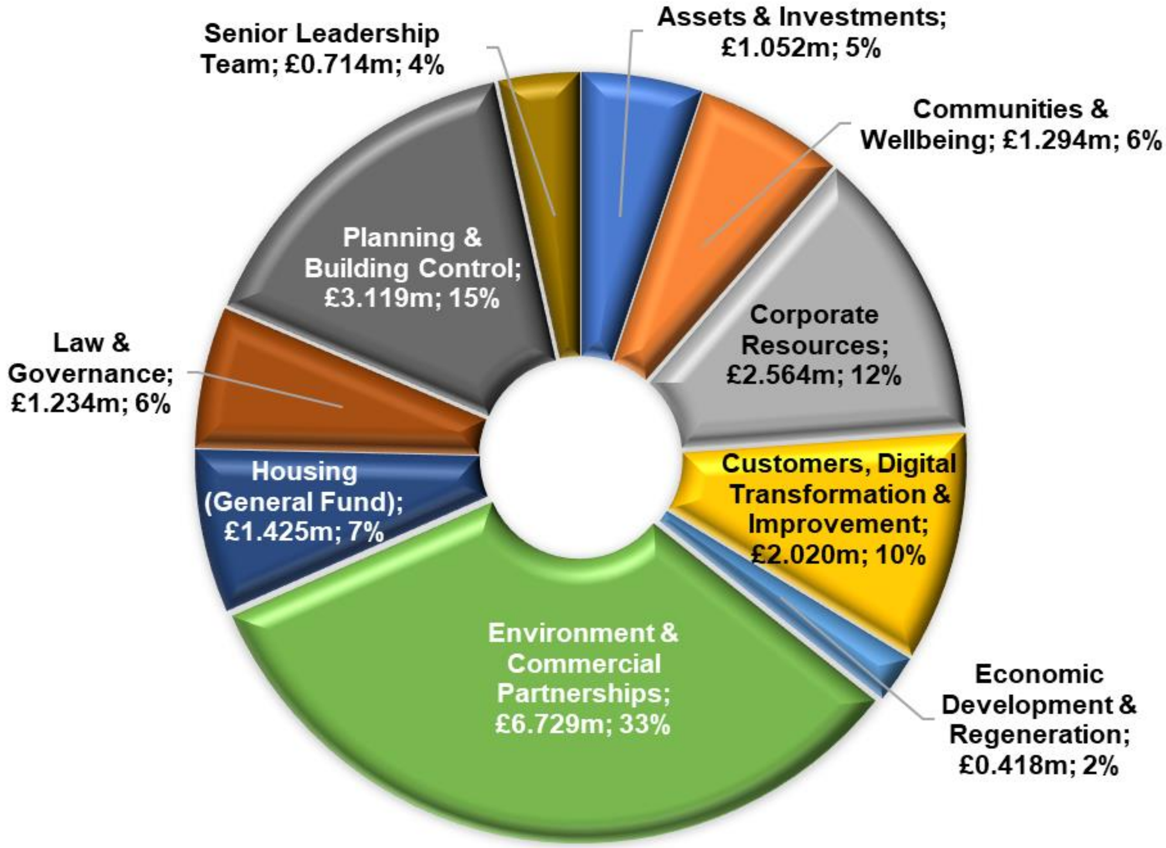


Chart 6: Expenditure by Type (excl. housing benefits) 2022/23 (£22.7m)

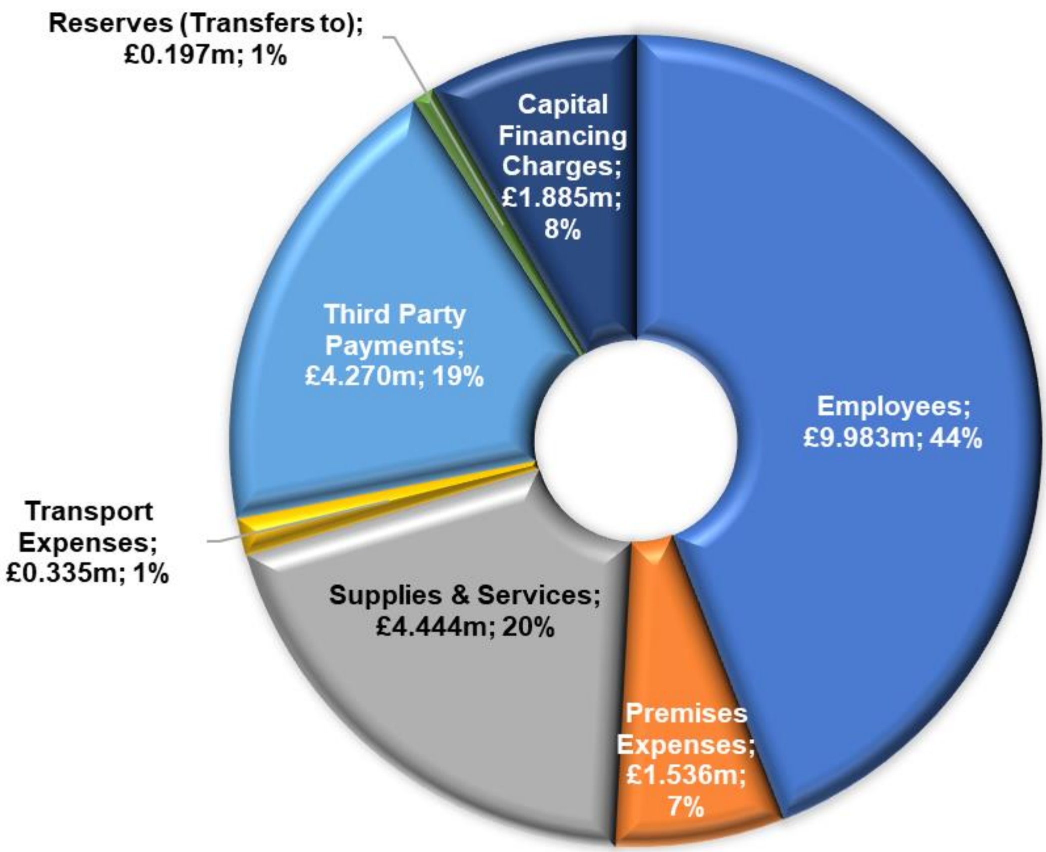


Chart 7: Total Income (excl. housing benefits) 2022/23 (£23.2m)

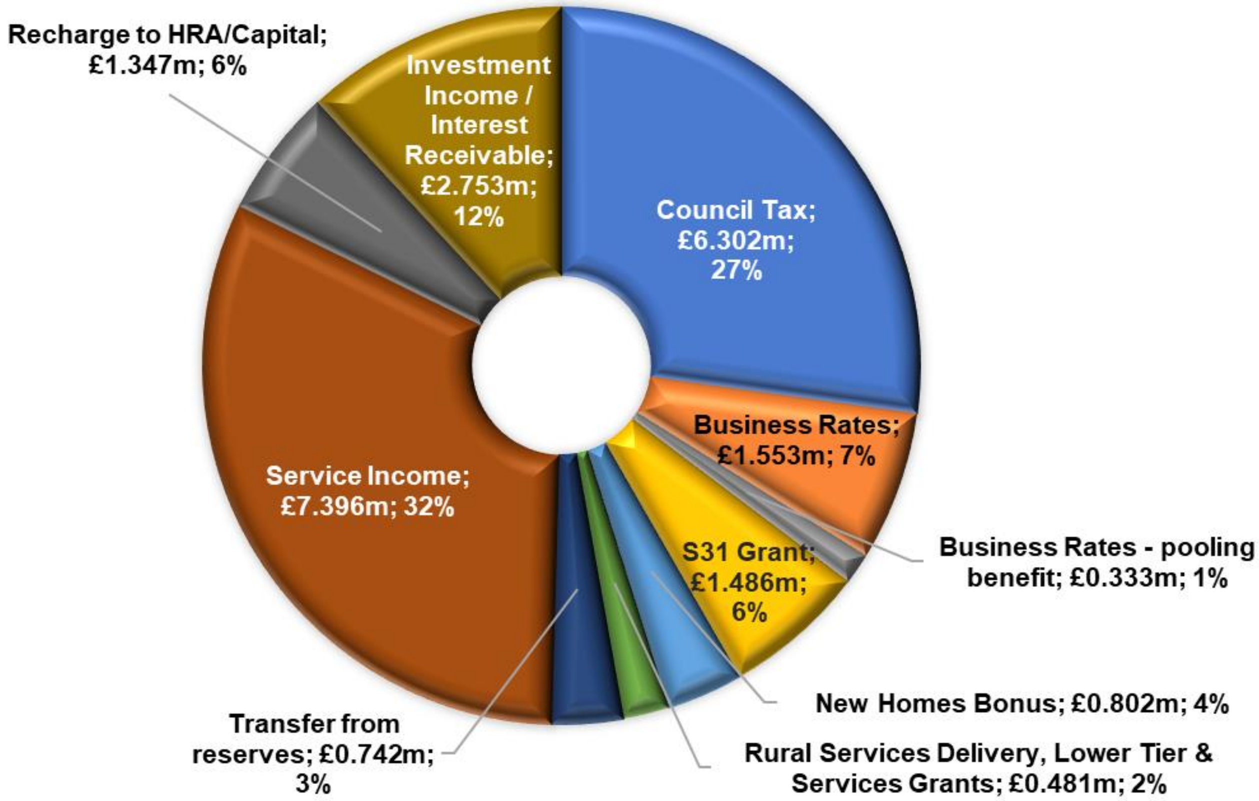
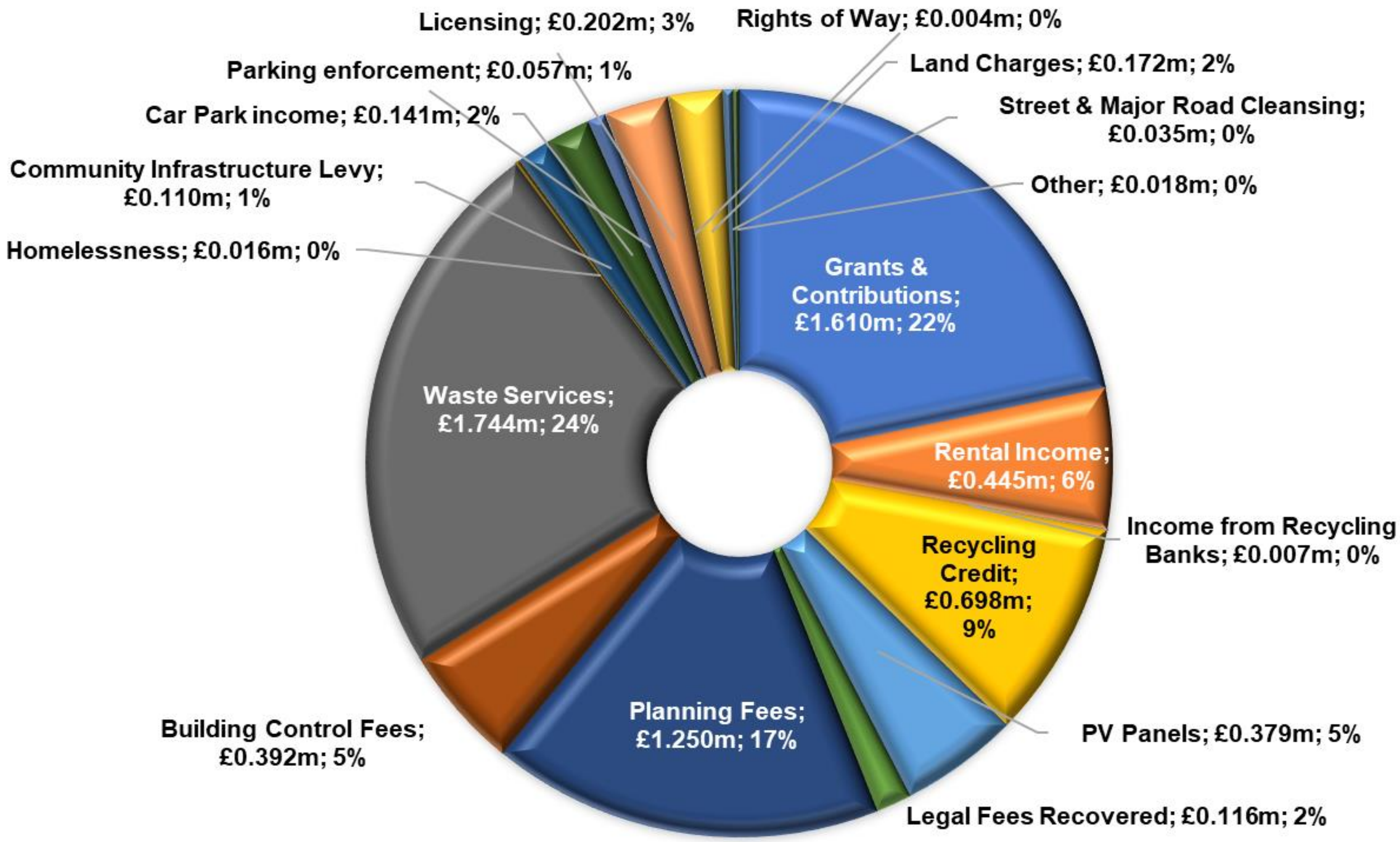


Chart 8: Service Income (excl. housing benefits) 2022/23 (£7.4m)



Reserves

5.17 Section 43 of the Local Government Finance Act 1992 requires that, when setting the budget for the forthcoming year the Council must have regard to the level of reserves needed to provide enough resources to finance estimated future expenditure plus any appropriate allowances that should be made for contingencies.

5.18 Reserves only provide one-off funding, so the Council should avoid using reserves to meet regular recurring financial commitments.

5.19 In 2022/23 the Council is using £761k from earmarked reserves against specific service expenditure. This includes £64k for Locality Budgets from the Strategic Priorities reserve, £20k for planning legal costs and £100k for the Joint Local Plan from planning reserves and £577k for staff costs.

5.20 The Council is also transferring £217k to earmarked reserves in 2022/23 to fund future years' specific service expenditure, made up of £20k to the elections reserve and £197k to planning reserves.

5.21 A transfer of £200k from the General Fund Reserve to the Wellbeing reserve to provide additional grant funding to support community projects is also included. This leaves a balance of £1m in the General Fund Reserve

5.22 Table 5 below shows the earmarked reserves balance from 31 March 2021, forecast through to 31 March 2023.

Table 5: Reserves

Earmarked Reserve	Balance 31/03/2021 £'000	Forecast Balance 31/03/22 £'000	Transfers £'000	Budget Transfer to £'000	Budget Transfer From £'000	Forecast Balance 31/03/23 £'000
Business Rates & Council Tax	6,106	1,642				1,642
Business Rates Retention Pilot (BRRP)	862	841			(17)	824
Carry Forwards	571	-				-
Climate Change and Biodiversity	200	343			(21)	322
Community Housing Fund	178	153			(29)	124
Commuted Maintenance Payments	820	842				842
COVID 19	1,171	705			(178)	528
Elections Equipment	35	35				35
Elections Fund	40	60		20		80
Government Grants	164	169			(23)	147
Homelessness	159	184			(89)	94
Joint Local Plan	100	100			(100)	-
Neighbourhood Planning Grants	49	94		157	(29)	222
Planning (Legal)	323	323			(20)	303
Planning Enforcement	93	93		40	-	133
Rough Sleepers	26	26				26
Strategic Planning	40	40				40
Strategic Priorities	1,147	607		527	(128)	1,005
Temporary Accommodation	145	131			(43)	87
Waste	87	87			(35)	53
Well-being	253	197	200		(49)	347
Total Earmarked Reserves	**12,569**	**6,672**	**200**	**743**	**(761)**	**6,854**
General Fund Reserve	1,200	1,200	(200)			1,000

Medium Term Projections

5.23 Table 6 below shows the estimated cost of services by service area and the forecast position for the period 2023/24 to 2025/26.

5.24 The position for 2022/23 is a £527k surplus followed by projected deficits of £982k, £647k and £669k to give a cumulative shortfall of £2.298m up to 2025/26.

5.25 Over the next three years the net cost of service increases by £2.3m, mainly due to pay awards, increments, capital financing charges and inflationary increases on major contracts. The estimated tax base growth over the same period (£277k) only covers 12% of this increase and the Council loses £630k in NHB funding and £243k in other grants. After the £527k surplus in 2022/23, this leaves a budget gap of £2.3m.

5.26 Over the three-year period from 2023/24 the Council's cumulative deficit of £2.3m must be addressed. The Council will need to deliver significant income or savings, with the key objective to become self-financing and to have more than enough funds to invest within the Council itself and across the district.

Table 6: Forecast Budget Gap 2023/24 - 2025/26

Description	2022/23 Budget £000	2023/24 Forecast £000	2024/25 Forecast £000	2025/26 Forecast £000
Strategic Property	226	156	166	146
The Councils' Companies	93	96	99	103
Total Assets & Investments	**319**	**252**	**265**	**249**
Communities	627	651	667	684
Leisure	260	265	270	276
Total Communities & Well-Being	**888**	**917**	**938**	**959**
Finance, Commissioning & Procurement	1,589	1,616	1,669	1,724
Human Resources & Organisational Development	461	549	564	581
Total Corporate Resources	**2,050**	**2,165**	**2,234**	**2,305**
Communications	177	183	189	196
Customer Operations	538	561	584	607
ICT	913	929	946	965
Strategic Policy, Performance and Insight	282	407	423	440
Total Customers, Digital Transformation & Improvement	**1,910**	**2,080**	**2,142**	**2,208**
Open for Business	305	338	351	364
Total Economic Development & Regeneration	**305**	**338**	**351**	**364**
Health & Safety, Business Continuity & Emergency Planning	177	201	207	212
Public Protection	596	625	653	683
Public Realm	1,629	1,586	1,648	1,700
Recycling, Waste & Fleet	1,212	1,248	1,284	1,330
Service Improvement	68	71	74	77
Total Environment & Commercial Partnerships	**3,681**	**3,730**	**3,866**	**4,003**
Housing Solutions	699	738	779	819
Total Housing	**699**	**738**	**779**	**819**
Electoral Services & Land Charges	94	97	105	113
Governance & Civic Off	353	370	387	406
Internal Audit, Risk & Data	85	87	90	93
Shared Legal Service	386	396	406	417
Total Law & Governance	**918**	**950**	**989**	**1,029**
Building Control	82	101	120	140
Chief Planning Officer	545	580	632	686
Strategic Planning	555	559	672	576
Total Planning & Building Control	**1,182**	**1,240**	**1,424**	**1,402**
Senior Leadership Team	692	718	744	772
Total Senior Leadership Team	**692**	**718**	**744**	**772**
Net Service Expenditure	**12,645**	**13,128**	**13,731**	**14,110**
Recharge to HRA / Capital	(1,347)	(1,374)	(1,401)	(1,428)
Investment Income	(2,753)	(2,742)	(2,728)	(2,720)
Capital Financing Charges	1,885	2,422	2,616	2,807
Total cost of services	**10,430**	**11,435**	**12,219**	**12,768**
Total Funding	**(10,957)**	**(10,452)**	**(10,591)**	**(10,470)**
Transfers to/from Reserves				
Strategic Priorities Reserve	527	-		
Business Rates & Council Tax Reserve	-	(218)		
Shortfall / (Surplus) funding	**0**	**764**	**1,629**	**2,298**
2022/23 surplus	-	-	-	-
2023/24 annual deficit		982	982	982
2024/25 annual deficit			647	647
2025/26 annual deficit				669
Total shortfall in funding / (Surplus Funds)	**(527)**	**982**	**1,629**	**2,298**

5.27 The Council acknowledges that it can still benefit from further work across the organisation to create efficiencies through driving down cost and cutting out work that does not add value. Opportunities exist in terms of improving digitisation and automation of some processes. A corporate programme of work will be developed early in 2022 to enable some broad-based numbers to be put against a 2-3 year programme.

5.28 These forecasts are based on no council tax Band D increase in 2023/24 to 2025/26. The Council could choose to increase council tax by the current maximum amount allowed of £5 per annum. The level of council tax that would be raised and the consequent shortfall for each year for no increase and a £5 increase every year is shown in Table 7 and Table 8 below.

Table 7: No increase in Council Tax 2023/24 to 2025/26

Description	2022/23 Budget £000	2023/24 Forecast £000	2024/25 Forecast £000	2025/26 Forecast £000
Council Tax	(6,185)	(6,301)	(6,395)	(6,462)
Total shortfall in funding / (Surplus Funds)	**(527)**	**982**	**1,629**	**2,298**

Table 8: £5 increase in Council Tax 2023/24 to 2025/26

Description	2022/23 Budget £000	2023/24 Forecast £000	2024/25 Forecast £000	2025/26 Forecast £000
Council Tax	(6,185)	(6,478)	(6,756)	(7,009)
Total shortfall in funding / (Surplus Funds)	**(527)**	**805**	**1,268**	**1,751**

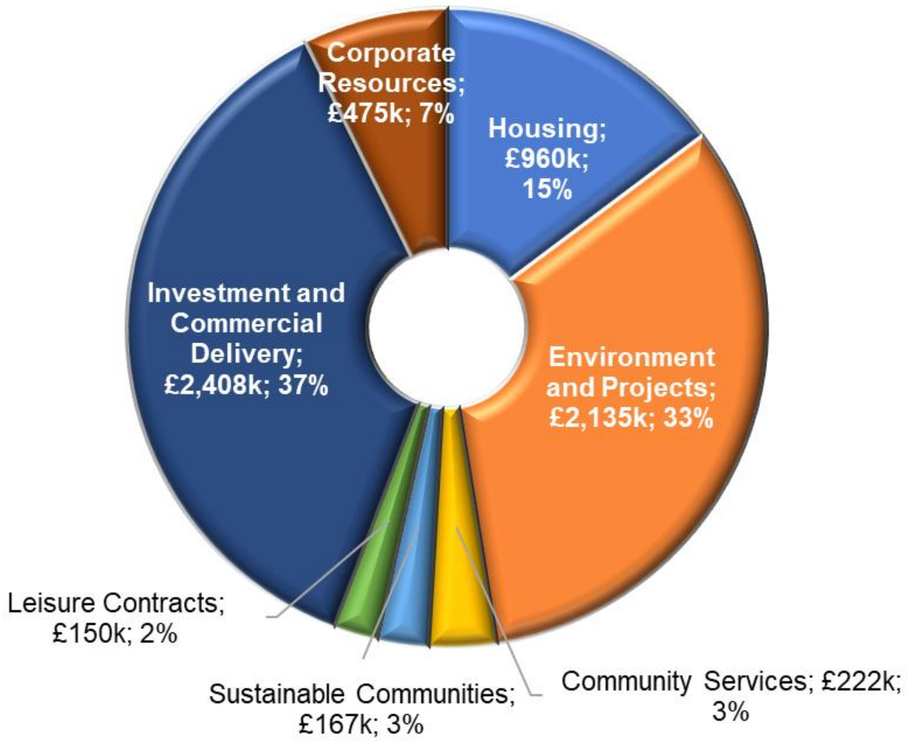
6. FEES AND CHARGES

6.1 Fees and charges have been reviewed by budget holders as part of this budget setting process and a separate report was presented to Cabinet in January 2022. The impact of the charges agreed have been built into the budget for 2022/23.

7. CAPITAL PROGRAMME

7.1 The detailed Capital Programme is attached at Appendix A. The new capital allocation for the 2022/23 budget totals £6.5m and is shown in Chart 9 below. Along with an anticipated carry forward of £16m at the end of the current financial year, the total capital programme for next year could be in the region of £22.5m.

Chart 9: Capital Programme 2022/23



7.2 The most significant items for new planned spend are the replacement of the Council's refuse freighters in 2022/23, funding for the proposed Commercial Workspace Development at Hadleigh and for Babergh Growth to undertake housing developments at sites already in progress or ones currently under negotiation for purchase over the next 3 years as well as purchasing additional land for further development. Funding is also included to continue the range of annual capital initiatives such as housing and community grants.

7.3 Following review by Joint Audit and Standards Committee in January 2022, the Capital and Investment Strategy will have further details of the Council's borrowing capacity and the impacts of the capital programme, this will be presented to Council in February along with the final budget report.

8. LINKS TO THE CORPORATE PLAN

8.1 Ensuring that the Council makes best use of its resources is what underpins the ability to achieve the priorities set out in the Corporate Plan and aligns to the corporate outcomes against a backdrop of efficiency, and sound financial robustness. The underlying principle of the Medium-Term Financial Strategy is to be financially sustainable.

9. FINANCIAL IMPLICATIONS

9.1 These are detailed in the report.

10. LEGAL IMPLICATIONS

10.1 The provisions of the Local Government Finance Act 1992 (LGFA 1992) requires the Council to set a balanced budget with regard to the advice of its Chief Finance Officer (Section 151) in relation to the level of reserves and the risks associated with the proposed budget.

11. RISK MANAGEMENT

11.1 This report is most closely linked with the Council's Significant Risk No. 13 – We may be unable to respond in a timely and effective way to financial demands and also Corporate Risk No. 5E05 – if the Finance Strategy is not in place with a balanced position over the medium term the Councils will not be able to deliver the core objectives and service delivery may be at risk of not being delivered. Other key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
If Government funding does not keep pace with demand and other pressures, then the Council will have to consider how it continues to fund existing service levels	2 - Unlikely	3 - Bad	The Council will continue to lobby Government both directly and via networks such as the District Councils' Network (DCN) and the Rural Services Network (RSN)
If demand pressures and cost inflation exceed forecasts, then the Council could be in an overspend position at the year-end	2 - Unlikely	2 - Noticeable	Service areas will identify and analyse data that enable the best possible forecasts to be determined and act where possible to contain costs in year to offset the impact
If income levels are below forecast, then the Council could be in an overspend position at the year-end	2 - Unlikely	2 - Noticeable	Service areas will identify and analyse data that enable the best possible forecasts to be determined and act where possible to generate income to anticipated levels

If the financial impact of COVID19 continues over an extended period, then the Council will need to use and then replenish available reserves	2 - Unlikely	2 - Noticeable	Continue to monitor the situation closely to assess whether the COVID reserve is sufficient to meet any funding gap
If borrowing costs exceed projections, then the Council may need to fund the excess costs from reserves at year-end	2 - Unlikely	2 - Noticeable	Discussions with the Council's treasury management adviser on interest rates to be used when setting the budgets
If capital projects exceed budgeted figures, then the Council will achieve less with the resources available	2 - Unlikely	2 - Noticeable	Capital projects will include an appropriate level of contingency that will cover potential increases in costs

12. CONSULTATIONS

12.1 Consultations have taken place with Assistant Directors, Corporate Managers and other Budget Managers as appropriate.

13. EQUALITY ANALYSIS

13.1 Assistant Directors and Corporate Managers will undertake an Equality Impact Assessment for any individual budget proposals that have the potential to impact any of the protected characteristics.

14. ENVIRONMENTAL IMPLICATIONS

14.1 Assistant Directors, Corporate Managers and other Budget Managers will continue to consider the environmental impact of their budgets and take the opportunity to reduce their carbon footprint as opportunities arise.

14.2 In support of the Council's commitment to be Carbon Neutral by 2030, several initiatives have and are being undertaken from a combination of the Council's own resources and those secured from external sources. Some of these are set out below.

14.3 A solar multi-function carport to generate electricity is being installed at Kingfisher Leisure Centre, Sudbury. The CO_2 savings are 4.4 times the volume of the Royal Albert Hall and it will generate enough power to supply 24 average homes in Sudbury.

14.4 The Council's leisure centres have been successfully transferred to certified low carbon tariffs for electricity use.

14.5 We have also installed a new pool water cleaning system at Kingfisher Leisure Centre which is expected to reduce annual CO_2 emissions by between 6.4 and 8.6 tonnes per annum and reduce combined gas and electricity consumption by 1.1% - 1.5%.

14.6 £1.4m of funding has been secured from the Government's Public Sector Decarbonisation Fund for carbon-saving measures at council leisure centres and other buildings including solar panels and air source heat pumps.

15. APPENDICES

Title	Location
Appendix A – Capital Programme	Attached
Appendix B - Budget, Funding and Council Tax Requirements and Robustness of Estimates and Adequacy of Reserves	Attached
Appendix C - Budget Book 2022/23	Attached

16. BACKGROUND DOCUMENTS

Provisional Local Government Finance Settlement

General Fund Financial Monitoring 2021/22 – Quarter 2 - BCa/21/29

APPENDIX A

CAPITAL PROGRAMME 2022/23 TO 2025/26

Babergh District Council - General Fund Capital Budgets 2022/23 to 2025/26	2021/22 Anticipated C/Fwds (A) £'000	2022/23 Budget for Approval (B) £'000	2022/23 Total Spend Required (A + B) £'000	2023/24 Forecast £'000	2024/25 Forecast £'000	2025/26 Forecast £'000
Housing						
Mandatory Disabled Facilities Grant	747	**760**	1,507	760	760	760
Renovation/Home Repair Grants	50	**100**	150	100	100	100
Empty Homes Grant	222	**100**	322	100	100	100
Grants for Affordable Housing	200	**0**	200	0	0	0
Total Housing	**1,219**	**960**	**2,179**	**960**	**960**	**960**
Environment and Projects						
Replacement Refuse Freighters - Joint Scheme	0	**2,060**	2,060	0	231	0
Bins	0	**75**	75	75	75	75
Total Environment and Projects	**0**	**2,135**	**2,135**	**75**	**306**	**75**
Economic Development and Regeneration						
Belle Vue Refurbishment / Replacement	2,000	0	2,000	0	0	0
Total Economic Development and Regeneration	**2,000**	**0**	**2,000**	**0**	**0**	**0**
Communities and Public Access						
Vehicle and Plant Renewals	0	**100**	100	0	0	0
Planned Maintenance / Enhancements-Car Parks	0	**7**	7	45	5	5
Pin Mill Hard and toilet refurbishment	0	**115**	115	0	0	0
Total Community Services	**0**	**222**	**222**	**45**	**5**	**5**
Sustainable Communities						
Play equipment	136	**50**	186	50	50	50
Community Development Grants	55	**117**	172	117	117	117
Total Sustainable Communities	**191**	**167**	**358**	**167**	**167**	**167**
Leisure Contracts						
Kingfisher Leisure Centre Improvements	0	**100**	100	100	100	100
Hadleigh Leisure Improvements	0	**50**	50	50	50	50
Total Leisure Contracts	**0**	**150**	**150**	**150**	**150**	**150**
Investment and Commercial Delivery						
Planned Maintenance / Enhancements - Corporate Buildings	0	**330**	330	30	30	30
Leases on Property (under new IFRS16)	0	**439**	439	0	0	0
Borehamgate	0	**64**	64	64	64	64
Strategic Investment Fund	2,906	**0**	2,906	0	0	0
A1071 Roadside Commercial Workspace Development	0	**1,075**	1,075	1,075	0	0
Babergh Growth	0	**500**	500	3,750	3,750	
Regeneration Fund	6,305	**0**	6,305	0	0	0
Regeneration Fund - HQ Sites	3,160	**0**	3,160	0	0	0
Total Investment and Commercial Delivery	**12,371**	**2,408**	**14,779**	**4,919**	**3,844**	**94**
ICT & Customer						
Replacement Finance Management System	0	**325**	325	75	0	0
ICT - Hardware / Software costs	200	**150**	350	150	150	150
Total Corporate Resources	**200**	**475**	**675**	**225**	**150**	**150**
TOTAL General Fund Capital Spend	**15,981**	**6,517**	**22,497**	**6,541**	**5,582**	**1,601**

GF Financing						
External Grants and contributions	747	**760**	1,507	760	760	760
Capital Receipts	1,100	**0**	1,100	0	0	0
Borrowing	14,134	**5,757**	19,890	5,781	4,822	841
Total GF Capital Financing	**15,981**	**6,517**	**22,497**	**6,541**	**5,582**	**1,601**

APPENDIX B

Budget and Council Tax Resolutions 2022/23

Summary of Budget 2022/23

	2022/23 Budget Requirement £	2022/23 Council Tax at Band D £	2021/22 Budget Requirement £
Babergh District Council			
General Fund Budget Requirement District Council Purposes	8,599,925	246.57	7,768,914
Estimated Parish/Town Council Precepts (net of Council Tax Support Scheme Grant)	3,124,740	89.59	2,942,895
	11,724,665	**336.17**	**10,711,809**
Settlement Funding from Government	(2,034,950)	(58.34)	(1,798,000)
Rural Services Delivery Grant	(237,960)	(6.82)	(237,959)
Services Grant	(147,440)	(4.23)	-
Lower Tier Services Grant	(95,940)	(2.75)	(91,081)
Local Council Tax Support Grant	-	-	(115,290)
Adjustment for anticipated deficit on Business Rates Collection Fund	218,020	6.25	222,476
Adjustment for anticipated surplus on Council Tax Collection Fund	(116,350)	(3.34)	64,320
Babergh's basic amount under section 33 of the 1992 Local Government Act	**9,310,045**	**266.93**	**8,756,275**
LESS: ***Estimated*** Parish/Town Council Precepts	(3,124,740)	(89.59)	(2,942,895)
Basic amount under s. 34 of the 1992 Act for dwellings to which no special items relate. (see section 3 below)	**6,185,305**	**177.34**	**5,774,370**
Anticipated Suffolk County Council precept requirement (see section 7 below)	50,186,979	1,438.92	46,717,035
Anticipated Police and Crime Commissioners Requirement (see section 7 below)	8,638,639	247.68	7,947,674
Estimated **Basic amount for areas where there are no special items.**	**65,010,923**	**1,863.94**	**60,439,078**

APPENDIX B

Council Tax Resolution 2022/23

1. It is a requirement for the billing authority to calculate a council tax requirement for the year as opposed to its budget requirement.

2. It be noted that the Council, as delegated to the Section 151 Officer, calculated the taxbase**:**

   a) for the whole Council area as 34,878.23 and,

   b) for dwellings in those parts of its area to which a Parish precept relates as further detailed in Appendix B.

3. The council tax requirement for the Council's own purposes for 2022/23 (excluding Parish precepts) is £6,185,305.

4. That the following amounts be calculated for the year 2022/23 in accordance with Sections 31 to 36 of the Act:

(a)	Being the aggregate of the amounts which the Council estimates for the items set out in Section 31A)(2) of the Act taking into account all precepts issued to it by parish councils (gross expenditure)	55,312,949
(b)	Being the aggregate of the amounts which the Council estimates for items set out in Section 31(A)(3) of the Act (gross income)	-46,002,904
(c)	Being the amount by which the aggregate at 3 a) above exceeds the aggregate at 3 b) above, calculated by the Council, in accordance with Section 31A(4) of the Act, as its Council Tax requirement for the year. (Item R in the formula in Section 31A(4) of the Act) (net expenditure)	9,310,045
(d)	Being the amount at 3 c) above (item R) all divided by item T (2 above), calculated by the Council, in accordance with Section 31B(1) of the Act, as the basic amount of its Council Tax for the year (including Parish precepts) (average council tax)	266.93
(e)	Being the aggregate amount of all special items (Parish precepts) referred to in Section 34(1) of the Act	3,124,740
(f)	Being the amount at 3 (d) above less the result given by dividing the amount at 3 e) above by item T (2 above) calculated by the Council, in accordance with Section 34(2) of the Act, as the basic amount of its Council Tax for the year for dwellings in those parts of its area to which no Parish precept relates (basic council tax)	177.34

5. To note that Suffolk County Council and the Police and Crime Commissioner have issued precepts to the Council in accordance with section 40 of the Local Government Finance Act 1992 for each category of dwellings in the Council's area as indicated in Section 7 below.

6. That the Council in accordance with Sections 30 and 36 of the Local Government Finance Act 1992, hereby sets the aggregate amounts shown in the table below and further in Appendix B as the amounts of council tax for 2022/23 for each part of its area and for each of the categories of dwellings.

7. Since the Cabinet meeting on 7 February 2021, the precept levels of other precepting bodies have been received. These are detailed below;

a) Suffolk County Council

Suffolk County Council has set their precept at £50,186,982.71. This results in a Band D council tax of £1,438.92.

b) Suffolk Police and Crime Commissioner

The Police and Crime Commissioner has set their precept at £8,638,640. This results in a Band D council tax of £247.68.

c) Babergh District Council

The General Fund council tax requirement for Babergh District Council is based on an increase in council tax from £173.86 to £177.34 for a Band D property.

d) Aggregated council tax requirement

The aggregated council tax requirement for Suffolk County Council, Suffolk Police and Crime Commissioner and Babergh District Council results in a Band D council tax of £1,863.94.

	Suffolk County Council	**Police and Crime Commissioner**	**Babergh District Council**	**Aggregated Council Tax requirement**
Valuation Bands	**£**	**£**	**£**	**£**
A	959.28	165.12	118.23	**1,242.63**
B	1,119.16	192.64	137.93	**1,449.73**
C	1,279.04	220.16	157.64	**1,656.84**
D	1,438.92	247.68	177.34	**1,863.94**
E	1,758.68	302.72	216.75	**2,278.15**
F	2,078.44	357.76	256.16	**2,692.36**
G	2,398.20	412.80	295.57	**3,106.57**
H	2,877.84	495.36	354.68	**3,727.88**

8. The Town and Parish Council Precepts for 2022/23 are detailed further in Appendix B and total £3,124,740. The increase in the average Band D for Town and Parish Councils is 1.79% and results in an average Band D council tax figure of £89.59 for 2022/23.

APPENDIX B

Council Taxbase for Parishes and District – 2022/23

PARISH	COUNCIL TAX BASE 2021/22	COUNCIL TAX BASE 2022/23	% Change
Acton	627.19	687.08	9.5%
Aldham	82.93	88.85	7.1%
Alpheton	108.03	111.95	3.6%
Erwarton	54.06	62.55	15.7%
Assington	213.14	238.67	12.0%
Belstead	106.97	109.81	2.7%
Bentley	342.87	361.81	5.5%
Bildeston	386.73	390.16	0.9%
Boxford	535.54	553.31	3.3%
Boxted	50.23	50.59	0.7%
Brantham	870.79	944.08	8.4%
Brent Eleigh	80.33	89.62	11.6%
Brettenham	132.62	134.82	1.7%
Bures St Mary	399.87	406.61	1.7%
Burstall	98.72	100.94	2.2%
Capel St Mary	1,189.76	1,280.73	7.6%
Chattisham / Hintlesham	347.18	363.04	4.6%
Chelmondiston	398.04	411.92	3.5%
Chelsworth	84.31	88.08	4.5%
Chilton	147.44	182.18	23.6%
Cockfield	407.04	449.89	10.5%
Copdock & Washbrook	442.69	461.39	4.2%
East Bergholt	1,113.52	1,123.89	0.9%
Edwardstone	165.46	169.28	2.3%
Elmsett	320.72	328.12	2.3%
Freston	55.30	53.64	-3.0%
Glemsford	1,247.34	1,295.89	3.9%
Great Cornard	2,784.00	2,862.93	2.8%
Great Waldingfield	603.67	636.45	5.4%
Great Wenham	54.43	57.83	6.2%
Groton	130.57	136.26	4.4%
Hadleigh	2,876.53	2,964.02	3.0%
Harkstead	123.14	128.15	4.1%
Hartest	230.30	238.57	3.6%
Higham	74.69	74.91	0.3%
Hitcham	293.62	311.61	6.1%
Holbrook	706.18	722.34	2.3%
Holton St Mary	108.24	112.93	4.3%

PARISH	COUNCIL TAX BASE 2021/22	COUNCIL TAX BASE 2022/23	% Change
Kersey	178.78	189.02	5.7%
Kettlebaston	38.43	39.71	3.3%
Lavenham	864.81	920.73	6.5%
Lawshall	383.45	415.47	8.4%
Layham	249.67	254.56	2.0%
Leavenheath	578.07	588.87	1.9%
Lindsey	85.36	94.14	10.3%
Little Cornard	143.52	143.22	-0.2%
Little Waldingfield	151.08	160.02	5.9%
Little Wenham	19.99	19.87	-0.6%
Long Melford	1,539.51	1,604.05	4.2%
Milden	57.54	57.52	0.0%
Monks Eleigh	251.32	253.30	0.8%
Nayland with Wissington	526.22	541.66	2.9%
Nedging with Naughton	178.03	190.10	6.8%
Newton	225.28	232.39	3.2%
Pinewood	1,402.45	1,419.59	1.2%
Polstead	388.47	400.77	3.2%
Preston St Mary	103.55	110.70	6.9%
Raydon	222.92	266.22	19.4%
Semer	67.71	67.15	-0.8%
Shelley	32.18	32.95	2.4%
Shimpling	192.18	198.73	3.4%
Shotley	752.75	768.18	2.0%
Somerton	39.57	39.88	0.8%
Sproughton	598.65	672.36	12.3%
Stanstead	159.67	167.13	4.7%
Stoke by Nayland	291.61	301.32	3.3%
Stratford St Mary	321.54	332.52	3.4%
Stutton	332.29	356.82	7.4%
Sudbury	4,301.99	4,437.62	3.2%
Tattingstone	230.13	236.05	2.6%
Thorpe Morieux	126.98	126.49	-0.4%
Wattisham	46.24	46.07	-0.4%
Whatfield	136.04	139.61	2.6%
Wherstead	115.44	152.63	32.2%
Woolverstone	109.53	115.91	5.8%
TOTAL	**33,437.14**	**34,878.23**	**4.3%**

APPENDIX B

Precepts and Council Tax Band D for Parishes

Parish	2021/22 Parish Precept	Tax Base	Council Tax Band D	2021/22 Parish Precept	Tax Base	Council Tax Band D	Increase / Decrease (-)
	£		£	£		£	£
Acton	45,000.00	627.19	71.75	49,300.00	687.08	71.75	0.00
Aldham	1,231.00	82.93	14.84	1,268.00	88.85	14.27	-0.57
Alpheton	5,412.00	108.03	50.10	6,009.00	111.95	53.68	3.58
Erwarton	-	54.06	-	-	62.55	-	0.00
Assington	10,000.00	213.14	46.92	10,000.00	238.67	41.90	-5.02
Belstead	7,350.00	106.97	68.71	7,350.00	109.81	66.93	-1.78
Bentley	14,500.00	342.87	42.29	14,500.00	361.81	40.08	-2.21
Bildeston	26,425.00	386.73	68.33	27,750.00	390.16	71.12	2.79
Boxford	39,178.00	535.54	73.16	41,247.00	553.31	74.55	1.39
Boxted	400.00	50.23	7.96	400.00	50.59	7.91	-0.05
Brantham	48,585.00	870.79	55.79	53,728.00	944.08	56.91	1.12
Brent Eleigh	2,350.00	80.33	29.25	2,700.00	89.62	30.13	0.88
Brettenham	4,623.80	132.62	34.87	5,621.25	134.82	41.69	6.82
Bures St Mary	30,435.00	399.87	76.11	30,435.00	406.61	74.85	-1.26
Burstall	7,361.74	98.72	74.57	7,361.74	100.94	72.93	-1.64
Capel St Mary	94,554.00	1,189.76	79.47	103,406.00	1,280.73	80.74	1.27
Chattisham	2,087.40	83.28	25.06	2,664.64	86.48	30.81	5.75
Chelmondiston	26,829.00	398.04	67.40	28,170.00	411.92	68.39	0.99
Chelsworth	3,000.00	84.31	35.58	1,250.00	88.08	14.19	-21.39
Chilton	11,500.00	147.44	78.00	14,210.00	182.18	78.00	0.00
Cockfield	45,251.14	407.04	111.17	50,015.00	449.89	111.17	0.00
Copdock & Washbrook	30,532.00	442.69	68.97	36,150.00	461.39	78.35	9.38
East Bergholt	157,979.00	1,113.52	141.87	158,052.00	1,123.89	140.63	-1.24
Edwardstone	5,995.00	165.46	36.23	6,133.00	169.28	36.23	0.00
Elmsett	10,400.00	320.72	32.43	10,640.00	328.12	32.43	0.00
Freston	2,575.00	55.30	46.56	2,575.00	53.64	48.01	1.45
Glemsford	99,364.00	1,247.34	79.66	104,678.00	1,295.89	80.78	1.12
Great Cornard	234,592.00	2,784.00	84.26	248,480.00	2,862.93	86.79	2.53
Great Waldingfield	60,000.00	603.67	99.39	63,000.00	636.45	98.99	-0.40
Great Wenham	-	54.43	-	-	57.83	-	0.00
Groton	4,375.00	130.57	33.51	4,566.00	136.26	33.51	0.00
Hadleigh	368,081.00	2,876.53	127.96	398,240.00	2,964.02	134.36	6.40
Harkstead	2,500.00	123.14	20.30	3,000.00	128.15	23.41	3.11
Hartest	12,404.00	230.30	53.86	12,764.00	238.57	53.50	-0.36
Higham	-	74.69	-	-	74.91	-	0.00
Hintlesham	6,614.60	263.90	25.06	8,521.41	276.56	30.81	5.75
Hitcham	7,267.00	293.62	24.75	8,183.00	311.61	26.26	1.51
Holbrook	31,000.00	706.18	43.90	31,930.00	722.34	44.20	0.30
Holton St Mary	8,016.00	108.24	74.06	6,816.00	112.93	60.36	-13.70

APPENDIX B

Precepts and Council Tax Band D for Parishes

Parish	2020/21 Parish Precept	Tax Base	Council Tax Band D	2021/22 Parish Precept	Tax Base	Council Tax Band D	Increase / Decrease (-)
	£		£	£		£	£
Kersey	9,533.00	178.78	53.32	10,080.00	189.02	53.33	0.01
Kettlebaston	2,662.00	38.43	69.27	2,750.00	39.71	69.25	-0.02
Lavenham	78,967.00	864.81	91.31	87,433.00	920.73	94.96	3.65
Lawshall	8,838.00	383.45	23.05	9,104.00	415.47	21.91	-1.14
Layham	11,000.00	249.67	44.06	11,500.00	254.56	45.18	1.12
Leavenheath	19,105.00	578.07	33.05	19,461.00	588.87	33.05	0.00
Lindsey	4,487.00	85.36	52.57	4,949.00	94.14	52.57	0.00
Little Cornard	7,000.00	143.52	48.77	7,940.00	143.22	55.44	6.67
Little Waldingfield	8,668.00	151.08	57.37	9,181.00	160.02	57.37	0.00
Little Wenham	-	19.99	-	-	19.87	-	0.00
Long Melford	145,000.00	1,539.51	94.19	151,080.00	1,604.05	94.19	0.00
Milden	943.79	57.54	16.40	962.65	57.52	16.74	0.34
Monks Eleigh	18,470.00	251.32	73.49	19,000.00	253.30	75.01	1.52
Nayland with Wissington	39,812.00	526.22	75.66	41,758.00	541.66	77.09	1.43
Nedging with Naughton	5,478.00	178.03	30.77	5,850.00	190.10	30.77	0.00
Newton	10,518.00	225.28	46.69	13,625.97	232.39	58.63	11.94
Pinewood	163,078.00	1,402.45	116.28	165,071.00	1,419.59	116.28	0.00
Polstead	19,500.00	388.47	50.20	22,500.00	400.77	56.14	5.94
Preston St Mary	5,840.00	103.55	56.40	6,243.00	110.70	56.40	0.00
Raydon	15,800.00	222.92	70.88	15,800.00	266.22	59.35	-11.53
Semer	3,500.00	67.71	51.69	3,500.00	67.15	52.12	0.43
Shelley	-	32.18	-	-	32.95	-	0.00
Shimpling	9,986.44	192.18	51.96	10,413.00	198.73	52.40	0.44
Shotley	64,311.00	752.75	85.43	65,630.00	768.18	85.43	0.00
Somerton	490.00	39.57	12.38	1,000.00	39.88	25.08	12.70
Sproughton	54,236.00	598.65	90.60	62,132.00	672.36	92.41	1.81
Stanstead	9,246.00	159.67	57.91	10,323.00	167.13	61.77	3.86
Stoke by Nayland	13,300.00	291.61	45.61	13,300.00	301.32	44.14	-1.47
Stratford St Mary	16,100.00	321.54	50.07	16,100.00	332.52	48.42	-1.65
Stutton	11,030.00	332.29	33.19	11,110.00	356.82	31.14	-2.05
Sudbury	691,100.00	4,301.99	160.65	734,000.00	4,437.62	165.40	4.75
Tattingstone	12,800.00	230.13	55.62	14,000.00	236.05	59.31	3.69
Thorpe Morieux	3,308.00	126.98	26.05	3,593.00	126.49	28.41	2.36
Wattisham	2,000.00	46.24	43.25	2,120.00	46.07	46.02	2.77
Whatfield	3,231.00	136.04	23.75	3,231.00	139.61	23.14	-0.61
Wherstead	3,018.00	115.44	26.14	5,985.00	152.63	39.21	13.07
Woolverstone	2,771.00	109.53	25.30	2,900.00	115.91	25.02	-0.28
Total	**2,942,894.91**	**33,437.14**	**88.01**	**3,124,739.66**	**34,878.23**	**89.59**	**1.58**

APPENDIX B

Precept for each banding by Parish

	Valuation Bands (£)							
	A	B	C	D	E	F	G	H
Babergh District Council	118.23	137.93	157.64	177.34	216.75	256.16	295.57	354.68
Suffolk County Council	959.28	1,119.16	1,279.04	1,438.92	1,758.68	2,078.44	2,398.20	2,877.84
Police and Crime Commissioner	165.12	192.64	220.16	247.68	302.72	357.76	412.80	495.36
Aggregate of Council Tax Requirements	**1,242.63**	**1,449.73**	**1,656.84**	**1,863.94**	**2,278.15**	**2,692.36**	**3,106.57**	**3,727.88**

Parish	Total Amount of Council Tax for 2022/23							
	6/9 ths	7/9 ths	8/9 ths		11/9 ths	13/9 ths	15/9 ths	18/9 ths
	Band A £	Band B £	Band C £	Band D £	Band E £	Band F £	Band G £	Band H £
Acton	1,290.46	1,505.54	1,720.61	1,935.69	2,365.84	2,796.00	3,226.15	3,871.38
Aldham	1,252.14	1,460.83	1,669.52	1,878.21	2,295.59	2,712.97	3,130.35	3,756.42
Alpheton	1,278.41	1,491.48	1,704.55	1,917.62	2,343.76	2,769.90	3,196.03	3,835.24
Erwarton	1,242.63	1,449.73	1,656.84	1,863.94	2,278.15	2,692.36	3,106.57	3,727.88
Assington	1,270.56	1,482.32	1,694.08	1,905.84	2,329.36	2,752.88	3,176.40	3,811.68
Belstead	1,287.25	1,501.79	1,716.33	1,930.87	2,359.95	2,789.03	3,218.12	3,861.74
Bentley	1,269.35	1,480.90	1,692.46	1,904.02	2,327.14	2,750.25	3,173.37	3,808.04
Bildeston	1,290.04	1,505.05	1,720.05	1,935.06	2,365.07	2,795.09	3,225.10	3,870.12
Boxford	1,292.33	1,507.71	1,723.10	1,938.49	2,369.27	2,800.04	3,230.82	3,876.98
Boxted	1,247.90	1,455.88	1,663.87	1,871.85	2,287.82	2,703.78	3,119.75	3,743.70
Brantham	1,280.57	1,493.99	1,707.42	1,920.85	2,347.71	2,774.56	3,201.42	3,841.70
Brent Eleigh	1,262.71	1,473.17	1,683.62	1,894.07	2,314.97	2,735.88	3,156.78	3,788.14
Brettenham	1,270.42	1,482.16	1,693.89	1,905.63	2,329.10	2,752.58	3,176.05	3,811.26
Bures St Mary	1,292.53	1,507.95	1,723.37	1,938.79	2,369.63	2,800.47	3,231.32	3,877.58
Burstall	1,291.25	1,506.45	1,721.66	1,936.87	2,367.29	2,797.70	3,228.12	3,873.74
Capel St Mary	1,296.45	1,512.53	1,728.60	1,944.68	2,376.83	2,808.98	3,241.13	3,889.36
Chattisham	1,263.17	1,473.69	1,684.22	1,894.75	2,315.81	2,736.86	3,157.92	3,789.50
Chelmondiston	1,288.22	1,502.92	1,717.63	1,932.33	2,361.74	2,791.14	3,220.55	3,864.66
Chelsworth	1,252.09	1,460.77	1,669.45	1,878.13	2,295.49	2,712.85	3,130.22	3,756.26
Chilton	1,294.63	1,510.40	1,726.17	1,941.94	2,373.48	2,805.02	3,236.57	3,883.88
Cockfield	1,316.74	1,536.20	1,755.65	1,975.11	2,414.02	2,852.94	3,291.85	3,950.22
Copdock & Washbrook	1,294.86	1,510.67	1,726.48	1,942.29	2,373.91	2,805.53	3,237.15	3,884.58
East Bergholt	1,336.38	1,559.11	1,781.84	2,004.57	2,450.03	2,895.49	3,340.95	4,009.14
Edwardstone	1,266.78	1,477.91	1,689.04	1,900.17	2,322.43	2,744.69	3,166.95	3,800.34
Elmsett	1,264.25	1,474.95	1,685.66	1,896.37	2,317.79	2,739.20	3,160.62	3,792.74
Freston	1,274.63	1,487.07	1,699.51	1,911.95	2,336.83	2,761.71	3,186.58	3,823.90
Glemsford	1,296.48	1,512.56	1,728.64	1,944.72	2,376.88	2,809.04	3,241.20	3,889.44
Great Cornard	1,300.49	1,517.23	1,733.98	1,950.73	2,384.23	2,817.72	3,251.22	3,901.46
Great Waldingfield	1,308.62	1,526.72	1,744.83	1,962.93	2,399.14	2,835.34	3,271.55	3,925.86
Great Wenham	1,242.63	1,449.73	1,656.84	1,863.94	2,278.15	2,692.36	3,106.57	3,727.88
Groton	1,264.97	1,475.79	1,686.62	1,897.45	2,319.11	2,740.76	3,162.42	3,794.90
Hadleigh	1,332.20	1,554.23	1,776.27	1,998.30	2,442.37	2,886.43	3,330.50	3,996.60
Harkstead	1,258.23	1,467.94	1,677.64	1,887.35	2,306.76	2,726.17	3,145.58	3,774.70
Hartest	1,278.29	1,491.34	1,704.39	1,917.44	2,343.54	2,769.64	3,195.73	3,834.88
Higham	1,242.63	1,449.73	1,656.84	1,863.94	2,278.15	2,692.36	3,106.57	3,727.88
Hintlesham	1,263.17	1,473.69	1,684.22	1,894.75	2,315.81	2,736.86	3,157.92	3,789.50
Hitcham	1,260.13	1,470.16	1,680.18	1,890.20	2,310.24	2,730.29	3,150.33	3,780.40
Holbrook	1,272.09	1,484.11	1,696.12	1,908.14	2,332.17	2,756.20	3,180.23	3,816.28

APPENDIX B

Precept for each banding by Parish

	Valuation Bands (£)							
	A	B	C	D	E	F	G	H
Babergh District Council	118.23	137.93	157.64	177.34	216.75	256.16	295.57	354.68
Suffolk County Council	959.28	1,119.16	1,279.04	1,438.92	1,758.68	2,078.44	2,398.20	2,877.84
Police and Crime Commissioner	165.12	192.64	220.16	247.68	302.72	357.76	412.80	495.36
Aggregate of Council Tax Requirements	**1,242.63**	**1,449.73**	**1,656.84**	**1,863.94**	**2,278.15**	**2,692.36**	**3,106.57**	**3,727.88**

Parish	Total Amount of Council Tax for 2022/23							
	6/9 ths	7/9 ths	8/9 ths		11/9 ths	13/9 ths	15/9 ths	18/9 ths
	Band A £	Band B £	Band C £	Band D £	Band E £	Band F £	Band G £	Band H £
Holton St Mary	1,282.87	1,496.68	1,710.49	1,924.30	2,351.92	2,779.54	3,207.17	3,848.60
Kersey	1,278.18	1,491.21	1,704.24	1,917.27	2,343.33	2,769.39	3,195.45	3,834.54
Kettlebaston	1,288.79	1,503.59	1,718.39	1,933.19	2,362.79	2,792.39	3,221.98	3,866.38
Lavenham	1,305.93	1,523.59	1,741.24	1,958.90	2,394.21	2,829.52	3,264.83	3,917.80
Lawshall	1,257.23	1,466.77	1,676.31	1,885.85	2,304.93	2,724.01	3,143.08	3,771.70
Layham	1,272.75	1,484.87	1,697.00	1,909.12	2,333.37	2,757.62	3,181.87	3,818.24
Leavenheath	1,264.66	1,475.44	1,686.21	1,896.99	2,318.54	2,740.10	3,161.65	3,793.98
Lindsey	1,277.67	1,490.62	1,703.56	1,916.51	2,342.40	2,768.29	3,194.18	3,833.02
Little Cornard	1,279.59	1,492.85	1,706.12	1,919.38	2,345.91	2,772.44	3,198.97	3,838.76
Little Waldingfield	1,280.87	1,494.35	1,707.83	1,921.31	2,348.27	2,775.23	3,202.18	3,842.62
Little Wenham	1,242.63	1,449.73	1,656.84	1,863.94	2,278.15	2,692.36	3,106.57	3,727.88
Long Melford	1,305.42	1,522.99	1,740.56	1,958.13	2,393.27	2,828.41	3,263.55	3,916.26
Milden	1,253.79	1,462.75	1,671.72	1,880.68	2,298.61	2,716.54	3,134.47	3,761.36
Monks Eleigh	1,292.63	1,508.07	1,723.51	1,938.95	2,369.83	2,800.71	3,231.58	3,877.90
Nayland with Wissington	1,294.02	1,509.69	1,725.36	1,941.03	2,372.37	2,803.71	3,235.05	3,882.06
Nedging with Naughton	1,263.14	1,473.66	1,684.19	1,894.71	2,315.76	2,736.80	3,157.85	3,789.42
Newton	1,281.71	1,495.33	1,708.95	1,922.57	2,349.81	2,777.05	3,204.28	3,845.14
Pinewood	1,320.15	1,540.17	1,760.20	1,980.22	2,420.27	2,860.32	3,300.37	3,960.44
Polstead	1,280.05	1,493.40	1,706.74	1,920.08	2,346.76	2,773.45	3,200.13	3,840.16
Preston St Mary	1,280.23	1,493.60	1,706.97	1,920.34	2,347.08	2,773.82	3,200.57	3,840.68
Raydon	1,282.19	1,495.89	1,709.59	1,923.29	2,350.69	2,778.09	3,205.48	3,846.58
Semer	1,277.37	1,490.27	1,703.16	1,916.06	2,341.85	2,767.64	3,193.43	3,832.12
Shelley	1,242.63	1,449.73	1,656.84	1,863.94	2,278.15	2,692.36	3,106.57	3,727.88
Shimpling	1,277.56	1,490.49	1,703.41	1,916.34	2,342.19	2,768.05	3,193.90	3,832.68
Shotley	1,299.58	1,516.18	1,732.77	1,949.37	2,382.56	2,815.76	3,248.95	3,898.74
Somerton	1,259.35	1,469.24	1,679.13	1,889.02	2,308.80	2,728.58	3,148.37	3,778.04
Sproughton	1,304.23	1,521.61	1,738.98	1,956.35	2,391.09	2,825.84	3,260.58	3,912.70
Stanstead	1,283.81	1,497.77	1,711.74	1,925.71	2,353.65	2,781.58	3,209.52	3,851.42
Stoke by Nayland	1,272.05	1,484.06	1,696.07	1,908.08	2,332.10	2,756.12	3,180.13	3,816.16
Stratford St Mary	1,274.91	1,487.39	1,699.88	1,912.36	2,337.33	2,762.30	3,187.27	3,824.72
Stutton	1,263.39	1,473.95	1,684.52	1,895.08	2,316.21	2,737.34	3,158.47	3,790.16
Sudbury	1,352.89	1,578.38	1,803.86	2,029.34	2,480.30	2,931.27	3,382.23	4,058.68
Tattingstone	1,282.17	1,495.86	1,709.56	1,923.25	2,350.64	2,778.03	3,205.42	3,846.50
Thorpe Morieux	1,261.57	1,471.83	1,682.09	1,892.35	2,312.87	2,733.39	3,153.92	3,784.70
Wattisham	1,273.31	1,485.52	1,697.74	1,909.96	2,334.40	2,758.83	3,183.27	3,819.92
Whatfield	1,258.05	1,467.73	1,677.40	1,887.08	2,306.43	2,725.78	3,145.13	3,774.16
Wherstead	1,268.77	1,480.23	1,691.69	1,903.15	2,326.07	2,748.99	3,171.92	3,806.30
Woolverstone	1,259.31	1,469.19	1,679.08	1,888.96	2,308.73	2,728.50	3,148.27	3,777.92

APPENDIX B

Budget, Funding and Council Tax Requirements

1) The precept requirements of Parish / Town Councils must be aggregated with the requirement of this authority to arrive at an average Council Tax figure for the district / parish purposes. This figure however is totally hypothetical and will not be paid by any taxpayer (other than by coincidence). A schedule of the precept requirements from Parish / Town Councils will be reported to Council on 21 February 2022.

2) The County and the Police and Crime Commissioner's precept requirements are added to this.

3) The legally required calculation is set out below:

    1) The General Fund Budget requirement for the District Council purposes in 2022/23 will be £177.34, based on a 2% increase to Council Tax for a Band D property.

    2) The County Council precept requirement will be £1,438.92 for a Band D property in 2022/23, an increase of 2.99%.

    3) The Police and Crime Commissioner's precept requirement is £247.68 an increase of 4.2%.

    4) At the time of preparing this report, two Parish / Town Councils are yet to supply formal notification of their 2022/23 precept, although informal confirmation has been received.

4) Babergh is a billing authority and collects council tax and non-domestic rates on behalf of the other precepting authorities i.e. Suffolk County Council, Suffolk Police and Crime Commissioner and Parish / Town Councils. The dates that monies collected are paid over to the County Council, and the Police and Crime Commissioner ("precept dates") need to be formally agreed under Regulation 5(i) of the Local Authorities (Funds) (England) Regulations 1992.

5) Established practice is for payments to be made in 12 equal instalments on the 15th of each month or the next banking day if the 15th falls on a weekend or bank holiday. Accordingly, the precept dates applicable for 2022/23 are expected to be as follows:

19 April 2022	16 May 2022	15 June 2022	15 July 2022
15 August 2022	15 September 2022	17 October 2022	15 November 2022
15 December 2022	16 January 2023	15 February 2023	15 March 2023

APPENDIX B

Section 25 report on the robustness of estimates and adequacy of reserves

1. Background

1.1 Section 25 of the Local Government Act 2003 requires Councils, when setting its annual General Fund budget and level of council tax, to take account of a report from its Section 151 Officer on the robustness of estimates and adequacy of reserves. This report fulfils that requirement for the setting of the budget and council tax for 2022/23.

1.2 This is to ensure that when deciding on its budget for a financial year, Members are made aware of any issues of risk and uncertainty, or any other concerns by the Chief Financial Officer (CFO). The local authority is also expected to ensure that its budget provides for a prudent level of reserves to be maintained.

1.3 Section 26 of the Act empowers the Secretary of State to set a minimum level of reserves for which a local authority must provide in setting its budget. Section 26 would only be invoked as a fallback in circumstances in which a local authority does not act prudently, disregards the advice of its CFO and is heading for financial difficulty. The Section 151 Officer and Members, therefore, have a responsibility to ensure in considering the budget that:

- It is realistic and achievable and that appropriate arrangements have been adopted in formulating it.
- It is based on clearly understood and sound assumptions and links to the delivery of the Council's strategic priorities.
- It includes an appropriate statement on the use of reserves and the adequacy of these.

2. Basis of Advice for Section 25 Report

2.1 In forming the advice for this year's Section 25 report, the CFO has considered the following:

a) The role of the Chief Finance Officer
b) The effectiveness of financial controls
c) The effectiveness of budget planning and budget management
d) The adequacy of insurance and risk management
e) The mitigation of strategic financial risks
f) The Capital Programme

a) Role of the Chief Finance Officer

2.2 The statutory role of the Chief Finance Officer in relation to financial administration and stewardship of the Council, and its role in the organisation are both key to ensuring that financial discipline is maintained.

2.3 The statutory duties of the Chief Finance Officer are set out in the Financial Regulations which form part of the Council's Constitution. These include the requirement to report to council if there is an unbalanced budget (under Section 114 of the Local Government Act 1988).

2.4 The Chartered Institute of Public Finance and Accountancy (CIPFA) published a Statement on the Role of the Chief Financial Officer (CFO) in Local Government. The Statement requires that in order to meet best practice the CFO:

a) is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest;

b) must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer-term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy; and

c) must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

To deliver these responsibilities the CFO:

d) must lead and direct a finance function that is resourced to be fit for purpose; and

e) must be professionally qualified and suitably experienced.

f) The CIPFA Financial Management Code came into effect from the 1st April 2021, the code complements the Statement on the Role of the Chief Financial Officer, including a set of financial management standards that the Council is complying with. The standards emphasise how financial management is a collective responsibility of the Council's Corporate Leadership Team, acting alongside the CFO, stating that "it is for the leadership team to ensure that the authority's governance arrangements and style of financial management promote financial sustainability. These standards have been considered in drafting this statement.

b) <u>Financial Controls</u>

2.5 CIPFA's Financial Resilience Index, made publicly available for the first time in 2019, aims to support good practice in the planning of sustainable finance. The index does not come with CIPFA's own scoring, ranking or opinion on the financial resilience of an authority. However, users of the index can undertake comparator analysis drawing their own conclusions. The tool is based on a series of indicators relating to the sustainability of reserves, external debt, fees & charges and income from local taxation (business rates and council tax).

2.6 The 2020 index, which provides the relative position for the 2019/20 financial year, is the most up to date index currently available. Councils' performance is ranked relative to those in the selected 'comparator group'.

2.7 Babergh is seen as having higher risks around the level of external debt, interest payable and the proportion of fees and charges income against total revenue expenditure. The external debt includes that associated with the HRA, so the Council will always be seen as a higher risk compared to those councils without housing stock, but it is balanced against the value of the housing stock on the Council's balance sheet.

2.8 The other elements are all linked to the investment that the Council has made in CIFCO by increasing General Fund debt levels, higher interest payments, but also higher investment income coming back to the Council and is secured by charges on the properties acquired by CIFCO.

2.9 Alongside the statutory role of the CFO the Council has in place a number of financial management policies and financial controls which are set out in the Financial Regulations.

2.10 Other safeguards which ensure that the Council does not over-commit financially include:

a) the statutory requirement for each local authority to set and arrange their affairs to remain within prudential limits for borrowing and capital investment;

b) the balanced budget requirement of the Local Government Finance Act 1992 (Sections 32, 43 and 93); and

c) the auditors' consideration of whether the authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

2.11 The Council conducts an annual review of the effectiveness of the system of internal control and reports on this in the "Annual Governance Statement".

2.12 The internal and external audit functions play a key role in ensuring that the Council's financial controls and governance arrangements are operating satisfactorily. This is backed up by the review processes of Cabinet and the Joint Audit and Standards Committee undertaking the role of the Council's Audit Committee.

c) Budget Planning and Budget Management

2.13 The financial planning process is Councillor-led as Cabinet decides the principles and policies that underpin budget planning. The Budget Report describes the strategy for 2022/23 and beyond.

2.14 Cost pressures and variations in key areas of income and expenditure have been carefully considered and reflected in the budget.

2.15 Key assumptions have been made and updated during the budget process to reflect the changing economic position and latest information. The continuing impact of Covid-19 on the Council's finances and budget assumptions for 2022/23 has also been considered and included in the process.

2.16 Detailed scrutiny, review and challenge of budgets has been undertaken by finance officers and the Senior Leadership Team.

2.17 There has been an examination by the Overview and Scrutiny Committee in advance of the budget being approved. The recommendations made by the Committee are considered by Cabinet before the budget is presented to Council.

2.18 A key factor in effective budget management is the Council's regular monitoring of spending against budgets throughout the year and at year-end. Budget managers are required to update their forecasts during the year and these are subject to review by Cabinet on a quarterly basis. The development of budget managers and initiatives to strengthen budgetary control and financial management throughout the Council is an ongoing process.

2.19 The Council has a proven track record on budget management, which is confirmed by Ernst & Young in their Annual Audit Letter. The auditors are required to form a conclusion on the arrangements the Council has put in place to secure economy, efficiency and effectiveness in its use of resources. There has been a delay in the external audit process for 2020/21, but an unqualified opinion was achieved for 2019/20 and is expected again for 2020/21.

2.20 As part of the audit work for the 2019/20 and 2020/21 financial statements, a going concern review was undertaken in light of Covid19. The Council has demonstrated that it is currently in a strong financial position with the level of reserves it has, and the funding received from the Government mitigating the financial impact forecast at this stage.

d) <u>Adequacy of Insurance and Risk Management</u>

2.21 The Council's insurance arrangements are in the form of external insurance premiums with regular reviews being undertaken of the level at which risks are insured.

2.22 A critical area where risk management thinking can add significant value is to enhance the planning and budgeting process. Utilising a risk-based approach directly links to the Council's risk appetite to its core financial and economic performance, supported by the Council's Significant Risk Register. The goal when integrating risk management into budget planning is to understand the assumptions that the budget is based on.

2.23 The effective application of the Council's risk management principles enhances many processes within the context of managing its services and enables management to make better and more informed decision.

2.24 Our approach is to identify the major line items of each service budget, the personnel who contributed to them and the basis of estimation and then to ask key questions such as:

- What are the potential risks that could interfere with the accuracy of the estimate?
- What is the likelihood of these risks materialising?
- What would the impact on the organisation be if they did materialise?

e) Mitigation of Strategic Financial Risk

2.25 No budget can be completely free from risk and this is especially true with the ongoing Covid-19 pandemic affecting the Councils finances. Some comments on the areas of the budget having key financial impacts or significant changes for 2022/23 are set out below:

- **Covid-19** – With the prolonged duration of the Covid-19 pandemic there could be an ongoing financial impact into 2022/23 and beyond in terms of increased costs and reduced income. The cost pressures are most likely to be seen for homelessness and leisure provision. The reduced income is likely to be seen for car parking and potentially council tax and business rates income levels, but depending upon the extent of the continuing impacts it could also be seen in terms of trade waste, planning income and commercial income although these have seen lesser impacts to date.
- **Pay and Pensions** – The budget includes provision for pay increases of 2% for each of the 4 years to 2025/26 and continues to provide for annual progression through pay scales where employees are not at the top of their grades. A 1% change in pay amounts to around £82k per annum.

  Based on the 2019 triennial pension fund valuation a decrease of 1% per annum has been included for each of the three years that commenced from 2020/21.

  The Council's establishment budget is based on a full establishment. To allow for in-year vacancy savings the budget includes an annual vacancy saving of £500k, which equates to 5%.
- **Price Increases** – Allowances for price increases have been made on some budgets including major contracts, where there is a contractual requirement to do so. For other areas the budget assumes any price inflation is absorbed by the service. A 1% change in the refuse and ICT contracts and the Shared Revenues Partnership is around £40k.
- **Income from Fees and Charges** – A significant part of the Council's costs continue to be met from fees and charges. For some of these headings it is difficult to predict the level of income to be received e.g. planning fees, so progress against these income targets will need to be monitored throughout the year, particularly in the light of continuing economic volatility as a result of the Covid-19 pandemic. A 30% reduction in the car parking income remains built into the budget to reflect an anticipated reduction in visitor numbers to car parks during 2022/23. A 1% change in fees and charges income including from planning, building control, garden waste, car park and recycling performance payments income is around £41k.

- **Investment Income and Interest Payable** – Since 2009 interest rates have produced low returns from investments, but the Council has diversified its investments into a property fund and other pooled funds, following advice from Arlingclose, to increase the return on investment. Following implementation of International Financial Reporting Standards (IFRS) and how changes to the year-end values of pooled funds have to be treated could encourage the redemption of holdings and reduce the anticipated level of return, but this will not come into force until April 2023.

  The Council has made other commercial investments to generate income or regenerate an area, but the income generation aspect will be restricted in future following the changes to the lending terms of the Public Works Loan Board (PWLB) from November 2020. Where this investment is relying on borrowing as the funding source then any return will be subject to changes in interest rates. The 2022/23 budget includes the full year effect of the second £25m investment in CIFCO to generate additional income, but no further investments will be made, enabling the Council to access the PWLB for housing and other economic development and regeneration purposes.

- **Business Rates Retention** – As business rates is an increasingly important source of income for the Council, measures for closer monitoring have been put in place. Under the current retention system, the General Fund's exposure to variances can come from economic decline, cessation of business from a major ratepayer and appeals to rateable values, all of which have been seen during the Covid-19 pandemic. The Council operates a Business Rates and Council Tax Collection Fund Reserve to cover for this possibility as appropriate and the Government provided some funding to cover irrecoverable tax losses.

  The change to 75% retention of business rates is now unlikely to be taken forward and the reset has been deferred. The figures beyond 2022/23 assume a continuation of resources at the current level, but this is unknown. If baseline funding levels should reduce, the Business Rates and Council tax Collection Fund Reserve could be used to support a short-term reduction, but medium-term plans and resources would need to be reviewed.

- **Council Tax Income and the Tax Base** – the impact from Covid on collection rates, the number of Local Council Tax Reduction (LCTR) claimants and the build rate of new homes across the district has been less than anticipated when the budget for 2021/22 was set. This means that a 4.31% increase has been calculated for the tax base for 2022/23, which will generate additional council tax income of £251k. As a result of the improved position, a surplus of £116k is anticipated on the Collection Fund for 2021/22, which is included in the budget for 2022/23.

- **Government Funding** – The Council's share of Revenue Support Grant (RSG) ended after 2018/19 and in theory is now in a negative RSG position i.e. money to be paid to the Government for redistribution. This has again been offset by centrally retained business rates money for 2022/23 as it was for 2019/20, 2020/21 and 2021/22. The Council's core Government funding is now reduced to Rural Services Delivery Grant (RSDG), New Homes Bonus (NHB), Lower Tier Services Grant and a new Services Grant for 2022/23 only. 2022/23 is a further one-year settlement from the Government. Funding levels beyond 2022/23 are therefore currently uncertain, so the medium-term figures are based on the current level of RSDG continuing and NHB reducing in 2023/24 and future years.
- **Welfare Reforms, Benefits and Council Tax Reductions** – At a forecast of £13m for 2022/23, housing benefit remains one of the Council's largest financial transactions, which due to the welfare reforms and introduction of Universal Credit and the Council Tax Reduction scheme is subject to increasing risk and change. This will continue to be closely monitored in order to protect the Council from any emerging risks and liabilities.

f) <u>Capital Programme</u>

2.26 The Council's new capital programme funding for the next 4 years is £20.2m which is largely funded through borrowing and is based upon reasonable estimates of cost and capacity to deliver the programme. The programme has been developed to support the key deliverables of the Council and its ambition through the Joint Corporate Plan.

2.27 A key risk therefore to consider in the Council's budget planning is the interest cost and provision for repayment of debt (Minimum Revenue Provision – MRP) that it will need to meet commitments on the borrowing it undertakes for capital purposes. The Government's consultation on MRP, if implemented, could increase costs from 2023/24.

2.28 Review of the capital programme on an ongoing basis is required to ensure that future borrowing is targeted on projects that deliver the most for the district and are affordable within the current revenue resources.

2.29 The borrowing strategy and MRP policy are set out in detail in the Capital, Investment and Treasury Management Strategies document.

<u>Conclusion</u>

2.30 Taking all of the above into consideration, the Section 151 Officer's opinion is that the Council's budget and estimates are reasonable based on the assumptions and available information, but cannot be absolutely robust, so a full assurance cannot be given that there will be no unforeseen adverse variances.

2.31 This is an expected and acceptable situation for any organisation that is dealing with a large number of variables. Also, the general economic situation resulting from the ongoing Covid-19 pandemic continues to impact on expenditure and income. The minimum safe level of reserves proved to be sufficient to manage the impact of the Covid-19 pandemic in 2020/21 and 2021/22, alongside the support provided by the Government, which has been the single largest impact on local authorities' finances in recent years, so provided this is maintained, any variations arising as a result of lack of robustness in the estimates should be manageable.

3 Adequacy of Reserves

3.1 There is no available guidance on the minimum level of reserves that should be maintained. Each authority should determine a prudent level of reserves based upon their own circumstances, risk and uncertainties. Regard has been had to guidance that has been issued to CFO's and the risks and uncertainties faced.

3.2 The Council is required to maintain adequate financial reserves to meet the needs of the authority. This is the General Reserve and provides a safe level of contingency.

3.3 The CFO's opinion is that the minimum level of unearmarked reserves can be reduced from £1.2m to £1m in 2022/23 without increasing the risk to the Council, as this has proven to be sufficient during the Covid-19 pandemic alongside the level of support provided by the Government. This represents 10% of the annual General Fund Budget. This is partly based on the understanding that there are further sums available in earmarked reserves that will not be fully spent during 2022/23 as set out below.

3.4 Levels of earmarked reserves (excluding those relating to the Housing Revenue Account but including the Strategic Priorities Reserve) are forecast to be £6.9m as at 31 March 2023. The Strategic Priorities Reserve is continuing to support the delivery of the Council's Joint Corporate Plan in 2022/23.

4. Background Documents

Local Government Act 2003; Guidance Note on Local Authority Reserves and Balances – CIPFA 2003; Medium Term Financial Strategy

Katherine Steel
Assistant Director, Corporate Resources
(Section 151 Officer)

APPENDIX C

Babergh District Council
Budget Book
2022/23

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General Fund Revenue Budget Summary

		2021/22 £'000	2022/23 £'000	Movement £'000
Service Costs	Employees	8,230	9,983	1,753
	Premises	1,164	1,536	372
	Supplies & Services	4,338	4,444	107
	Transport	307	352	45
	Contracts	4,829	4,270	(559)
	Transfer Payments	13,795	12,972	(823)
Service Income	Grants and Contributions	(15,278)	(14,488)	789
	Sales, Fees & Charges	(3,792)	(4,109)	(317)
	Other income (incl. rental & PV panel income)	(1,604)	(1,771)	(167)
Reserves	Transfers to/from Reserves	309	(545)	(854)
Net Service Expenditure		**12,299**	**12,645**	**345**
Recharges	Recharge to HRA/Capital (Corporate Overheads)	(1,195)	(1,347)	(152)
Capital Financing Charg	Interest Payable - CIFCO	380	380	-
	Interest Payable - Other	30	60	30
	Minimum Revenue Provision (MRP)	1,266	1,445	179
Investment Income	Pooled Funds Net Income	(569)	(569)	-
	Interest Receivable - CIFCO	(2,180)	(2,169)	11
	Interest Receivable - Other	(15)	(15)	-
Total Net Cost of Services		**10,016**	**10,430**	**414**
Government Grants	New Homes Bonus	(835)	(802)	33
	S31 Business Rates Grant	(1,486)	(1,486)	-
	Services Grant	-	(147)	(147)
	Rural Services Delivery Grant	(238)	(238)	(0)
	Lower Tier Services Grant	(91)	(96)	(5)
Business Rates	Baseline Business Rates less Levy	(1,555)	(1,555)	-
	Growth / Pooling Benefit	(312)	(333)	(21)
	Enterprise Zone income	-	(216)	(216)
	Prior Year Deficit/(Surplus)	222	218	(4)
Council Tax	Council Tax	(5,929)	(6,185)	(257)
	Council Tax Collection Fund (surplus) / deficit	64	(116)	(181)
Total Funding		**(10,159)**	**(10,957)**	**(798)**
Transfers to/from Reserves		143	527	384
Shortfall / (Surplus Funds)		**0**	**0**	**0**

General Fund Revenue Budget - Services and Activities Summary

	Employees £'000	Premises £000	Supplies & Services £'000	Transport £'000	Contracts £'000	Transfer Payments £'000	Grants and Cont'ns £'000	Sales, Fees & Charges £'000	Other income £'000	Transfer to/(from) reserves £000	Net Expenditure £'000
Assets & Investments	**275**	**379**	**329**	**0**	**68**	**-**	**(40)**	**-**	**(692)**	**-**	**319**
Strategic Property	156	379	315	0	68	-	-	-	(692)	-	226
The Councils' Companies	119	-	15	-	-	-	(40)	-	-	-	93
Communities & Wellbeing	**403**	**306**	**333**	**9**	**243**	**-**	**(309)**	**-**	**-**	**(98)**	**888**
Communities	403	5	326	9	-	-	(18)	-	-	(98)	627
Leisure Contracts	-	301	8	-	243	-	(291)	-	-	-	260
Corporate Resources	**1,047**	**236**	**208**	**20**	**1,054**	**12,972**	**(13,310)**	**-**	**(118)**	**(58)**	**2,050**
Finance, Commissioning & Procurement	579	236	157	19	1,054	12,972	(13,310)	-	(118)	-	1,589
HR & Organisational Development	468	-	51	1	-	-	-	-	-	(58)	461
Customers, Digital Transformation & Improvement	**1,345**	**-**	**314**	**0**	**361**	**-**	**-**	**-**	**(50)**	**(60)**	**1,910**
Communications	154	-	23	0	-	-	-	-	-	-	177
Customer Operations	537	-	2	-	-	-	-	-	-	-	538
ICT	269	-	283	-	361	-	-	-	-	-	913
Strategic Policy, Performance & Insight	386	-	6	-	-	-	-	-	(50)	(60)	282
Economic Development and Regeneration	**362**	**1**	**53**	**2**	**0**	**-**	**-**	**-**	**(11)**	**(102)**	**305**
Open for Business	362	1	53	2	0	-	-	-	(11)	(102)	305
Environment and Commercial Partnerships	**2,134**	**427**	**1,396**	**228**	**2,544**	**-**	**(44)**	**(2,183)**	**(709)**	**(112)**	**3,681**
Health and Safety, Business Continuity and Emergency Planning	120	-	76	1	-	-	-	-	-	(20)	177
Public Protection	730	2	89	17	-	-	-	(202)	(5)	(36)	596
Public Realm	908	411	477	135	-	-	(44)	(237)	-	(21)	1,629
Recycling,Waste & Fleet	309	14	754	75	2,544	-	-	(1,744)	(705)	(35)	1,212
Service Improvement	68	-	-	-	-	-	-	-	-	-	68
Housing	**1,039**	**187**	**176**	**40**	**0**	**-**	**(430)**	**(7)**	**(133)**	**(172)**	**699**
Housing Solutions	1,039	187	176	40	0	-	(430)	(7)	(133)	(172)	699

General Fund Revenue Budget - Services and Activities Summary

	Employees £'000	Premises £000	Supplies & Services £'000	Transport £'000	Contracts £'000	Transfer Payments £'000	Grants and Cont'ns £'000	Sales, Fees & Charges £'000	Other income £'000	Transfer to/(from) reserves £000	Net Expenditure £'000
Law & Governance	**507**	**-**	**724**	**3**	**-**	**-**	**(115)**	**(175)**	**(46)**	**20**	**918**
Electoral Services and Land Charges	186	-	92	-	-	-	(5)	(174)	(25)	20	94
Governance and Civic Office	16	-	336	3	-	-	-	(0)	(2)	-	353
Internal Audit	60	-	28	0	-	-	-	-	(3)	-	85
Shared Legal Services	245	-	268	-	-	-	(110)	-	(16)	-	386
Planning & Building Control	**2,226**	**0**	**843**	**50**	**-**	**-**	**(240)**	**(1,744)**	**-**	**47**	**1,182**
Building Control	475	0	13	20	-	-	-	(426)	-	-	82
Chief Planning Officer	1,257	-	455	29	-	-	-	(1,216)	-	20	545
Strategic Planning	494	-	375	1	-	-	(240)	(102)	-	27	555
Senior Leadership Team	**645**	**-**	**69**	**0**	**-**	**-**	**-**	**-**	**(11)**	**(11)**	**692**
Senior Leadership Team	645	-	69	0	-	-	-	-	(11)	(11)	692
Total	**9,983**	**1,536**	**4,444**	**352**	**4,270**	**12,972**	**(14,488)**	**(4,109)**	**(1,771)**	**(545)**	**12,645**

General Fund Revenue Budget - Assets & Investments

	Employees £'000	Premises £000	Supplies & Services £'000	Transport £'000	Contracts £'000	Transfer Payments £'000	Grants and Cont'ns £'000	Sales, Fees & Charges £'000	Other income £'000	Transfer to/(from) reserves £000	Net Expenditure £'000
Strategic Property	**156**	**379**	**315**	**0**	**68**	**-**	**-**	**-**	**(692)**	**-**	**226**
1101 Asset Management	7	-	0	-	-	-	-	-	-	-	7
1103 Creeting Rd Depot	-	34	5	-	-	-	-	-	-	-	39
1105 Industrial Estates	-	-	-	-	1	-	-	-	(67)	-	(66)
1107 Belle Vue House	-	11	-	-	-	-	-	-	-	-	11
1109 HQ Energy	-	7	-	-	-	-	-	-	-	-	7
1111 Wenham Depot	-	5	1	-	-	-	-	-	-	-	6
1112 Chilton Depot	-	28	0	-	0	-	-	-	(1)	-	27
1113 Calais St Depot	-	2	-	-	-	-	-	-	-	-	2
1115 PV Panels	-	159	11	-	67	-	-	-	(379)	-	(141)
6400 Assets & Development	149	50	107	0	-	-	-	-	-	-	306
6404 Navigation House	-	2	-	-	-	-	-	-	(16)	-	(14)
6407 Borehamgate Shopping Centre	-	30	26	-	-	-	-	-	(200)	-	(144)
6414 Endeavour House - HQ	-	41	148	-	-	-	-	-	-	-	189
6415 Stowmarket CAP	-	7	16	-	-	-	-	-	-	-	23
6418 South Suffolk Buisness Centre	-	-	-	-	-	-	-	-	(30)	-	(30)
6421 Wenham Depot TDP	-	3	-	-	-	-	-	-	-	-	3
The Councils' Companies	**119**	**-**	**15**	**-**	**-**	**-**	**(40)**	**-**	**-**	**-**	**93**
6601 BMS Invest	119	-	15	-	-	-	(40)	-	-	-	93
Total Assets & Investments	**275**	**379**	**329**	**0**	**68**	**-**	**(40)**	**-**	**(692)**	**-**	**319**

General Fund Revenue Budget - Communities & Wellbeing

	Employees £'000	Premises £000	Supplies & Services £'000	Transport £'000	Contracts £'000	Transfer Payments £'000	Grants and Cont'ns £'000	Sales, Fees & Charges £'000	Other income £'000	Transfer to/(from) reserves £000	Net Expenditure £'000
Communities	**403**	**5**	**326**	**9**	**-**	**-**	**(18)**	**-**	**-**	**(98)**	**627**
2104 Community Achievement Awarc	-	-	3	-	-	-	-	-	-	-	3
2106 Comm Devt	367	-	1	9	-	-	-	-	-	-	377
2107 Grants & Contrbns	-	-	213	-	-	-	-	-	-	(64)	149
2200 Wellbeing CCG Funding	35	-	-	-	-	-	-	-	-	(34)	2
2202 Policy & Strategy H & W	-	-	41	-	-	-	-	-	-	-	41
2302 Community Safety-General	-	-	24	-	-	-	-	-	-	-	24
2303 Community Safety-CCTV	-	1	44	-	-	-	(18)	-	-	-	27
6067 Mobile CCTV	-	5	-	-	-	-	-	-	-	-	5
Leisure Contracts	**-**	**301**	**8**	**-**	**243**	**-**	**(291)**	**-**	**-**	**-**	**260**
2206 Hadleigh Pool	-	108	-	-	71	-	(89)	-	-	-	90
2207 Kingfisher Leisure Centre	-	193	-	-	140	-	(170)	-	-	-	162
2208 New Hadl Pl & Leisure Centre	-	-	-	-	32	-	(32)	-	-	-	-
2211 Womens Cycle Tour	-	-	8	-	-	-	-	-	-	-	8
Total Communities & Wellbeing	**403**	**306**	**333**	**9**	**243**	**-**	**(309)**	**-**	**-**	**(98)**	**888**

General Fund Revenue Budget - Corporate Resources

	Employees £'000	Premises £000	Supplies & Services £'000	Transport £'000	Contracts £'000	Transfer Payments £'000	Grants and Cont'ns £'000	Sales, Fees & Charges £'000	Other income £'000	Transfer to/(from) reserves £000	Net Expenditure £'000
Finance, Commissioning & Procurement	**579**	**236**	**157**	**19**	**1,054**	**12,972**	**(13,310)**	**-**	**(118)**	**-**	**1,589**
6100 Financial Resources	481	-	36	1	-	-	-	-	-	-	518
6101 Treasury Management	-	-	22	-	-	-	-	-	-	-	22
6102 Bank Chgs	-	-	77	-	-	-	-	-	-	-	77
6103 Ext Audit	-	-	80	-	-	-	-	-	-	-	80
6104 Insurance Premiums	93	110	6	18	-	-	-	-	-	-	226
6105 Pay Infl and Increment Costs	(500)	-	-	-	-	-	-	-	-	-	(500)
6108 Rent Allowances	0	-	-	-	-	7,014	(7,077)	-	-	-	(63)
6109 Rent Rebates to HRA Dwellings	-	-	-	-	-	5,958	(6,030)	-	-	-	(72)
6111 Council Tax Collection	-	-	2	-	-	-	(75)	-	(108)	-	(181)
6112 NNDR Collection	-	-	-	-	-	-	(128)	-	(10)	-	(138)
6113 Shared Revenues Partnership	-	-	-	-	1,054	-	-	-	-	-	1,054
6114 Contingencies/Savings Adjs	-	-	(70)	-	-	-	-	-	-	-	(70)
6115 Unapportionable Central OHs	404	126	-	-	-	-	-	-	-	-	530
6500 Commissioning & Procurement	101	-	-	0	-	-	-	-	-	-	101
6501 Central Stationery & equip	-	-	4	-	-	-	-	-	-	-	4
HR & Organisational Development	**468**	**-**	**51**	**1**	**-**	**-**	**-**	**-**	**-**	**(58)**	**461**
5100 Organisational Devt	468	-	51	1	-	-	-	-	-	(58)	461
Total Corporate Resources	**1,047**	**236**	**208**	**20**	**1,054**	**12,972**	**(13,310)**	**-**	**(118)**	**(58)**	**2,050**

General Fund Revenue Budget - Customers, Digital Transformation & Improvement

	Employees £'000	Premises £000	Supplies & Services £'000	Transport £'000	Contracts £'000	Transfer Payments £'000	Grants and Cont'ns £'000	Sales, Fees & Charges £'000	Other income £'000	Transfer to/(from) reserves £000	Net Expenditure £'000
Communications	**154**	**-**	**23**	**0**	**-**	**-**	**-**	**-**	**-**	**-**	**177**
5500 Communications	154	-	23	0	-	-	-	-	-	-	177
Customer Operations	**537**	**-**	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**538**
6300 Customer Servs	537	-	2	-	-	-	-	-	-	-	538
ICT	**269**	**-**	**283**	**-**	**361**	**-**	**-**	**-**	**-**	**-**	**913**
6200 ICT	269	-	283	-	361	-	-	-	-	-	913
Strategic Policy, Performance & Insight	**386**	**-**	**6**	**-**	**-**	**-**	**-**	**-**	**(50)**	**(60)**	**282**
5200 Bus Imp (Corp)	386	-	6	-	-	-	-	-	(50)	(60)	282
Total Customers, Digital Transformation & Improvement	**1,345**	**-**	**314**	**0**	**361**	**-**	**-**	**-**	**(50)**	**(60)**	**1,910**

General Fund Revenue Budget - Economic Development & Regeneration

	Employees £'000	Premises £000	Supplies & Services £'000	Transport £'000	Contracts £'000	Transfer Payments £'000	Grants and Cont'ns £'000	Sales, Fees & Charges £'000	Other income £'000	Transfer to/(from) reserves £000	Net Expenditure £'000
Open for Business	**362**	**1**	**53**	**2**	**0**	**-**	**-**	**-**	**(11)**	**(102)**	**305**
1108 Hadl Market	-	1	6	-	0	-	-	-	(5)	-	1
3501 Economy & Business	183	-	21	2	-	-	-	-	-	(63)	143
3506 Tourism General	-	-	25	-	-	-	-	-	(5)	-	20
3512 Regeneration	87	-	-	1	-	-	-	-	-	-	88
3514 Virtual High Street SIGIF	12	-	-	-	-	-	-	-	-	(12)	-
5102 Business Cont/Emergency Plan	46	-	-	-	-	-	-	-	-	-	46
5103 RHSSF	1	-	-	-	-	-	-	-	-	(1)	0
6063 4 Towns Visioning	22	-	-	-	-	-	-	-	-	(17)	5
6066 Sustainable Travel	11	-	-	-	-	-	-	-	-	(9)	2
Total Economic Development & Regeneration	**362**	**1**	**53**	**2**	**0**	**-**	**-**	**-**	**(11)**	**(102)**	**305**

General Fund Revenue Budget - Environment & Commercial Partnerships

	Employees £'000	Premises £000	Supplies & Services £'000	Transport £'000	Contracts £'000	Transfer Payments £'000	Grants and Cont'ns £'000	Sales, Fees & Charges £'000	Other income £'000	Transfer to/(from) reserves £000	Net Expenditure £'000
Health & Safety, Business Continuity & Emergency Planning	**120**	**-**	**76**	**1**	**-**	**-**	**-**	**-**	**-**	**(20)**	**177**
2301 Civil Protection & Emerg Plg	-	-	25	-	-	-	-	-	-	-	25
5101 Health & Safety	120	-	51	1	-	-	-	-	-	-	171
5102 Business Cont/Emergency Plan	-	-	-	-	-	-	-	-	-	(20)	(20)
Public Protection	**730**	**2**	**89**	**17**	**-**	**-**	**-**	**(202)**	**(5)**	**(36)**	**596**
1306 Other Housing Matters	-	-	12	-	-	-	-	-	-	-	12
4101 Food & Safety (General)	287	0	1	7	-	-	-	(1)	-	-	294
4103 Animal Welfare Licensing	1	-	2	-	-	-	-	(12)	-	-	(9)
4104 Health & Safety Regulation	-	-	-	-	-	-	-	(1)	-	-	(1)
4106 Water Sampling	-	-	10	-	-	-	-	(10)	-	-	-
4301 Environmental Protection	328	-	11	11	-	-	-	(6)	-	-	344
4302 Abandoned Vehicles	-	-	1	-	-	-	-	-	-	-	1
4303 Land Drainage	-	-	2	-	-	-	-	-	-	-	2
4304 Other Public Health Matters	-	-	0	-	-	-	-	-	-	-	0
4306 Climate Change and Sustainabi	36	2	18	-	-	-	-	-	(5)	(36)	15
4307 Dog Control	-	-	13	-	-	-	-	-	-	-	13
4600 Licensing	77	-	-	-	-	-	-	-	-	-	77
4601 Taxi & Private Hire Licensing	-	-	20	-	-	-	-	(81)	-	-	(61)
4602 Alc,Ents&Late Night Refreshmt	-	-	0	-	-	-	-	(82)	-	-	(82)
4603 Gambling & Small Lotteries	-	-	-	-	-	-	-	(6)	-	-	(6)
4604 Misc Other Licences	-	-	-	-	-	-	-	(2)	-	-	(2)
4608 Caravan Licences	-	-	-	-	-	-	-	(1)	-	-	(1)

General Fund Revenue Budget - Environment & Commercial Partnerships (Cont'd)

	Employees £'000	Premises £000	Supplies & Services £'000	Transport £'000	Contracts £'000	Transfer Payments £'000	Grants and Cont'ns £'000	Sales, Fees & Charges £'000	Other income £'000	Transfer to/(from) reserves £000	Net Expenditure £'000
Public Realm	**908**	**411**	**477**	**135**	**-**	**-**	**(44)**	**(237)**	**-**	**(21)**	**1,629**
2204 Footpaths	24	-	5	1	-	-	(5)	(4)	-	-	22
4401 Public Conveniences	-	41	27	-	-	-	-	-	-	-	68
4402 Street & Major Road Cleansing	253	-	87	48	-	-	(2)	(35)	-	-	351
4404 Open Spaces	556	2	154	84	-	-	(38)	-	-	(21)	736
4405 Public Tree Programme	48	51	-	3	-	-	-	-	-	-	102
4410 Car Parks General	27	311	73	-	-	-	-	(152)	-	-	259
4411 Pin Mill C Park	-	(3)	8	-	-	-	-	0	-	-	5
4412 Hadl C Parks	-	1	0	-	-	-	-	3	-	-	5
4413 Sudb C Parks	-	8	1	-	-	-	-	7	-	-	15
4459 The Greenways Project	-	-	6	-	-	-	-	-	-	-	6
4460 ANOB Contribution	-	-	32	-	-	-	-	-	-	-	32
4461 Grow Your Community	-	-	10	-	-	-	-	-	-	-	10
4470 Civil Parking Enforcement	-	-	75	-	-	-	-	(57)	-	-	18
Recycling,Waste & Fleet	**309**	**14**	**754**	**75**	**2,544**	**-**	**-**	**(1,744)**	**(705)**	**(35)**	**1,212**
4501 Jnt Waste Contract	-	14	18	74	-	-	-	-	-	-	106
4503 Domestic Waste	193	-	283	0	1,853	-	-	(67)	(378)	(35)	1,849
4504 Bring Sites	15	-	44	0	-	-	-	-	(124)	-	(65)
4505 Trade Waste	23	-	245	0	172	-	-	(666)	-	-	(227)
4506 Garden Waste	77	-	165	0	519	-	-	(1,010)	(202)	-	(452)
Service Improvement	**68**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**68**
2400 Bus Imp (Communities & Growth)	36	-	-	-	-	-	-	-	-	-	36
2402 Service Improvement	32	-	-	-	-	-	-	-	-	-	32
Total Environment & Commercial Partnerships	**2,134**	**427**	**1,396**	**228**	**2,544**	**-**	**(44)**	**(2,183)**	**(709)**	**(112)**	**3,681**

General Fund Revenue Budget - Housing

	Employees £'000	Premises £000	Supplies & Services £'000	Transport £'000	Contracts £'000	Transfer Payments £'000	Grants and Cont'ns £'000	Sales, Fees & Charges £'000	Other income £'000	Transfer to/(from) reserves £000	Net Expenditure £'000
Housing Solutions	**1,039**	**187**	**176**	**40**	**0**	**-**	**(430)**	**(7)**	**(133)**	**(172)**	**699**
1201 Housing Info	80	-	-	1	-	-	-	-	-	-	81
1301 Housing Standards	135	-	0	4	-	-	-	-	-	-	139
1304 Home Improvement Agency	-	-	-	-	-	-	(42)	-	-	-	(42)
1304 Independent Living Service	-	1	20	-	-	-		-	-	-	21
1309 Mobile Home Sites	-	-	-	-	-	-	-	(1)	-	-	(1)
1310 HMO Licence	-	-	-	-	-	-	-	(1)	-	-	(1)
1401 Homelessness Private Sector	-	18	118	-	-	-	(74)	(2)	-	-	60
1403 Rent Deposit Scheme	21	40	1	1	-	-	(61)	-	(8)	-	(6)
1404 Homeless Prevention Fund	313	-	12	8	-	-	(39)	-	(2)	(41)	250
1410 Other Temp Accommodation	108	6	3	2	-	-	-	-	-	(43)	76
1411 Old School House	-	22	4	-	0	-	-	-	(30)	-	(4)
1413 RoughSleepersInterventionYr3	184	-	5	-	-	-	(189)	-	-	-	(0)
1414 Guaranteed Rent Scheme	44	100	-	-	-	-	-	-	(94)	(49)	1
1416 Domestic Abuse Funding	21	-	-	22	-	-	(26)	-	-	-	17
3601 Strategic Housing	111	-	10	1	-	-	-	(4)	-	(10)	108
3604 Community Housing Fund	24	-	4	1	-	-	-	-	-	(29)	-
Total Housing	**1,039**	**187**	**176**	**40**	**0**	**-**	**(430)**	**(7)**	**(133)**	**(172)**	**699**

General Fund Revenue Budget - Law & Governance

	Employees £'000	Premises £000	Supplies & Services £'000	Transport £'000	Contracts £'000	Transfer Payments £'000	Grants and Cont'ns £'000	Sales, Fees & Charges £'000	Other income £'000	Transfer to/(from) reserves £000	Net Expenditure £'000
Electoral Services & Land Charges	**186**	**-**	**92**	**-**	**-**	**-**	**(5)**	**(174)**	**(25)**	**20**	**94**
5301 Electoral Registration	74	-	46	-	-	-	-	(2)	-	-	118
5302 Elections	-	-	25	-	-	-	-	-	(25)	20	20
6202 Land Chgs	112	-	21	-	-	-	(5)	(172)	-	-	(44)
Governance & Civic Office	**16**	**-**	**336**	**3**	**-**	**-**	**-**	**(0)**	**(2)**	**-**	**353**
5700 Governance	172	-	5	0	-	-	-	(0)	-	-	177
5701 Cost of Democracy	(169)	-	290	3	-	-	-	-	(2)	-	122
5702 Central Postal Serv	13	-	30	-	-	-	-	-	-	-	43
5703 Central Printing	-	-	10	-	-	-	-	-	-	-	10
Internal Audit, Risk & Data	**60**	**-**	**28**	**0**	**-**	**-**	**-**	**-**	**(3)**	**-**	**85**
5400 Internal Audit	60	-	28	0	-	-	-	-	(3)	-	85
Shared Legal Service	**245**	**-**	**268**	**-**	**-**	**-**	**(110)**	**-**	**(16)**	**-**	**386**
5600 Shared Legal Service	245	-	268	-	-	-	(110)	-	(16)	-	386
Total Law & Governance	**507**	**-**	**724**	**3**	**-**	**-**	**(115)**	**(175)**	**(46)**	**20**	**918**

General Fund Revenue Budget - Planning & Building Control

	Employees £'000	Premises £000	Supplies & Services £'000	Transport £'000	Contracts £'000	Transfer Payments £'000	Grants and Cont'ns £'000	Sales, Fees & Charges £'000	Other income £'000	Transfer to/(from) reserves £000	Net Expenditure £'000
Building Control	**475**	**0**	**13**	**20**	**-**	**-**	**-**	**(426)**	**-**	**-**	**82**
3301 Bldg Regs Chargeable Serv	328	-	10	14	-	-	-	(386)	-	-	(34)
3302 Bldg Regs Non-Chargeable Ser	71	-	-	3	-	-	-	-	-	-	74
3303 Bldg Regs Other Activities	48	-	-	2	-	-	-	-	-	-	50
3304 Bldg Control Commercial Incom	-	-	2	-	-	-	-	(6)	-	-	(5)
3305 Dangerous Structures	-	0	-	-	-	-	-	(0)	-	-	(0)
3306 Street Naming & Numbering	29	-	2	1	-	-	-	(34)	-	-	(3)
Chief Planning Officer	**1,257**	**-**	**455**	**29**	**-**	**-**	**-**	**(1,216)**	**-**	**20**	**545**
3101 Devt Management	973	-	195	18	-	-	-	(1,111)	-	10	85
3102 Dev Mgmt- Appeals	-	-	216	-	-	-	-	-	-	10	226
3103 Pre App Charging	-	-	16	-	-	-	-	(60)	-	-	(44)
3110 Planning Performance Agreeme	-	-	15	-	-	-	-	(25)	-	-	(10)
3701 Conservation	106	-	0	5	-	-	-	(20)	-	-	91
3801 Planning Enforcement	178	-	14	6	-	-	-	-	-	-	197
Strategic Planning	**494**	**-**	**375**	**1**	**-**	**-**	**(240)**	**(102)**	**-**	**27**	**555**
0907 CIL	116	-	-	1	-	-	-	(102)	-	-	15
3400 Strategic Planning General	-	-	2	-	-	-	-	-	-	-	2
3401 Devt Policy & Local Plans	353	-	289	0	-	-	-	-	-	(100)	543
3702 Nghbrhd Plan Designations	24	-	83	-	-	-	(240)	-	-	127	(5)
Total Planning & Building Control	**2,226**	**0**	**843**	**50**	**-**	**-**	**(240)**	**(1,744)**	**-**	**47**	**1,182**

General Fund Revenue Budget - Senior Leadership Team

	Employees £'000	Premises £000	Supplies & Services £'000	Transport £'000	Contracts £'000	Transfer Payments £'000	Grants and Cont'ns £'000	Sales, Fees & Charges £'000	Other income £'000	Transfer to/(from) reserves £000	Net Expenditure £'000
Senior Leadership Team	**645**	**-**	**69**	**0**	**-**	**-**	**-**	**-**	**(11)**	**(11)**	**692**
0100 Senior Leadership Team	609	-	69	0	-	-	-	-	(11)	(11)	655
0101 Corp Management	37	-	-	-	-	-	-	-	-	-	37
Total Senior Leadership Team	**645**	**-**	**69**	**0**	**-**	**-**	**-**	**-**	**(11)**	**(11)**	**692**
Total Net Service Expenditure	**9,983**	**1,536**	**4,444**	**352**	**4,270**	**12,972**	**(14,488)**	**(4,109)**	**(1,771)**	**(545)**	**12,645**

Housing Revenue Account Budget 2022-23

	Budget 2022/23 £'000
Dwelling Rents	(17,273)
Service Charges	(598)
Non Dwelling Income	(183)
Other Income	(48)
Interest Received	(10)
Total Income	**(18,111)**
Housing Management	3,032
Building Services	4,087
Depreciation	4,548
Interest payable	3,161
Debt Repayment	-
Revenue Contribution to Capital	2,633
Bad Debt Provision	139
Total Expenditure	**17,600**
(Surplus) / Deficit for Year	**(511)**

General Fund Capital Programme 2022-23 to 2025/26

Babergh District Council - General Fund Capital Budgets 2022/23 to 2025/26	2021/22 Anticipated C/Fwds (A)	2022/23 Budget for Approval (B)	2022/23 Total Spend Required (A + B)	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
	£'000	£'000	£'000	£'000	£'000	£'000
Housing						
Mandatory Disabled Facilities Grant	747	**760**	1,507	760	760	760
Renovation/Home Repair Grants	50	**100**	150	100	100	100
Empty Homes Grant	222	**100**	322	100	100	100
Grants for Affordable Housing	200	**0**	200	0	0	0
Total Housing	**1,219**	**960**	**2,179**	**960**	**960**	**960**
Environment and Projects						
Replacement Refuse Freighters - Joint Scheme	0	**2,060**	2,060	0	231	0
Bins	0	**75**	75	75	75	75
Total Environment and Projects	**0**	**2,135**	**2,135**	**75**	**306**	**75**
Economic Development and Regeneration						
Belle Vue Refurbishment / Replacement	2,000	0	2,000	0	0	0
Total Economic Development and Regeneration	**2,000**	**0**	**2,000**	**0**	**0**	**0**
Communities and Public Access						
Vehicle and Plant Renewals	0	**100**	100	0	0	0
Planned Maintenance / Enhancements-Car Parks	0	**7**	7	45	5	5
Pin Mill Hard and toilet refurbishment	0	**115**	115	0	0	0
Total Community Services	**0**	**222**	**222**	**45**	**5**	**5**
Sustainable Communities						
Play equipment	136	**50**	186	50	50	50
Community Development Grants	55	**117**	172	117	117	117
Total Sustainable Communities	**191**	**167**	**358**	**167**	**167**	**167**

General Fund Capital Programme 2022-23 to 2025/26

Babergh District Council - General Fund Capital Budgets 2022/23 to 2025/26	2021/22 Anticipated C/Fwds (A)	2022/23 Budget for Approval (B)	2022/23 Total Spend Required (A + B)	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
	£'000	£'000	£'000	£'000	£'000	£'000
Leisure Contracts						
Kingfisher Leisure Centre Improvements	0	**100**	100	100	100	100
Hadleigh Leisure Improvements	0	**50**	50	50	50	50
Total Leisure Contracts	**0**	**150**	**150**	**150**	**150**	**150**
Investment and Commercial Delivery						
Planned Maintenance / Enhancements - Corporate Buildings	0	**330**	330	30	30	30
Leases on Property (under new IFRS16)	0	**439**	439	0	0	0
Borehamgate	0	**64**	64	64	64	64
Strategic Investment Fund	2,906	**0**	2,906	0	0	0
A1071 Roadside Commercial Workspace Development	0	**1,075**	1,075	1,075	0	0
Babergh Growth	0	**500**	500	3,750	3,750	
Regeneration Fund	6,305	**0**	6,305	0	0	0
Regeneration Fund - HQ Sites	3,160	**0**	3,160	0	0	0
Total Investment and Commercial Delivery	**12,371**	**2,408**	**14,779**	**4,919**	**3,844**	**94**
ICT & Customer						
Replacement Finance Management System	0	**325**	325	75	0	0
ICT - Hardware / Software costs	200	**150**	350	150	150	150
Total Corporate Resources	**200**	**475**	**675**	**225**	**150**	**150**
TOTAL General Fund Capital Spend	**15,981**	**6,517**	**22,497**	**6,541**	**5,582**	**1,601**

GF Financing						
External Grants and contributions	747	**760**	1,507	760	760	760
Capital Receipts	1,100	**0**	1,100	0	0	0
Borrowing	14,134	**5,757**	19,890	5,781	4,822	841
Total GF Capital Financing	**15,981**	**6,517**	**22,497**	**6,541**	**5,582**	**1,601**

Housing Revenue Acocunt Capital Programme 2022-23 to 2025/26

BABERGH DC CAPITAL PROGRAMME BUDGET	2021/22 Indicative Carry Forwards (A)	2022/23 Budget for approval (B)	2022/23 Total Spend Required (A + B)	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
	£'000	£'000	£'000	£'000	£'000	£'000
Housing Revenue Account						
Planned Maintenance & Response						
Planned maintenance	1,727	6,100	7,828	4,662	4,641	4,620
Replacement Vehicles (IFRS 16 leases)	0	156	156	0	0	0
ICT Projects	0	111	111	200	200	200
Neighbourhood Improvements	779	500	1,279	500	500	500
Council House Adaptations	82	200	282	200	200	200
Horticulture and play equipment	30	70	100	80	30	30
Total Housing Maintenance	**2,618**	**7,137**	**9,755**	**5,642**	**5,571**	**5,550**
New build programme inc acquisitions	**3,523**	**5,361**	**8,883**	**2,504**	**1,000**	**1,768**
TOTAL HRA Capital Spend	**6,141**	**12,498**	**18,638**	**8,146**	**6,571**	**7,318**
HRA Financing						
Capital Receipts(from SO Sales)	0	1,072	1,072	0	0	0
New build 1-4-1 capital receipts	0	1,366	1,366	1,001	400	707
Major Repairs Reserve	0	4,548	4,548	4,539	4,531	4,531
Borrowing	1,500	1,478	2,978	250	949	2,080
Revenue Contributions	0	2,633	2,633	2,356	691	0
Strategic Priorities Reserve	4,641	1,400	6,041	0	0	0
Total HRA Capital Financing	**6,141**	**12,497**	**18,638**	**8,146**	**6,571**	**7,318**

Reserves - General Fund

Earmarked Reserve	Balance 31/03/2021 £'000	Forecast Balance 31/03/22 £'000	Transfers £'000	Budget Transfer to £'000	Budget Transfer From £'000	Forecast Balance 31/03/23 £'000
Business Rates & Council Tax	6,106	1,642	-	-	-	1,642
Business Rates Retention Pilot (BRRP)	862	841	-	-	(17)	824
Carry Forwards	571	-	-	-	-	-
Climate Change and Biodiversity	200	343	-	-	(21)	322
Community Housing Fund	178	153	-	-	(29)	124
Commuted Maintenance Payments	820	842	-	-	-	842
COVID 19	1,171	705	-	-	(178)	528
Elections Equipment	35	35	-	-	-	35
Elections Fund	40	60	-	20	-	80
Government Grants	164	169	-	-	(23)	147
Homelessness	159	184	-	-	(89)	94
Joint Local Plan	100	100	-	-	(100)	-
Neighbourhood Planning Grants	49	94	-	157	(29)	222
Planning (Legal)	323	323	-	-	(20)	303
Planning Enforcement	93	93	-	40	-	133
Rough Sleepers	26	26	-	-	-	26
Strategic Planning	40	40	-	-	-	40
Strategic Priorities	1,147	607	-	527	(128)	1,005
Temporary Accommodation	145	131	-	-	(43)	87
Waste	87	87	-	-	(35)	53
Well-being	253	197	200	-	(49)	347
Total Earmarked Reserves	**12,569**	**6,672**	**200**	**743**	**(761)**	**6,854**

General Fund Reserve	1,200	1,200	(200)	-	-	1,000

Reserves - Housing Revenue Account

Earmarked Reserve	Balance 31/03/2021 £'000	Forecast Balance 31/03/22 £'000	Transfers £'000	Budget Transfer to £'000	Budget Transfer From £'000	Forecast Balance 31/03/23 £'000
Big 20	96	96	-	-	-	96
Strategic Priorities	15,778	5,466	-	511	-	5,977
Building Council Homes Programme (BCHP)	20	20	-	-	-	20
Total Earmarked Reserves	**15,894**	**5,582**	**-**	**511**	**-**	**6,093**

HRA Working Balance	1,000	1,000	-	-	-	1,000

Agenda Item 9b

BABERGH DISTRICT COUNCIL

TO:	**Council**	**REPORT NUMBER: BC/21/32**
FROM:	**Councillor Simon Barrett, Cabinet Member for Finance**	**DATE OF MEETING: 21 February 2022**
OFFICER:	**Katherine Steel, Assistant Director, Corporate Resources**	**KEY DECISION REF NO. N/A**

HOUSING REVENUE ACCOUNT (HRA) 2022/23 BUDGET

1 PURPOSE OF REPORT

1.1 The report contains details of the revenue and capital budgets and the Council's strategic financial aim. The purpose of this report is to present the HRA Budget for 2022/23.

1.2 To enable Members to consider key aspects of the 2022/23 HRA Budget, including Council House rent levels.

2 OPTIONS CONSIDERED

2.1 The Housing Revenue Account Budget for 2022/23 is an essential element in achieving a balanced budget and sustainable medium-term position, therefore no other options are appropriate in respect of this.

3 RECOMMENDATIONS

3.1 That the HRA Budget proposals for 2022/23 set out in the report be endorsed for recommendation to Council on 21 February 2022.

3.2 That the CPI + 1% increase of 4.1% in Council House rents, equivalent to an average rent increase of £3.72 a week for social rents and £5.23 a week for affordable rents be implemented.

3.3 That garage rents are kept at the same level as 2021/22.

3.4 That Sheltered Housing service charges are kept at the same level as 2021/22.

3.5 That Sheltered Housing utility charges are kept at the same level as 2021/22.

3.6 That the budgeted surplus of £511k be transferred to the Strategic Priorities reserve in 2022/23.

3.7 That in principle, Right to Buy (RTB) receipts should be retained to enable continued development and acquisition of new council dwellings.

REASON FOR DECISION

To bring together all the relevant information to enable Cabinet Members to review, consider and comment upon the Councils Housing Revenue Account budget for recommendations to Council.

4 KEY INFORMATION

Background

4.1 The Council's current HRA Business Plan presents a positive financial picture over the longer term (a thirty-year period as required under the self-financing regime). The business plan sets out the aspiration of the Council to increase the social housing stock by either buying existing dwellings or building new ones.

4.2 The review of the HRA Business Plan is nearing completion. In January 2022 Full Council will discuss the aims and aspirations of the revised business plan before Cabinet considers the detail and then makes a final recommendation back to Council for approval.

4.3 The revised business plan will not be ready for sign off until after the budget for 2022/23 needs to be approved, so the information presented to Overview and Scrutiny Committee in January and this budget report presented to Cabinet and Full Council will focus on the budget for 2022/23. The revised business plan, when it is presented, will set out the longer-term financial implications and ambitions for the HRA and will take into account any decisions or approvals in relation to the 2022/23 budget.

4.4 Following a period of five years that saw annual 1% rent reductions, which ended in March 2020, councils are allowed to increase rents by the maximum of the Consumer Price Index (CPI) +1% for a period of five years from April 2020. Subject to compliance with the Regulator of Social Housings Rent Standard, this has begun to mitigate the impact of the 1% reduction on the 30-year plan.

4.5 The removal of the HRA Debt Cap from 29 October 2018 means that local authorities can borrow to fund new homes without worrying about breaching this cap. Any borrowing will be subject to the Council adhering to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code.

4.6 The 2022/23 budget is aligned to and supports the Council's Homes and Housing Strategy and the Council's vision for residents to live in affordable and high-quality homes that enable them to build settled, safe and healthy lives.

COVID19

4.7 COVID19 continues to have an impact on the HRA, with a backlog of work built up during restrictions now being addressed, but this is likely to continue into 2022/23 along with increasing material costs when the national schedule of rates is renewed and republished.

4.8 The new build programme has also been impacted as development ground to a halt during lockdown and has been slow to recover, and as it does, now carries additional COVID19 related costs for site works to be undertaken safely. A shortage of some construction materials is also causing delays in completion of projects on site.

4.9 In terms of income levels from rent collection, there has not been any significant reduction resulting from COVID, as had been originally anticipated. A decision was made last year not to evict any tenant that was in arrears resulting from COVID19. Taking these factors into account, any levels of debt to be written off are therefore expected to be very low, if any, as any outstanding rents are likely to be reclaimed, but over a longer period because of secure tenancies.

2021/22 Budget and Forecast Outturn

4.10 On 23 February 2021 the Council set the HRA Budget for 2021/22, showing a surplus of £127k.

4.11 The second quarter budget monitoring report was presented to Cabinet on 6 December 2021 showing a forecast adverse variance of £499k as at 31 March 2022. The key factor in this position is the additional costs being incurred to address the backlog in void and responsive repairs, through both the volume of materials being purchased and sub-contractor costs to work alongside the Trades Team.

4.12 The third quarter position will be presented to Cabinet on 7 March 2022.

2022/23 Budget Proposals

4.13 In preparing the budget for 2022/23 the various headings have been thoroughly reviewed against the actuals for the last four years, taking account of 2020/21 and the impacts of COVID19, to ensure that they are set on a realistic basis for next year.

4.14 A surplus position is forecast for 2022/23 of £511k compared to the 2021/22 budget surplus of £127k.

4.15 The table below shows the 2022/23 budget compared to the 2021/22 budget, with explanations for the movements being shown in paragraph 4.16 below.

Babergh District Council Budgets 2022/23				
	Budget 2021/22 £'000	Budget 2022/23 £'000	Movement £'000	Percentage change
Dwelling Rents	(16,454)	(17,273)	(819)	5%
Service Charges	(584)	(598)	(13)	2%
Non Dwelling Income	(183)	(183)	0	0%
Other Income	(50)	(48)	2	-4%
Interest Received	(10)	(10)	0	0%
Total Income	**(17,281)**	**(18,111)**	**(830)**	
Housing Management	2,959	3,032	73	2%
Building Services	3,564	4,087	523	15%
Depreciation	4,280	4,548	268	6%
Interest payable	3,161	3,161	0	0%
Debt Repayment	150	0	(150)	-100%
Revenue Contribution to Capital	2,901	2,633	(268)	-9%
Bad Debt Provision	139	139	0	0%
Deficit / (Surplus) for Year	**(127)**	**(511)**	**(385)**	

4.16 In calculating the 2022/23 budget, the following assumptions have been made:

Income

- Dwelling rents – an increase of 4.1% (CPI + 1%). It has been assumed that there will be 12 properties purchased by the tenant through the Right to Buy mechanism. The number of voids has been reduced from 1.3% to 1% to reflect work undertaken by the Housing team to reduce the length of time a property is void for. An increase of 21 properties has been assumed. All of these assumptions generate £819k additional income. The tables below show the impact on income levels that would be available to the HRA for some alternative options for a rent increase in 2022/23 compared to the maximum that is currently built into the budget. The first table shows the impact on the 2022/23 budget and the second table shows the cumulative impact over 1, 5, 10 and 30 years.

Babergh Rents	Current Budget (CPI +1%)	CPI (3.1%) only	2% increase	1% increase	No increase
Social housing rents	(£16,278,346)	(£16,122,581)	(£15,951,247)	(£15,795,635)	(£15,639,933)
Affordable rents	(£1,151,909)	(£1,140,850)	(£1,128,684)	(£1,117,621)	(£1,106,548)
Shared Ownership Properties (RPI 4.9%)	(£75,986)	(£75,986)	(£75,986)	(£75,986)	(£75,986)
Less 12 RTB	£59,593	£59,593	£59,593	£59,593	£59,593
Less 1% Voids	£173,707	£172,038	£170,203	£168,537	£166,869
Total Rents	(£17,272,941)	(£17,107,786)	(£16,926,121)	(£16,761,112)	(£16,596,005)
Deficit / (Surplus) for Year	(£310,804)	(£145,650)	£36,016	£201,024	£366,131
Net Increase	(£676,936)	(£511,781)	(£330,116)	(£165,107)	£0

Babergh	Impact on overall HRA Plan			
Rent Increase	**One Year**	**Five Years**	**10 Years**	**30 Years**
1%	£165,107	£825,536	£1,651,072	£4,953,215
2%	£330,116	£1,650,578	£3,301,155	£9,903,465
3.1% (CPI)	£511,781	£2,558,905	£5,117,810	£15,353,430
4.1% (CPI + 1%)	£676,936	£3,384,678	£6,769,355	£20,308,066

The average weekly social rent will increase from £91.78 to £95.50 an increase of £3.72. For affordable housing, weekly rents are increasing on average by £5.23 from £127.42 to £132.65.

The table below shows how the combined average weekly rent for social and affordable homes compares to other councils in the East of England and nationally.

Local Authority Average Weekly Rent (incl. Affordable)	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Babergh	91.84	91.12	90.55	89.82	88.98	91.60	93.51	97.30
East Suffolk					82.58	84.15		
Ipswich	83.46	82.71	81.94	81.08	80.31	83.21		
Mid Suffolk	84.75	84.33	83.76	83.12	82.39	84.97	86.19	89.69
Waveney	81.67	78.61	81.6	82.07				
East of England	91.5	91.03	90.24	89.5	89.29	92.19		
England	88.16	87.37	86.71	85.85	85.68	88.27		

Of the Council's 3,437 tenants, 1,682 (49%) that we know of are in receipt of Housing Benefit or Universal Credit. As Universal Credit is paid direct to the tenant, rather than the landlord, the Council no longer knows the total number of tenants in receipt of support to pay their rent.

- Sheltered housing – no increase to the service, heating or water charges is being proposed as current charges recover the expected costs. This is based on historic costs and does not reflect the recent increase in gas and electricity prices, to keep the overall package of cost increases manageable for tenants. This will result in an element of subsidy to tenants in 2022/23 until the higher prices are reflected in 2023/24. The budget is being brought in line with current actuals, with the resulting impact being an increase in income of £13k.

- Garage rents are being kept at the same level as 2021/22 with the budget being based on the existing stock level, which has resulted in no change to the budget. Garages can be hard to let in some areas and sites are under review to assess their suitability for development.

- Other income – no income has been received over the last two years from recovering legal costs, so the budget has been reduced by £2k for 2022/23 to reflect this position.

- A new Rent and Service Charge Policy is being developed and will be presented to Cabinet in the first half of 2022.

Housing Management

- An overall increase to the budget of £73k is proposed for 2022/23.
- Increases are required for the annual pay award and increments in staffing costs (£61k), recharges from the General Fund (£18k), transport related expenses (£14k), the electricity budget (£28k) and other minor costs (£6k).
- These increases are being partially offset by an increase in rental income from temporary accommodation (£54k).

Building Services

- An overall increase to the budget of £523k is proposed for 2022/23.
- The most significant area of this overall change is an increase to the repairs budget of £426k. In recent years this budget has not been able to accommodate the level of demand for repairs with overspends being reported, so the proposed budget for next year is being set at a more realistic level.
- Increases are also required for the annual pay award and increments in staffing costs (£52k), recharges from the General Fund (£49k), skip hire usage (£11k) and other small cost increases in line with current spend (£6k).
- All of the increases are being partially offset by an increase in the Renewable Heat Incentive (RHI) income (£21k).

Depreciation

- The depreciation charge has increased by £268k due to the revaluation of the housing stock as at 31 March 2021. The value of the housing stock as at 31 March 2021 is £260.4m. The valuation basis that we are required to use for our accounts equates to 38% of market value.

Interest Payable and Bad Debt Provision

- No change is proposed from the 2021/22 budget. The interest payable figure is based on total debt of £84.7m, £83.6m of which is the debt that the Council took on when the HRA Self-financing regime was introduced in 2012.

Debt Repayment

- A loan from the Public Works Loan Board (PWLB) was fully repaid in 2021/22, so the budget of £150k has been removed for 2022/23.

Revenue Contribution to Capital

- The revenue contribution to capital has been decreased by £268k to offset the increase in the depreciation charge as depreciation can be used to fund capital expenditure.

Reserves

4.17 When setting the budget for the forthcoming year the Council must have regard to the level of reserves needed to provide enough resources to finance estimated future expenditure plus any appropriate allowances that should be made for contingencies.

4.18 Reserves only provide one-off funding, so the Council should avoid using reserves to meet regular recurring financial commitments.

4.19 The 2022/23 budget position means that the Council will increase its Strategic Priorities Reserve by £511k, which is £384k more than the 2021/22 budget. The balance in the reserve as at 31 March 2023, as a result of the budget proposals, is forecast to be £5.977m, which equates to around £1,700 per property. This is dependent on the new build and acquisition programme being delivered on target in the current financial year.

Transfers to / from Earmarked Reserves	Balance 31 March 2021 £'000	Budget trf to £'000	Budget trf from £'000	Balance 31 March 2022 £'000	Budget trf to £'000	Budget trf from £'000	Balance 31 March 2023 £'000
Big 20	(96)			(96)			(96)
Strategic Priorities	(15,778)	(127)	10,439	(5,466)	(511)		(5,977)
Building Council Homes Programme (BCHP)	(20)			(20)			(20)
HRA Revenue	**(15,895)**	**(127)**	**10,439**	**(5,583)**	**(511)**	**-**	**(6,094)**

4.20 In addition to this, the Council continues to hold £1m in the working balance. This equates to less than £300 per property.

Capital

4.21 The proposed capital programme for 2022/23 and the indicative programme for the following three years is shown in the table below.

BABERGH DC CAPITAL PROGRAMME BUDGET	2021/22 Indicative Carry Forwards (A)	2022/23 Budget for approval (B)	2022/23 Total Spend Required (A + B)	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
	£'000	£'000	£'000	£'000	£'000	£'000
Housing Revenue Account						
Planned Maintenance & Response						
Planned maintenance	1,727	6,100	7,828	4,662	4,641	4,620
Replacement Vehicles (IFRS 16 leases)	0	156	156	0	0	0
ICT Projects	0	111	111	200	200	200
Neighbourhood Improvements	779	500	1,279	500	500	500
Council House Adaptations	82	200	282	200	200	200
Horticulture and play equipment	30	70	100	80	30	30
Total Housing Maintenance	**2,618**	**7,137**	**9,755**	**5,642**	**5,571**	**5,550**
New build programme inc acquisitions	**3,523**	**5,361**	**8,883**	**2,504**	**1,000**	**1,768**
TOTAL HRA Capital Spend	**6,141**	**12,498**	**18,638**	**8,146**	**6,571**	**7,318**
HRA Financing						
Capital Receipts(from SO Sales)	0	1,072	1,072	0	0	0
New build 1-4-1 capital receipts	0	1,366	1,366	1,001	400	707
Major Repairs Reserve	0	4,548	4,548	4,539	4,531	4,531
Borrowing	1,500	1,478	2,978	250	949	2,080
Revenue Contributions	0	2,633	2,633	2,356	691	0
Strategic Priorities Reserve	4,641	1,400	6,041	0	0	0
Total HRA Capital Financing	**6,141**	**12,497**	**18,638**	**8,146**	**6,571**	**7,318**

4.22 The new funding within the Capital Programme for 2022/23 totals £12.5m, with an additional £6.1m anticipated to be carried forward from 2021/22 to give a total programme of £18.6m.

4.23 The new build and acquisition programme has identified development sites for new homes that will deliver 68 affordable homes and 18 shared ownership homes by the end of March 2026.

4.24 The major areas being developed over the next four years include sites at Chilton, Boxford, Wherstead and Lavenham.

4.25 Right to Buy (RTB) sales for Babergh were lower than those projected in the business plan. In 2020/21 Babergh sold 13 against an original projection of 20 sales.

4.26 The money received from RTB sales can only be used as a 40% contribution towards the cost of a replacement home. The remaining 60% of the replacement cost must be found from other HRA resources. If sales increase, it means that the level of match funding required (60%) increases. During 2020/21 the Government extended the time period by which RTB receipts have to be spent from 3 to 5 years. If the receipts are not spent within the 5-year period allowed, they must be repaid to Government with 4% above the base rate interest added.

4.27 The Council can enter into agreements with the Secretary of State to retain the full RTB receipt from the sale of nominated homes newly built or acquired since July 2008. Officers will investigate opportunities to enter into agreements so that any capital receipts received in future from the sale of nominated homes could be retained in full and used as part of the 60% match funding required.

5. LINKS TO THE CORPORATE PLAN

5.1 Ensuring that the Council makes best use of its resources is what underpins the ability to achieve the priorities set out in the Corporate Plan, and ensuring the Council has a robust financial strategy. Specific links are to the Council's Homes and Housing Strategy and the Council's vision for residents to live in affordable and high-quality homes that enable them to build settled, safe and healthy lives.

6. FINANCIAL IMPLICATIONS

6.1 These are detailed in the report.

7. LEGAL IMPLICATIONS

7.1 There are none that apply.

8. RISK MANAGEMENT

8.1 This report is most closely linked with the Council's Corporate / Significant Business Risk No. 13 – We may be unable to respond in a timely and effective way to financial demands and also Corporate Risk No. 5E05 – if the Finance Strategy is not in place with a balanced position over the medium term the Councils will not be able to deliver the core objectives and service delivery may be at risk of not being delivered. Key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
If we do not consider the ongoing impacts of the Welfare and Funding Reforms, then it could lead to unpreparedness for further changes.	Unlikely - 2	Bad – 3	Ensure adequate bad debt provision and that the Income Management Strategy seeks to mitigate the impact of the changes on residents, the Council's income streams and budgets.
If there are increases in inflation and other variables, then Council Housing self-financing could result in a greater risk to investment and service delivery plans.	Unlikely - 2	Noticeable – 2	Inflation and interest rate assumptions have been modelled in the HRA business plan. Capital receipts and capital programme funding reviewed.

If we fail to spend retained RTB receipts within the 5-year period, then it will lead to requirement to repay to Government with interest.	Probable - 3	Bad - 3	Provision has been made in the budget and Investment Strategy to enable match funding and spend of RTB receipts.
If we borrow too much to fund New Homes, we will not be able to pay the loan interest.	Unlikely - 2	Bad - 3	Follow the CIPFA Prudential Code which states capital investment plans must be affordable, prudent and sustainable.
If economic conditions and other external factors like Covid19 are worse than budgeted for it could have an adverse effect on the Councils 2022/23 and medium-term financial position	Probable – 3	Noticeable - 2	Maintain the focus and momentum on reducing the budget deficit throughout the financial year. Maintain sufficient minimum reserve level to withstand the impact.
If capital data is inaccurate it could lead to problems with treasury management debt and cashflows.	Unlikely - 2	Bad - 3	Capital plans form part of the Treasury, Capital and Investment strategy. Monitor the capital spend quarterly.

9. CONSULTATIONS

9.1 Consultations have taken place with the Assistant Director, Corporate Managers and other Budget Managers as appropriate.

10. EQUALITY ANALYSIS

10.1 The Assistant Director and Corporate Managers will undertake an Equality Impact Assessment for any individual budget proposals that have the potential to impact any of the protected characteristics.

11. ENVIRONMENTAL IMPLICATIONS

11.1 In support of the Council's commitment to be Carbon Neutral by 2030, several initiatives have and are being undertaken in relation to the housing and sheltered accommodation stock. These are set out in more detail below.

11.2 Since 2020, Babergh has installed 85 Air Source Heat Pumps in council owned homes.

11.3 Working alongside the Energy Savings Trust, every property within our housing stock (via a desktop exercise) has been evaluated, which has provided the council with current energy efficiency levels compared with what could be achieved and the level of investment required to achieve improved energy efficiency. The 'hardest to heat' homes will be targeted first. This now allows us to quantify the cost of capital environmental works to existing homes.

11.4 Oil fired / storage communal heating has been replaced with individual heat pumps.

11.5 The new homes 'design and technical specification' that incorporates carbon saving solutions will be launched alongside our 30-year Housing Business Plan from in the first half of 2022.

11.6 Surveyors have been studying for the Retrofit Co-ordinators Diploma by the Retrofit Academy to better support the Council's ambition to retrofit existing properties.

12. BACKGROUND DOCUMENTS

Housing Revenue Account (HRA) 2021/22 Budget and Four-Year Outlook - BC/20/25

Housing Revenue Account (HRA) Financial Monitoring 2021/22 - Quarter 2 - BCa/21/30

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Agenda Item 9c

BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

TO:	**BDC COUNCIL** **MSDC COUNCIL**	**REPORT NUMBER:**	**BC/21/33**
FROM:	**Co-Chair of Joint Audit and Standards Committee**	**DATE OF MEETING:**	**21 February 2022** **24 February 2022**
OFFICER:	**Rebecca Hewitt, Corporate Manager – Finance Operations** **Sue Palmer, Senior Finance Business Partner**	**KEY DECISION REF NO. Item No. N/A**	

JOINT CAPITAL, INVESTMENT AND TREASURY MANAGEMENT STRATEGIES 2022/23

1. PURPOSE OF REPORT

1.1 This report presents the Joint Capital, Investment and Treasury Management Strategies for the financial year 2022/23.

1.2 These are in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code, the CIPFA Prudential Code, which were both updated in 2017, and the 2018 Department for Levelling-Up, Housing and Communities (DLUHC) Investment Guidance, which introduced the requirement to prepare a Capital Strategy and an Investment Strategy. The Treasury Management Strategy remained largely unchanged.

1.3 The Prudential Indicators and Minimum Revenue Provision (MRP) Statement are linked to the Budget report that will be presented at this Cabinet meeting and the Full Council meetings in February 2022.

1.4 The Codes of Practice recommend that these strategies are subject to scrutiny before being presented to Full Council, which falls within the remit of the Joint Audit and Standards Committee.

2. OPTIONS CONSIDERED

2.1 This report fulfils the Councils legal obligations to have regard to the Code and DLUHC Guidance.

2.2 Individual strategies were considered but Joint Strategies have been prepared.

3. RECOMMENDATIONS TO BOTH COUNCILS

That the following be approved:

3.1 The Joint Capital Strategy for 2022/23, including the Prudential Indicators, as set out in Appendix A.

3.2 The Joint Investment Strategy for 2022/23, as set out in Appendix B.

3.3 The Joint Treasury Management Strategy for 2022/23, including the Joint Annual Investment Strategy as set out in Appendix C.

3.4 The Joint Treasury Management Indicators as set out in Appendix D.

3.5 The Joint Treasury Management Policy Statement as set out in Appendix G.

3.6 The Joint Minimum Revenue Provision Statement as set out in Appendix H.

3.7 That the key factors and information relating to and affecting treasury management activities set out in Appendices E, F, and I be noted.

REASON FOR DECISION

Local authorities are required to approve their Treasury Management Strategy (TMS), their Capital Strategy (including an overview of the TMS) and their Investment Strategy annually before the start of the financial year.

4. KEY INFORMATION

Introduction

4.1 The Joint Capital Strategy and the Joint Investment Strategy were new for 2019/20, as required by changes in CIPFA and DLUHC guidance. The Joint Treasury Management Strategy remained largely unchanged. This report combines an overview of how capital expenditure, capital financing, treasury and other investment 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.

4.2 The strategies set limits and indicators that embody the risk management approach that the Councils believe to be prudent. The strategies are set against the 2022/23 budget and the four-year outlook and the context of the UK economy and projected interest rates. The information included in Appendix A to H reflects the current plans for income, expenditure and investments of both Councils.

4.3 The Joint Investment Strategy, at Appendix B, covers the non-financial assets that councils hold for financial return such as property portfolios, shares in council owned companies and loans. These are defined as investments but are not managed as part of treasury management or under treasury management delegations.

Strategic Context

4.4 In recent years the government policy frameworks have been reducing core funding for local government as part of its deficit reduction strategy. In response to this both Councils' strategy over the medium term as set out in the 2022/23 budget reports is to become self-financing and to generate more funds than are required for core services, and to enable additional investment in the districts.

4.5 The three strategies within this report set out the Councils approach to capital spend, borrowing and investment in order to deliver this.

4.6 DLUHC and the Chartered Institute of Public Finance and Accountancy (CIPFA) are aware that most local authorities are taking a more commercial approach in order to bridge the gap they face as a result of diminishing funding from government. In response to this both bodies state that they do not seek to prescribe precisely how councils invest but they clearly have concerns that some councils are taking increasing commercial risks using borrowed money. As a result, this report provides a more extensive strategy so that more of the risks that the Codes and guidance highlight are apparent to Members.

4.7 CIPFA has issued a new edition of the Prudential Code 2021 which applies with immediate effect but allows authorities to delay introducing revised reporting requirements until 2023/24. These revised requirements include changes to the capital strategy, prudential indicators and investment reporting. The general ongoing principles of the revised Prudential Code, including the requirement that an authority must not borrow to invest primarily for financial return, apply immediately.

4.8 HM Treasury also issued updated guidance in August 2021 setting out its lending policy, for Public Works Loan Board (PWLB) borrowing. The guidance provides broad definitions of permissible categories of a council's capital expenditure (service delivery, housing, regeneration, preventative action and treasury management). It also includes the stricter definition of investments primarily for yield, which lending terms restrict, and which all ongoing capital expenditure must comply with, unless a project commenced or was agreed prior to 26 November 2020.

4.9 CIPFA has also updated its Treasury Management Code and guidance. This has introduced strengthened requirements for training, and for investments that are not specifically for treasury management purposes.

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

4.11 This has had an impact on the Councils' capital programmes and borrowing requirements as a result of projects falling behind schedule and supply difficulties. The Council's cash flow has been impacted by the timing of grants/support payments made to residents and local businesses and the receipt of support from Central Government. Interest rates on investment and borrowing have reduced as a result of the ongoing economic uncertainty resulting from worldwide lockdowns. However there has been an increase in the value of the Councils' long term investments held, as a result of some recovery of stock markets.

4.12 The impact of Covid19 is considered as part of the strategies within this report.

Statutory Background

4.13 This report is part of the Councils' legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the DLUHC Guidance. The Councils must:

- ensure priority is given to security and portfolio liquidity, when investing treasury management funds,

- ensure the security of the principal sums invested through robust due diligent procedures for all external investments,

- have regard to CIPFA's Prudential Code when determining how much money they can afford to borrow,

- ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice,

- monitor against the Prudential Code indicators each year, these are included in the Joint Capital Strategy in Appendix A, and

- set, revise, and, if there are material changes to the strategies and prudential indicators, present to Full Council for approval.

Purpose of the Strategies

Joint Capital Strategy Appendix A

4.14 The Joint Capital Strategy (Appendix A), under the requirements of the Codes, gives a high-level overview of how capital expenditure, capital financing, and treasury management activities 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.

4.15 In terms of investment, the Councils invest their money for three broad purposes:

- because there is 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 investment for yield where this is the main purpose).

4.16 The Joint Capital Strategy covers all three of the above points.

Joint Investment Strategy Appendix B

4.17 The Joint Investment Strategy (Appendix B) as required by the statutory guidance issued by DLUHC, covers all three of the points in 4.12 above and shows the proportionality of investments, total investment exposure, and rate of return.

Joint Treasury Management Strategy Appendix C

4.18 The Joint Treasury Management Strategy (TMS) (Appendix C) covers the first point in 4.12 above and details of borrowing including authorised limits, economic and interest rate forecasts and treasury management indicators, which are also shown in Appendices D to G.

4.19 These three strategies together show the impact of the Councils' capital programme and Joint Investment Strategy in terms of risk, prudent levels of borrowing, associated interest costs and the net financial returns to the Councils to support core services in the medium term.

5. LINKS TO JOINT CORPORATE PLAN

5.1 Ensuring that the Council makes best use of its resources is what underpins the ability to achieve the priorities set out in the Joint Corporate Plan. Specific links show how these are met through financially sustainable Councils, managing the corporate assets effectively, and property investment to generate income.

6. FINANCIAL IMPLICATIONS

6.1 As outlined in this report and appendices.

7. LEGAL IMPLICATIONS

7.1 The legal status of the Treasury Management Code derives in England from regulations issued under the Local Government Act 2003 (the 2003 Act).

7.2 The Capital Finance and Accounting Regulations 2003 – SI 2003/3146, Regulation 24, explicitly require authorities to "have regard" to the Treasury Management Code.

7.3 Authorities are required by regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the 2003 Act.

7.4 The latest statutory guidance on local government investments was issued under section 15(1)(a) of the 2003 Act and effective for financial years commencing on or after 1 April 2018. Under that section local authorities are required to "have regard" to "such guidance as the Secretary of State may issue".

8. RISK MANAGEMENT

8.1 This report is most closely linked with the Councils' Significant Risk No.13 – We may be unable to react in a timely and effective way to financial demands and also Corporate Risk No. SE05 – if the Finance Strategy is not in place with a balanced position over the medium term the Councils will not be able to deliver the core objectives and service delivery may be at risk of not being delivered.

8.2 The report also links to the Councils' Significant Risk No.10 around the Capital Investment Fund – we may be unable to meet the income projections for the Councils.

8.3 Other key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
If the Councils lose the investments this will impact on their ability to deliver services.	Highly Unlikely (1)	Bad (3)	Strict lending criteria for high credit rated institutions.

If the Councils achieve a poor return on investments, there will be fewer resources available to deliver services.	Unlikely (2)	Noticeable (2)	Focus is on security and liquidity, and careful cash flow management in accordance with the Joint TM Strategy is undertaken throughout the year.
If the Councils have liquidity problems, then they will be unable to meet their short-term liabilities.	Unlikely (2)	Noticeable (2)	As above.
If the Councils incur higher than expected borrowing costs, there will be fewer resources available to deliver services.	Unlikely (2)	Noticeable (2)	Benchmark is to borrow from the Public Works Loan Board (PWLB), whose rates are very low and can be on a fixed or variable basis. However, access to PWLB is not available for authorities undertaking some types of commercial activity so ensure capital expenditure plans from 2022/23 are within the guidance for PWLB borrowing.

9. CONSULTATIONS

9.1 Regular meetings have taken place with the Councils' Treasury advisors, Arlingclose, who also provide important updates on treasury management issues as they arise.

10. EQUALITY ANALYSIS

10.1 There are no equality and diversity implications, as the contents and recommendations of this report do not impact on those with protected characteristics.

11. ENVIRONMENTAL IMPLICATIONS

11.1 Both Councils have joined Arlingclose's ESG and Responsible Investment Service. This will provide advice for ESG integration in the Councils' investment portfolios, and is discussed within the Councils' Joint Treasury Management Strategy.

12. APPENDICES

Title	Location
(a) Joint Capital Strategy 2022/23	Attached
(b) Joint Investment Strategy 2022/23	Attached
(c) Joint Treasury Management Strategy 2022/23	Attached

(d)	Treasury Management Indicators	Attached
(e)	Economic Outlook and Interest Rate Forecast	Attached
(f)	Existing Borrowing and Investments	Attached
(g)	Treasury Management Policy Statement	Attached
(h)	Minimum Revenue Provision (MRP) Statement	Attached
(i)	Credit Ratings Criteria	Attached
(j)	Glossary of Terms	Attached

13. BACKGROUND DOCUMENTS

2017 CIPFA Treasury Management in the Public Services

2017 The Prudential Code for Capital Finance in Local Authorities

2018 Department for Levelling-Up, Housing and Communities Investment Guidance

APPENDIX A: JOINT CAPITAL STRATEGY 2022/23

1. Introduction

1.1 This Joint Capital Strategy for 2022/23 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. It has been written in an accessible style to enhance members' understanding of these often-technical areas.

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

1.3 The strategy demonstrates that the Councils take capital expenditure and investment decisions in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability.

2. Capital Expenditure and Financing

2.1 Capital expenditure is where the Councils spend 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 or enhance assets.

2.2 The Councils have some limited discretion on what counts as capital expenditure; for example, individual assets costing below £10k are not capitalised and are charged to revenue in the year.

Governance: Capital Expenditure

2.3 Proposed capital projects are appraised by the Senior Leadership Team based on a comparison of service priorities against financing (even if the project is fully financed from external funds) before being included in the Councils' capital programmes.

2.4 Full details of the Councils' capital programmes are included initially in the Budget reports, that were presented to Overview and Scrutiny Committees in January 2022 and will go onto Cabinet and the Full Council meetings in February 2022.

Estimated Capital Expenditure

2.5 The actual capital spend for 2020/21, the forecast outturn for 2021/22, the budget for 2022/23 and forecast from 2023/24 to 2025/26, for the General Fund and the Housing Revenue Account (HRA) as per the 2022/23 budget report is summarised as follows:

Table 1: Prudential Indicator: Estimated Capital Expenditure

Capital Expenditure Babergh District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget ** £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
General Fund	4.06	5.42	17.70	1.65	1.77	1.54
Capital Investments	19.44	0.17	4.80	4.89	3.81	0.06
Total General Fund	23.50	5.59	22.50	6.54	5.58	1.60
Council Housing (HRA)	12.57	20.96	18.64	8.15	6.57	7.32
Total Capital Expenditure	**36.07**	**26.55**	**41.14**	**14.69**	**12.15**	**8.92**

Capital Expenditure Mid Suffolk District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget ** £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
General Fund	7.55	9.68	9.32	1.83	1.57	1.57
Capital Investments	21.32	4.11	19.72	5.25	3.50	0.00
Total General Fund	28.87	13.79	29.03	7.08	5.07	1.57
Council Housing (HRA)	11.15	18.06	39.13	25.75	10.76	6.44
Total Capital Expenditure	**40.01**	**31.85**	**68.17**	**32.83**	**15.82**	**8.01**

** Including carry-forward from 2021/22

General Fund Capital Expenditure

2.6 The main General Fund projects included in the Capital Programme for Babergh over the period 2022/23 to 2025/26 are Replacement Refuse Freighters (£2.3m), Belle Vue, Sudbury (£2m), Housing grants (£3.8m), Community Grants (£0.5m), and ICT hardware/software (£1.2m).

2.7 The main General Fund projects included in the Capital Programme for Mid Suffolk over the period 2022/23 to 2025/26 are Replacement Refuse Freighters (£2.3m), Housing grants (£3.1m), Community Grants (£0.8m), business hub in Eye (£0.3m) and ICT hardware/software (£1.2m).

The Housing Revenue Account (HRA) Capital Expenditure

2.8 The HRA is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately and includes purchasing houses from the private sector to increase the housing stock as well as new build schemes and maintenance to existing homes over the forecast period.

Capital Investments Capital Expenditure

2.9 There are two types of Capital investment. They are made:

- to support local public services by lending to or buying shares in other organisations (service investments), and

- to earn investment income (known as investment for yield where this is the main purpose).

These will relate to non-financial assets that the Councils hold primarily or partially to generate income and will contribute towards service delivery objectives.

2.10 The capital investments included in the 2022/23 budget for Babergh are the former Council Offices in Hadleigh (£3.2m) and developments by the Growth company (£0.5m) for housing; Borehamgate (£0.06m), a workspace development in Hadleigh (£1.3m), and further strategic investments (£9.2m) are all for regeneration purposes. Included in the forecast outturn for 2021/22 are completion of the solar carports (£0.7m), improvements at the leisure centres (£1.0m) and the purchase of vehicles and plant (£0.7m) for the public realm team (for the service being brought in house).

2.11 The main capital investments for Mid Suffolk included in the 2022/23 budget are developments by the Growth company (£4.3m) and the former Council Offices at Needham Market (£0.2m) for housing; Gateway 14 (£15.3m) and further strategic investments (£3m) for regeneration purposes. Included in the forecast outturn for 2021/22 are the former Council Offices at Needham Market (£2.1m) and Gateway 14 (£2m).

2.12 The S151 officer considers that none of these projects count as 'investment assets primarily for yield' under the PWLB lending arrangements, nor as 'investments primarily for financial return' under the CIPFA Prudential Code. Further details on the Councils' capital investments can be found in section 3 and 4 of the Joint Investment Strategy in Appendix B.

Capital Financing

2.13 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Councils' own resources (revenue, reserves and capital receipts) or debt (borrowing and leasing). The planned financing of the above expenditure is as follows:

Table 2: Capital financing

Capital Financing - General Fund						
Babergh District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Capital Receipts	0.01	0.00	1.10	0.00	0.00	0.00
Revenue Reserves	0.28	0.00	0.00	0.00	0.00	0.00
Grants	0.96	1.71	1.51	0.76	0.76	0.76
External Contributions	0.43	0.48	0.00	0.00	0.00	0.00
Borrowing	21.82	3.41	19.89	5.78	4.82	0.84
Total GF Capital Financing	**23.50**	**5.59**	**22.50**	**6.54**	**5.58**	**1.60**

Capital Financing - HRA						
Babergh District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Capital Receipts	6.92	4.54	2.44	1.00	0.40	0.71
Revenue Contributions	0.00	2.90	2.63	2.36	0.69	0.00
Revenue Reserves	4.32	13.00	10.59	4.54	4.53	4.53
Grants	1.22	0.52	0.00	0.00	0.00	0.00
Borrowing	0.12	0.00	2.98	0.25	0.95	2.08
Total HRA Capital Financing	**12.57**	**20.96**	**18.64**	**8.15**	**6.57**	**7.32**
Total ALL Capital Financing	**36.07**	**26.56**	**41.14**	**14.69**	**12.15**	**8.92**

Capital Financing - General Fund						
Mid Suffolk District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Capital Receipts	0.05	0.00	0.00	0.00	0.00	0.00
Revenue Contributions	0.44	1.82	0.01	0.00	0.00	0.00
Revenue Reserves	5.54	1.98	3.29	0.00	0.00	0.00
Grants	0.69	2.17	0.93	0.70	0.70	0.70
Borrowing	22.14	7.83	24.80	6.38	4.37	0.87
Total GF Capital Financing	**28.87**	**13.79**	**29.03**	**7.08**	**5.07**	**1.57**

Capital Financing - HRA						
Mid Suffolk District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Capital Receipts	4.82	3.27	4.44	6.22	2.36	2.00
Revenue Contributions	1.22	1.60	1.27	1.33	0.00	0.00
Revenue Reserves	3.92	8.58	4.64	4.45	4.75	4.45
Grants	0.93	0.36	0.95	0.95	0.00	0.00
External Contributions	0.00	0.00	0.00	0.00	0.00	0.00
Borrowing	0.25	4.26	27.84	12.82	3.65	0.00
Total HRA Capital Financing	**11.15**	**18.06**	**39.13**	**25.76**	**10.76**	**6.44**
Total ALL Capital Financing	**40.01**	**31.85**	**68.17**	**32.84**	**15.82**	**8.01**

Capital Receipts

2.14 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, repayment of loans and investments from the Councils' trading companies and council house sales under the Right to Buy (1-4-1 receipts) and shared ownership schemes also generate capital receipts.

2.15 Capital receipts are either used to finance capital expenditure in the year the asset is sold, put into a capital reserve and used for later capital expenditure or used to repay debt. Capital receipts are expected to be used as follows:

<u>Table 3: Capital receipts used</u>

Capital Receipts						
Babergh District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
General Fund	0.01	0.00	1.10	0.00	0.00	0.00
General Fund Capital Loan Repayments	0.14	0.21	0.23	2.22	5.69	4.02
Council Housing (HRA) 1-4-1 Receipts	1.74	3.34	1.37	1.00	0.40	0.71
Council Housing (HRA) Other	5.18	1.20	1.07	0.00	0.00	0.00
Total Capital Receipts	**7.07**	**4.75**	**3.77**	**3.22**	**6.09**	**4.73**

Capital Receipts						
Mid Suffolk District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
General Fund	0.05	0.00	0.00	0.00	0.00	0.00
General Fund Capital Loan Repayments	0.14	0.21	0.23	16.91	24.64	16.71
Council Housing (HRA) 1-4-1 Receipts	2.22	3.03	2.03	2.17	2.01	2.00
Council Housing (HRA) Other	2.60	0.24	2.41	4.05	0.36	0.00
Total Capital Receipts	**5.00**	**3.48**	**4.68**	**23.13**	**27.00**	**18.71**

Repayment of Debt

2.16 Debt is only a temporary source of finance, since loans and leases must be repaid. Capital receipts may be used to replace debt finance, but usually debt is repaid over time from revenue, which is known as minimum revenue provision (MRP).

2.17 The Councils planned MRP and repayment of borrowing charged to revenue are as follows:

Table 4: Repayment of debt from revenue

Repayment of Debt Finance						
Babergh District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Repayment of Borrowing from HRA Revenue	0.40	0.15	0.00	0.00	0.00	0.00
MRP charged to General Fund Revenue	1.08	1.22	1.71	1.96	2.08	2.18
Total Repayment of Debt Finance	**1.48**	**1.37**	**1.71**	**1.96**	**2.08**	**2.18**

Repayment of Debt Finance						
Mid Suffolk District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
MRP charged to General Fund Revenue	1.18	1.30	1.56	1.78	1.82	1.85
Total Repayment of Debt Finance	**1.18**	**1.30**	**1.56**	**1.78**	**1.82**	**1.85**

2.18 The Councils' full minimum revenue provision statement is shown in Appendix H.

Capital Financing Requirement

2.19 The underlying need to borrow for capital purposes is measured by the capital financing requirement (CFR). The CFR, together with usable reserves, is one of the core drivers of both Councils' treasury management activities.

2.20 The CFR represents the cumulative outstanding amount of debt finance. It increases with new debt-financed (borrowing/leases) capital expenditure and reduces with MRP and capital receipts used to repay debt.

2.21 Babergh's CFR is expected to increase by £1.82m and Mid Suffolk's by £10.57m during 2021/22. Based on the above figures for expenditure (Table 1), financing (Table 2), and debt repayment (Table 4), the Councils estimate that their CFR will be as follows:

Table 5: Prudential Indicator: Estimates of Capital Financing Requirement

Cumulative Capital Financing Requirement (CFR)						
Babergh District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
General Fund	18.27	20.28	34.16	36.85	39.53	38.12
Capital Investments	53.78	53.73	57.80	56.71	51.09	47.13
Total General Fund	72.04	74.01	91.96	93.56	90.62	85.25
Council Housing (HRA)	88.17	88.02	91.00	91.25	92.20	94.28
Total CFR	**160.21**	**162.03**	**182.96**	**184.81**	**182.81**	**179.53**

Cumulative Capital Financing Requirement (CFR)						
Mid Suffolk District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
General Fund	22.83	26.08	29.60	28.95	28.00	27.03
Capital Investments	72.18	75.25	94.73	83.07	61.93	45.22
Total General Fund	95.01	101.32	124.33	112.02	89.94	72.25
Council Housing (HRA)	88.76	93.02	120.86	133.68	137.32	137.32
Total CFR	**183.77**	**194.34**	**245.19**	**245.70**	**227.26**	**209.57**

3. The Prudential Code

3.1 The framework established by the Prudential Code should support local strategic planning, local asset management planning and proper option appraisal.

3.2 The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved and how these risks will be managed to levels that are acceptable to the Councils.

3.3 The Prudential Code requires both Councils to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are being made with sufficient regard to the long run financing implications and potential risks to the Councils. Effective financial planning, option appraisal, risk management and governance processes are essential in achieving a prudential approach to capital expenditure, investment and debt.

3.4 The Prudential Indicators included in the Joint Capital Strategy, (Appendix A Tables 1, 5, 6, 8 and 9) illustrate the affordability and impact of capital expenditure decisions and set out both Councils overall capital and treasury framework.

3.5 Effective management and decisions on funding ensure both Councils comply with the provisions of Section 32 of the Local Government Finance Act 1992 to set a balanced budget. Using borrowing powers to undertake investment in line with the Joint Corporate Plan priority outcomes and generate a rate of return to produce additional income in order to address the funding pressures that both Councils face over the next 4 years.

4. Treasury Management

4.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Councils' 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 Councils are 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. Appendix F shows the current position.

4.2 As at 30 November 2021:

- Babergh has £118.67m total borrowing at an average interest rate of 2.56% and £21.63m of treasury investments at an average rate of 2.59%.
- Mid Suffolk has £132.88m total borrowing at an average interest rate of 2.37% and £19.75m treasury investments at an average interest rate of 2.84%.

Borrowing strategy:

4.3 The Councils' main objectives when borrowing are to achieve a low but certain cost of finance whilst retaining flexibility if plans should change in the future. These objectives are often conflicting, and the Councils therefore seek to strike a balance between cheap short-term loans (currently available at around 0.25%) and long-term fixed rate loans where the future cost is known but higher (currently around 1.0% to 2.0%).

4.4 The forecast movement in the CFR in coming years is one of the Prudential Indicators. The movement in actual external debt and usable reserves combine to identify the Councils' borrowing requirement and potential treasury management investment strategy in the current and future years.

4.5 The Councils' projected levels of total outstanding debt (borrowing and leases) are shown below and compared with the capital financing requirement (in paragraph 2.21, Table 5 above).

Table 6: Prudential Indicator: Gross Debt and Capital Financing Requirement

Gross Debt and Capital Financing Requirement						
Babergh District Council	**31.3.2021 Actual £m**	**31.3.2022 Forecast Outturn £m**	**31.3.2023 Budget £m**	**31.3.2024 Forecast £m**	**31.3.2025 Forecast £m**	**31.3.2026 Forecast £m**
General Fund						
Outstanding Borrowing (Debt)	(42.19)	(49.04)	(51.00)	(53.77)	(51.92)	(47.99)
Capital Financing Requirement	72.04	74.01	91.96	93.56	90.62	85.25
General Fund Headroom	**29.85**	**24.97**	**40.95**	**39.79**	**38.70**	**37.27**
HRA						
Outstanding Borrowing (Debt)	(84.90)	(84.75)	(87.73)	(87.98)	(88.92)	(91.00)
Capital Financing Requirement	88.17	88.02	91.00	91.25	92.20	94.28
HRA Headroom	**3.27**	**3.27**	**3.27**	**3.27**	**3.27**	**3.27**

Gross Debt and Capital Financing Requirement						
Mid Suffolk District Council	31.3.2021 Actual £m	31.3.2022 Forecast Outturn £m	31.3.2023 Budget £m	31.3.2024 Forecast £m	31.3.2025 Forecast £m	31.3.2026 Forecast £m
General Fund						
Outstanding Borrowing (Debt)	(73.38)	(88.07)	(104.02)	(96.68)	(72.76)	(61.72)
Capital Financing Requirement	95.01	101.32	124.33	112.02	89.94	72.25
General Fund Headroom	**21.62**	**13.25**	**20.31**	**15.34**	**17.17**	**10.53**
HRA						
Outstanding Borrowing (Debt)	(69.19)	(73.04)	(95.88)	(108.69)	(112.34)	(112.34)
Capital Financing Requirement	88.76	93.02	120.86	133.68	137.32	137.32
HRA Headroom	**19.58**	**19.98**	**24.98**	**24.98**	**24.98**	**24.98**

4.6 Statutory guidance says that debt should remain below the CFR, except in the short-term. As can be seen from Table 6 above, both Councils expect to comply with this in the medium-term.

Liability benchmark:

4.7 The Councils can internally borrow when they have generated a cash surplus on their revenue activities, for example from council tax, business rates, etc received in advance of use. This is known as a working capital surplus and can be used, in the short term, to finance capital expenditure meaning that there is not an immediate requirement to borrow from third parties.

4.8 Cash held within the Councils' reserves also reduces the requirement to borrow from third parties, until the reserves are used for their intended purpose.

4.9 To compare the Councils' actual borrowing against the lowest risk level of borrowing, a liability benchmark has been calculated. This gives an indication of the minimum amount of external borrowing required to meet the borrowing need (CFR) assuming that the Councils internally borrow up to the level of their estimated reserves balance and projected working capital surplus, whilst maintaining cash and investment balances at a minimum of treasury investments for each Council over the medium-term (the lowest level being £13.0m).

4.10 This benchmark is currently £147.82m for Babergh and £158.88m for Mid Suffolk for 2021/22 and is forecast to increase to £169.59m and £179.78m respectively over the next four years.

Table 7: Borrowing and the Liability Benchmark

Borrowing and Liability Benchmark						
Babergh District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Liability Benchmark	129.53	147.82	174.84	174.81	173.80	169.59
Outstanding Borrowing (Debt)	(127.09)	(104.40)	(93.84)	(93.28)	(86.71)	(80.12)
	2.44	**43.43**	**81.00**	**81.53**	**87.09**	**89.47**

Borrowing and Liability Benchmark						
Mid Suffolk District Council	**2020/21 Actual £m**	**2021/22 Forecast Outturn £m**	**2022/23 Budget £m**	**2023/24 Forecast £m**	**2024/25 Forecast £m**	**2025/26 Forecast £m**
Liability Benchmark	142.15	158.88	215.34	216.46	198.00	179.83
Outstanding Borrowing (Debt)	(142.57)	(118.34)	(98.73)	(90.10)	(88.95)	(87.79)
	-0.43	**40.55**	**116.61**	**126.35**	**109.04**	**92.04**

The detailed calculation of the Liability Benchmark is shown in Appendix C Table 2.

Authorised limit for external debt:

4.11 The Councils are legally obliged to set an authorised limit for external debt each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set and acts as a warning that action may be required to ensure that debt does not breach the authorised limit.

4.12 The operational boundary is set equal to the Councils' CFR, which represents the total borrowing need resulting from capital expenditure. The Councils have set an authorised limit of £15m above the operational boundary for each year to allow for working capital fluctuations or borrowing in advance of planned capital expenditure.

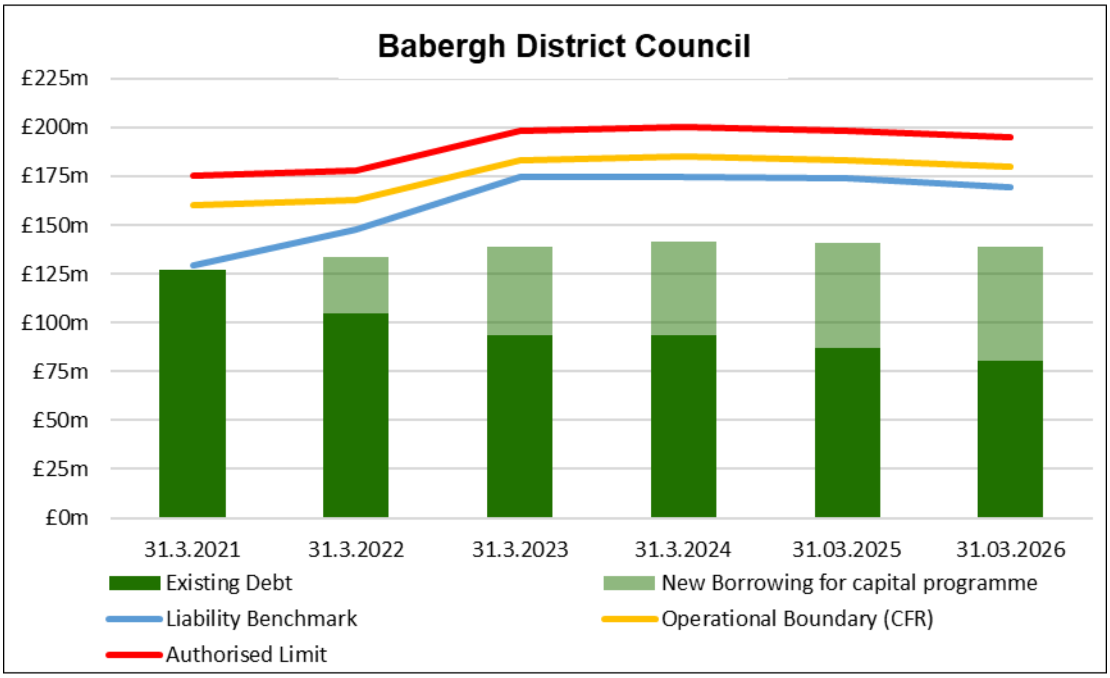
Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt

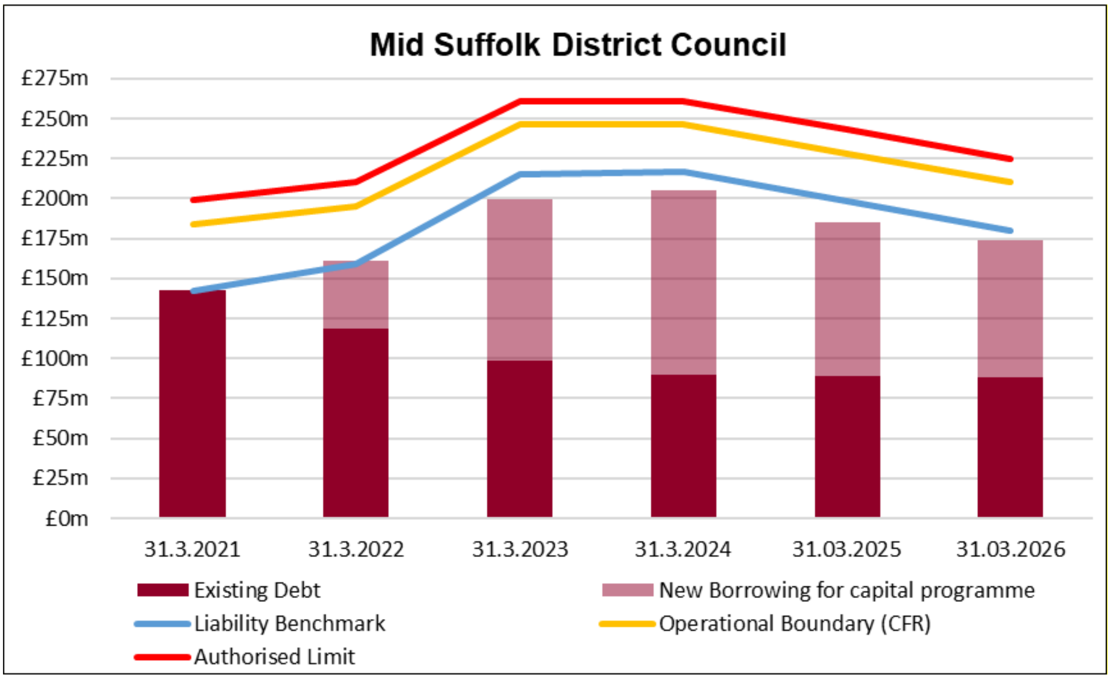
Operational Boundary & Authorised Limit					
Babergh District Council	**2021/22 Limit £m**	**2022/23 Limit £m**	**2023/24 Limit £m**	**2024/25 Limit £m**	**2025/26 Limit £m**
Operational Boundary	163	183	185	183	180
Authorised Limit	178	198	200	198	195
Ratio of Debt to Authorised Limit	71.4%	67.6%	69.4%	71.6%	72.2%

Operational Boundary & Authorised Limit					
Mid Suffolk District Council	**2021/22 Limit £m**	**2022/23 Limit £m**	**2023/24 Limit £m**	**2024/25 Limit £m**	**2025/26 Limit £m**
Operational Boundary	195	246	246	228	210
Authorised Limit	210	261	261	243	225
Ratio of Debt to Authorised Limit	67.9%	61.7%	76.6%	84.5%	82.3%

4.13 The charts that follow illustrate how outstanding debt is expected to remain below the liability benchmark, operational boundary and authorised limit for both Councils.

Chart 1: Borrowing compared to CFR, liability benchmark, operational boundary and authorised limit





4.14 Further details on borrowing are shown in Appendix C section 4 of the Joint Treasury Management Strategy.

Joint Treasury Investment Strategy:

4.15 Treasury investments arise from receiving cash before it is paid out again. The Councils hold several long-term investments as a result of this. These and all other treasury management activities are set out in the Joint Treasury Management Strategy in Appendix C. The Councils planned spend on the capital programme has an impact on the amount of surplus cash available for treasury investments and, as explained in paragraph 4.4 above, this results in the Councils need to borrow.

4.16 Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management. These are explained further in the Joint Investment Strategy in Appendix B.

4.17 **Risk management:**

The effective management and control of risk are prime objectives of the Councils' treasury management activities. The Joint Treasury Management Strategy in Appendix C sets out various Prudential 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**.**

4.18 **Governance:**

Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Assistant Director, Corporate Resources (the S151 Officer) and staff, who must act in line with the treasury management strategy approved by full Council. Half yearly reports on treasury management activity are presented to the Joint Audit and Standards Committee (JASC) who is responsible for scrutinising treasury management decisions.

5. Investments for Service Purposes

5.1 Service investments are where the Councils can support the provision of local public services by lending to or buying shares in other organisations.

5.2 The Councils do not have, nor currently have any plans to make, any investments in any organisations, apart from the councils' subsidiaries, to assist in the provision of local public services over the medium-term.

6. Liabilities:

6.1 In addition to debt of £133.79m for Babergh and £161.11m for Mid Suffolk, as detailed in Table 6 above for 2021/22, the Councils are committed to making future payments to cover their pension fund deficits. At 31 March 2021 Babergh's deficit was valued at £28.756m and Mid Suffolk's was £40.664m, with contributions of £0.53m for Babergh and £0.84m for Mid Suffolk due in 2021/22.

Governance:

6.2 Reports are taken to Cabinet as part of the budget monitoring process.

7. Revenue Budget Implications

7.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, Business Rates and general government grants for the General Fund and housing rents for the Housing Revenue Account (HRA).

7.2 For Babergh the maximum return (net income) is 4.05% in 2022/23 and for Mid Suffolk it is 13.12% in 2022/23 for the General Fund, as shown in Table 9 below. For the HRA the levels (net costs) are higher due to the link to the debt associated with the Councils' housing stock.

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

Proportion of Net Financing Costs to Net Revenue Stream					
Babergh District Council	**2021/22 Forecast Outturn**	**2022/23 Budget**	**2023/24 Forecast**	**2024/25 Forecast**	**2025/26 Forecast**
General Fund -					
Net Financing costs / (Income) £m	(1.12)	(0.56)	(0.21)	0.01	0.21
Proportion of net revenue stream %	-8.63%	-4.05%	-1.59%	0.08%	1.50%
Council Housing (HRA) -					
Net Financing costs £m	3.15	3.16	3.02	3.02	2.88
Proportion of net revenue stream %	18.26%	17.44%	15.65%	14.87%	14.21%

Proportion of Net Financing Costs to Net Revenue Stream					
Mid Suffolk District Council	**2021/22 Forecast Outturn**	**2022/23 Budget**	**2023/24 Forecast**	**2024/25 Forecast**	**2025/26 Forecast**
General Fund -					
Net Financing costs / (Income) £m	(2.24)	(2.19)	(1.54)	(2.01)	(2.49)
Proportion of net revenue stream %	-13.56%	-13.12%	-9.76%	-12.66%	-15.65%
Council Housing (HRA) -					
Net Financing costs £m	2.96	3.44	5.08	6.33	7.36
Proportion of net revenue stream %	19.17%	21.45%	29.24%	32.91%	38.11%

7.3 In addition to capital receipts, grants and borrowing the housing capital programme is partly financed by income received from housing rents. Table 10 shows these contributions and associated costs as an equivalent average weekly rent.

7.4 **Table 10: Impact of Capital Decisions on HRA Rents**

Babergh District Council	**2021/22 Forecast Outturn £**	**2022/23 Budget £**	**2023/24 Forecast £**	**2024/25 Forecast £**	**2025/26 Forecast £**
Increase in average weekly rents	16.10	14.41	12.83	3.96	0.36

Mid Suffolk District Council	**2021/22 Forecast Outturn £**	**2022/23 Budget £**	**2023/24 Forecast £**	**2024/25 Forecast £**	**2025/26 Forecast £**
Increase in average weekly rents	9.73	9.16	9.93	2.72	2.73

7.5 The setting of rent levels has been determined separately through the 30-year business model and any surplus or deficit on the HRA is transferred to or from Reserves.

7.6 Further details of the revenue implications of capital expenditure are included in the Budget Report that will be presented to the next Cabinet meetings and then onto the Full Council meetings in February 2022.

8. Sustainability

8.1 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 Assistant Director – Corporate Resources is satisfied that the proposed capital programme is prudent, affordable and sustainable over the medium term. This is due to the fact that debt remains below the CFR, (see Table 6), below the liability benchmark (see Table 7), and below the operational boundary and authorised limits (see Table 8), as well as an acceptable level of financing costs proportionate to the net revenue stream (see Table 9).

9. Knowledge and Skills

9.1 The Councils employ professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Assistant Director - Corporate Resources is a CIPFA qualified accountant with 30 years' experience and the Corporate Manager – Finance, Commissioning and Procurement an ACCA qualified accountant with over 20 years' experience. The Council employs an Assistant Director – Assets and Investments, who is a qualified chartered surveyor (MRICS) of 23 years' experience in both the private and public sector. The Council pays for staff to study towards relevant professional qualifications in finance such as the ICAEW, CIPFA and AAT.

9.2 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. The Councils currently employ Arlingclose Limited as treasury management advisers.

9.3 Other advisers include Jones Lang Lasalle (JLL) as property consultants, Carter Jonas for development appraisal and Browne Jacobson for legal support. For the development of the council offices Purcell Architects, Lawson Planning Partnership, Hoggarth Cooke and Morley Riches and Ablewhite were appointed. This approach is more cost effective than employing such staff directly and ensures that the Councils have access to knowledge and skills commensurate with its risk appetite.

9.4 Both Councils are working with Norse Group Holdings Ltd to complete the developments at the sites of the former council offices, in Hadleigh and Needham Market, through the Councils' trading companies, Babergh Growth Ltd and Mid Suffolk Growth Ltd. Mid Suffolk is working with JAYNIC Properties Ltd on the development of the Gateway 14 site.

9.5 The Councils have a Learning and Development programme for staff which includes access to internal and externally provided training including attaining full professional qualifications.

APPENDIX B: JOINT INVESTMENT STRATEGY 2022/23

1. Introduction

1.1 The Councils invest their money for four broad purposes:

- because they have surplus cash as a result of their 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 (known as service investments), and
- to earn investment income (known as commercial investments - for yield where income is the main purpose).
- To support economic development, regeneration or provision of housing

1.2 Both Councils have invested in third party or related organisations to provide public services (known as service investments). Both Councils are working to complete housing developments, including the sites of the former council offices, in Hadleigh and Needham Market, through the Councils' trading companies, Babergh Growth Ltd and Mid Suffolk Growth Ltd. Mid Suffolk has also invested in its subsidiary, Gateway 14 Ltd, for the purposes of regeneration and economic development.

1.3 This Joint Investment Strategy is for 2022/23, meets the requirements of statutory guidance issued by the government in January 2018, and focuses on the investments which are or will be disclosed in the Councils' annual accounts. The DLUHC defines property to be an investment (commercial) if it is held primarily or partially to generate a profit.

1.4 For each type of investment, the Councils are required to show the contribution the investments make to the Councils' objectives.

2. Treasury Management Investments

2.1 The Councils typically receive their income in cash (e.g. from taxes and grants) before they pay for their expenditure in cash (e.g. through payroll and invoices). The Councils also hold reserves for future expenditure and collect local taxes on behalf of other local authorities 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 (CIPFA).

2.2 For details of the Councils' treasury management investments, see section 5 of the Joint Treasury Management Strategy in Appendix C.

Contribution:

2.3 The contribution that these investments make to the objectives of both Councils is to support effective treasury management activities.

3. Investments in Property

3.1 Investments in property can take the form of using and developing council owned assets. The definition does not include the redevelopment for council housing through the HRA.

Contribution:

3.2 The Councils invest in commercial and residential property within their Districts, for the primary purpose of regeneration and economic development. They may also generate income, as a secondary objective, that will be spent on local public services.

3.3 The current and future service investments for council owned assets are described below.

Babergh

- **Borehamgate, Sudbury**

  Babergh purchased Borehamgate shopping precinct on 1 August 2016 for £3.5m as part of a plan to regenerate the Hamilton Road quarter of Sudbury. This prospective development is still at an early stage and amounts for minor improvements have been included in the capital programme.

- **Former Council Offices in Hadleigh**
  - In September 2016 both Councils decided to relocate from their existing Council offices in Hadleigh and Needham Market to Endeavour House in Ipswich and subsequently relocated in November 2017. In December 2018, the Councils approved investments in market led housing schemes for the former office sites to realise value from these now surplus assets.
  - Babergh approved the conversion of the former Corks Lane Council office in Hadleigh into 31 new homes and also the construction of an additional 26 new homes on the site, all for market sale.
  - The Council created a new company, Babergh Growth Ltd, on 19 March 2019, which entered into a joint venture with Norse Group Holdings Ltd, to complete the development. The Council is providing 100% of the finance.

A peak cash flow funding requirement of £3.16m is included in the capital programme. The scheme is scheduled to commence in 2022/23.

Hadleigh A1071 Roadside Economic Development Workspace

- The Council has secured a small parcel of employment land which it can directly invest in to address market failure and develop as a viable scheme to provide needed workspace, employment opportunities and support for the local community of Hadleigh and surrounding area.

Mid Suffolk

- **Former retail site, Stowmarket**
  - Mid Suffolk bought the site in Gipping Way, Stowmarket for £1.4m on 7 January 2019 for economic development purposes. A licence to operate the car park was entered into before completion enabling the development and use of this site for public pay and display car parking from December 2018.
  - Work has been undertaken to divide the site into two units with a lease being arranged with PureGym for one of the units.
- **Former Council Offices in Needham Market**
  - As stated above, both Councils decided to relocate their offices to Endeavour House in Ipswich and subsequently relocated in November 2017, with the site in Needham Market being earmarked for development predominantly for housing purposes.
  - Mid Suffolk obtained planning permission for 93 new homes on the former Council office and car park sites, in Needham Market, including 83 for market sale, 7 for affordable rent and 3 for shared ownership and a convenience store.
  - The Council created a new company, Mid Suffolk Growth Ltd on 19 March 2019, which entered into a joint venture with Norse Group Holdings Ltd, to complete the development and they will provide 50% of the finance.
  - A peak cash flow funding requirement of £2.81m is included in the capital programme. The housing for open market sale will be funded 50% by Norse. Work on site commenced in 2020/21 and the Council's contribution is included in the capital expenditure as shown in Table 1 below:

Table 1: Property held for investment purposes: Cumulative expenditure

Cumulative Expenditure on Property Investments						
Babergh District Council	2020/21 Cumulative Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Borehamgate, Sudbury	3.56	3.73	3.79	3.86	3.92	3.99
Former Council Offices, Hadleigh	0.60	0.60	3.76	3.76	3.76	3.76
A1071 Economic Development, Hadleigh	0.00	0.00	1.08	2.15	2.15	2.15
Total	4.16	4.33	8.63	9.77	9.84	9.90

Cumulative Expenditure on Property Investments						
Mid Suffolk District Council	2020/21 Cumulative Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Former Council Offices, Needham Market	0.76	2.86	3.08	3.08	3.08	3.08
Former Retail Site, Stowmarket	1.87	1.88	1.88	1.88	1.88	1.88
11 Market Place, Stowmarket	0.36	0.36	0.36	0.36	0.36	0.36
Total	2.99	5.10	5.32	5.32	5.32	5.32

Security:

3.4 In accordance with government guidance, the Councils consider a property investment to be secure if its accounting valuation is at the same level or higher than its purchase cost including taxes and transaction costs at the time of anticipated disposal.

3.5 A fair value assessment of the Councils' directly owned investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. If during the preparation of the 2021/22 year-end accounts and audit process the value of these properties are materially below their purchase cost, then an updated investment strategy will be presented to Full Council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

Risk assessment:

3.6 As mentioned in section 8 of the main report this strategy has links to the Councils' Significant Risk Register, specifically risk No's 10 and 13 and Corporate Risk No. SE05.

3.7 The Councils assess the risk of loss before investing in and whilst holding every property investment.

3.8 The Councils also commission third parties to provide expert advice. These advisors are appointed on the basis of reputation, experience and price and their advice is scrutinised by the company board members and officers responsible for investment decisions.

3.9 Babergh purchased Borehamgate shopping precinct for £3.56m in 2016 as an investment property. The retail units generate income from leases and are subject to pressures in the retail sector as a result of the general economic conditions. The Council has accepted the risks associated with this property e.g. the previous valuations below purchase price, whilst taking a longer-term view of its future as part of the regeneration and development of the Hamilton Road area in Sudbury.

3.10 Market sale housing development:

- Purcell Architects, Lawson Planning Partnership, Hoggarth Cooke and Morley Riches & Ablewhite were appointed to support the Council with design, planning advice, feasibility and financial viability appraisals of the options for future use of the former Babergh and Mid Suffolk council office sites in Hadleigh and Needham Market.

- Proposed housing schemes were approved in principle by each Council in July 2018 and the delivery option subsequently chosen for both schemes were Joint Venture developments with a public partner (in both cases Norse Group Holdings Ltd).

- This enables the Councils to manage these schemes in a timely manner, control the quality of the housing, mitigate risk through securing an experienced socially wedded public sector partner and secure a commercial return.

3.11 Mid Suffolk bought the empty retail property in Stowmarket, including the car park and introduced managed parking. Work has been undertaken to divide the site into two units with a lease being arranged with PureGym for one of the units.

Liquidity:

3.12 Property can be relatively difficult to sell quickly because of a lack of ready and willing investors or speculators to purchase the asset and convert to cash at short notice. However, all these properties will be part of the Councils' commercial, economic development or residential regeneration schemes.

4. Investments in Shares and Loans

4.1 The Councils invest through share ownership and giving loans to their wholly owned companies, special purpose vehicles or third parties (local organisations) as part of a strategy for improving the local economy (service investments) through housing or economic developments and regeneration or generating a rate of return or financial gain (commercial investments).

4.2 The Councils invest indirectly in property, through two wholly owned holding companies, by a combination of shares (equity) and loans (debt), matching the funding requirements of the underlying investment and the returns required by the Councils. All debt financed investment complies with EU State Aid rules.

4.3 BDC (Suffolk Holdings) Limited, a wholly owned subsidiary of Babergh, and MSDC (Suffolk Holdings) Limited, a wholly owned subsidiary of Mid Suffolk, were both incorporated on 9 June 2017, and are investment vehicles for each Council.

Contribution:

CIFCO Ltd (Commercial Investment)

4.4 Each holding company owns 50% of the issued share capital of CIFCO Ltd which was incorporated on 12 June 2017 to invest in a portfolio of commercial property. Each Council's investment in these companies is split 10% share capital in their holding companies and 90% loan direct to CIFCO Ltd.

4.5 Each Council approved an initial investment (Tranche 1) of a total of £27.5m (£2.75m shares, £24.75m loans) of which £26.1m was invested by 31 March 2019 to acquire 11 properties.

4.6 Each Council approved a further investment (Tranche 2) of £25m (£2.5m shares, £22.5m loans) with a total achieved of £23.49m by the end of 2020/21. CIFCO Ltd may sell assets and reinvest in other properties to make changes to the portfolio.

4.7 Both Councils have classed CIFCO Ltd as a commercial investment for financial return which generates interest income to the General Fund. Neither Council will make further investments after 2020/21. This is in line with PWLB lending arrangements and the Prudential Code.

Gateway 14 Ltd (Service Investment)

4.8 MSDC (Suffolk Holdings) Limited also owns 100% of the issued share capital of Gateway 14 Ltd which was incorporated on the 1 November 2017 as a special purpose vehicle (SPV) to acquire Gateway 14, a 156-acre site located to the eastern fringe of Stowmarket and develop a business park, as part of plans to regenerate the area and meet service priorities. Mid Suffolk's initial investment in this company was split 10% share capital in the holding company and 90% loan to Gateway 14 Ltd, with further investments anticipated to be 100% loans.

4.9 Mid Suffolk Council approved an initial investment of the Gateway 14 site which was acquired for £16.5m (£1.6m shares, £14.9m loans) on 13 August 2018. Further investments of £4.16m were made in 2019/20, £0.6m in 2020/21. £2m is expected in 2021/22 and another £15.25m during 2022/23.

4.10 Further details on this project can be found in 4.23 and 4.24 below.

Babergh Growth Ltd (Service Investment)

4.11 BDC (Suffolk Holdings) Limited, also owns 50% of Babergh Growth Ltd. This was incorporated on 19 March 2019. The other 50% is owned by Norse Group Holdings Ltd. This is a joint venture with the primary purpose of meeting service priorities for delivering housing. This will be at the former council offices in Hadleigh and other residential and mixed used schemes in the future. Any financial gain from this venture will be incidental. The Council has invested in £5k of shares in the company.

Mid Suffolk Growth Ltd (Service Investment)

4.12 MSDC (Suffolk Holdings) Limited, also own 50% of Mid Suffolk Growth Ltd. This was incorporated on 19 March 2019. The other 50% is owned by Norse Group Holdings Ltd. This is a joint venture with the primary purpose of meeting service priorities for delivering housing. This will be at the former council offices in Needham Market and other residential and mixed used schemes in the future. Any financial gain from this venture will be incidental. The Council has invested in £5k of shares in the company.

4.13 **Table 2: Total Investments in shares and loans**

Cumulative Investments through Shares and Loans						
Babergh District Council	**2020/21 Cumulative Actual £m**	**2021/22 Forecast Outturn £m**	**2022/23 Budget £m**	**2023/24 Forecast £m**	**2024/25 Forecast £m**	**2025/26 Forecast £m**
CIFCO Ltd (1)	25.78	25.66	25.53	25.40	25.25	25.10
CIFCO Ltd (2)	23.47	23.38	23.27	23.17	23.05	22.93
Babergh Growth Company	0.00	0.00	0.50	4.25	3.75	0.00
Total	**49.25**	**49.04**	**49.31**	**52.81**	**52.05**	**48.03**
Investment in Shares	4.96	4.96	4.96	4.96	4.96	4.96
Investment through Loans	44.30	44.08	44.35	47.85	47.10	43.07
Total	**49.25**	**49.04**	**49.31**	**52.81**	**52.05**	**48.03**

Cumulative Investments through Shares and Loans						
Mid Suffolk District Council	**2020/21 Cumulative Actual £m**	**2021/22 Forecast Outturn £m**	**2022/23 Budget £m**	**2023/24 Forecast £m**	**2024/25 Forecast £m**	**2025/26 Forecast £m**
CIFCO Ltd (1)	25.78	25.66	25.53	25.40	25.25	25.10
CIFCO Ltd (2)	23.47	23.38	23.27	23.16	23.05	22.93
Gateway 14 Ltd	20.98	26.98	38.98	32.17	18.64	11.30
Mid Suffolk Growth Company	0.00	0.00	4.25	5.25	3.50	0.00
Total	**70.23**	**76.02**	**92.04**	**85.98**	**70.45**	**59.34**
Investment in Shares	6.58	6.58	6.58	6.58	6.58	6.58
Investment through Loans	63.65	69.44	85.45	79.40	63.87	52.76
Total	**70.23**	**76.02**	**92.04**	**85.98**	**70.45**	**59.34**

Risk Assessment:

4.14 As mentioned in section 8 of the main report, this strategy has links to the Councils Significant Risk Register, specifically risk no. 10, if CIFCO Ltd does not generate forecast investment returns and Gateway 14 Ltd fails to bring forward the development of the site.

4.15 CIFCO Ltd and Gateway 14 Ltd, also maintain their own risk registers and the Corporate Manager for Internal Audit attends the regular Risk Management Panel meetings.

4.16 The Councils' holding companies have appointed directors to the boards of CIFCO Ltd, Gateway 14 Ltd, Babergh Growth Ltd and Mid Suffolk Growth Ltd that offer a Council shareholder perspective (elected member directors) and commercial property expertise (industry expert directors). It is anticipated that boards of any future investment SPVs, will have a similar membership.

<u>CIFCO Ltd</u>

4.17 CIFCO Ltd.'s investment strategy targets medium to long term resilience based on:

- a strategy that balances the portfolio, so a significant number of assets are 'core' and liquid and,

- a strategy that balances other attributes such as geography, asset class and sector so that resistance to market stresses in any individual attribute can be mitigated.

4.18 Each property acquisition was approved by the CIFCO Ltd Board and reported to each holding company Board for approval before funds were released, and due diligence was done on the tenant as assets were acquired, including a Dun and Bradstreet credit check.

4.19 On a quarterly basis, CIFCO Ltd.'s fund managers Jones Lang LaSalle (JLL) provide a portfolio analysis report including market forecasts and any tenancy arrears, and the CIFCO Ltd Chair (an independent industry expert) reports on performance to simultaneous holding company board meetings and once a year to Full Council.

4.20 As part of annual business planning, JLL provide a full market conditions assessment, based on the individual attributes of each asset class targeted by CIFCO Ltd, and the CIFCO Ltd Board consider any revisions to its investment strategy based on this assessment and the ongoing quarterly portfolio analysis reports.

4.21 With financial return being the main objective, the Councils accept higher risk on investments for yield than they do with treasury management investments. The potential risks for property held for income are voids and falls in rental income. The commercial properties acquired for income are bought as long-term holdings and are professionally managed. They could be sold individually if the long-term prognosis is an underachievement of net return targets.

Gateway 14 Ltd

4.22 Mid Suffolk and its holding company delegated authority to the Board to acquire the site and develop a detailed delivery model for this business park development. Since acquisition, Avison Young has been advising the Board in respect of delivery models and partners to bring forward the development of this 156-acre business park. The Holding company will approve subsequent requests for the drawdown of capital for infrastructure and development works across the site.

4.23 Property company JAYNIC has been appointed by Gateway 14 to develop the site. Public consultation on illustrative masterplans for the site were held in Autumn 2020 with a subsequent planning application submitted in January 2021 and planning approval was granted in November 2021.

Liquidity:

4.24 Loans are repaid often over a long time and consist of principal and interest in accordance with the loan agreements. The interest is a revenue receipt and is available for use immediately. The Councils have a charge on the properties acquired by CIFCO Ltd and the land acquired for Gateway 14 which gives the Councils security.

5. Proportionality

5.1 Both Councils have some dependency on profit generating investment activity to achieve a balanced revenue budget. Table 3 shows the extent to which the Councils expenditure is dependent on achieving the expected net profit from investments over the medium-term.

Should the Councils fail to achieve the expected net profit, both Councils have contingency plans for continuing to provide these services by reducing overheads, continuing to make services more efficient and through digital transformation.

Table 3: Proportionality of Investments

Proportionality of Investments						
Babergh District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Gross service expenditure	34.69	32.66	33.54	33.69	34.27	34.93
Gross Investment income	2.04	2.76	2.75	2.74	2.73	2.72
Proportion	**5.88%**	**8.46%**	**8.21%**	**8.14%**	**7.96%**	**7.79%**

Proportionality of Investments						
Mid Suffolk District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Gross service expenditure	34.09	30.80	37.05	31.93	32.47	33.19
Gross Investment income	3.10	4.38	4.63	4.27	4.85	5.44
Proportion	**9.09%**	**14.21%**	**12.50%**	**13.39%**	**14.95%**	**16.39%**

6. Borrowing in Advance of Need

CIPFA Prudential Code (the Code)

6.1 The 2021 Prudential Code states that "an authority must not borrow to invest primarily for financial return".

6.2 In order to comply with the Code, both Councils will not make any more investments in CIFCO Ltd (a commercial investment) after 2020/21. Any future investments in the Councils' other trading companies will be for the primary purpose of meeting service priorities.

DLUHC Guidance

6.3 Government guidance issued in October 2018 has extended the Prudential Code definition to include borrowing to finance the acquisition of non-financial as well as financial investments that the organisation holds primarily or partially to generate a profit. This includes all loans and property investments.

6.4 Both Councils' have borrowed to invest in their own properties and to give loans to CIFCO Ltd and Gateway 14 Ltd and other special purpose vehicles. These make a profit to reinvest in Council services and help achieve a balanced revenue budget. The Councils' view of this activity is that it meets the service needs and is within their CFR as per the CIPFA definition.

6.5 The Councils' policies in investing the money borrowed, including management of the risks, for example, of not achieving the desired profit or borrowing costs increasing are:

- When exercising the power to invest, the Councils will act for a proper purpose and act in a reasonable manner, its fiduciary duty to obtain value for money and whether the investments are proportionate and properly balanced against the anticipated benefits as well as the wider interests of the Councils' local Business Rate and Council Taxpayers.

- To have regard to the regeneration and development strand of the Councils' Joint Asset and Investment Strategy when investing for profit, acknowledging that the Councils have a key role to play in using their own assets and enabling/facilitating the use of private and other public sector assets to deliver housing and economic growth and regeneration. To appoint independent industry expert directors to the Councils' investment and SPV company boards

- For the SPVs to prepare a business case for each purchase and report to the Council on expected cost and benefits

- To appoint relevant expert advisors when assessing, entering and holding an investment.

- When investing in development projects, where possible and appropriate, to contract with an experienced development partner.

- To prioritise medium to long term resilience of investments, over short-term gain.

- To fund and structure each investment to optimise risks and rewards, having regard to the previous bullet point.

7. Knowledge and Skills

7.1 As per section 10 of the Joint Capital Strategy in Appendix A

8. Governance – Capital Investments

8.1 The Capital Programme is approved as part of the annual budget setting process by Cabinet and Full Council in February. Other investment decisions occurring outside of this process that exceed £150k qualify as a key decision as per Part One of the Councils' constitution and is approved by Cabinet and Full Council.

9. Investment Indicators

9.1 The Councils have set the following quantitative indicators to allow elected members and the public to assess the Councils' total risk exposure as a result of their investment decisions. These are shown in Tables 4, 5 and 6 that follow.

Total risk exposure:

9.2 The first indicator shows the Councils' cumulative total exposure to potential investment losses.

Table 4: Total investment exposure

Cumulative Investment Exposure						
Babergh District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Treasury Management Investments	13.01	13.09	13.06	13.05	13.03	13.00
Capital Investments	53.42	53.37	57.94	62.58	61.89	57.93
Total Exposure	**66.42**	**66.47**	**71.00**	**75.63**	**74.92**	**70.94**

Cumulative Investment Exposure						
Mid Suffolk District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Treasury Management Investments	14.68	13.09	13.06	13.05	13.03	13.00
Capital Investments	73.22	81.12	97.35	91.29	75.76	64.65
Total Exposure	**87.90**	**94.21**	**110.41**	**104.34**	**88.79**	**77.65**

How investments are funded:

9.3 Government guidance is that these indicators should include how investments are funded. Since the Councils do not normally associate particular assets with particular liabilities, this guidance is difficult to apply. However, the following investments could be described as funded by borrowing.

9.4 For those investments funded by borrowing the exposure at the beginning of 2022/23 is forecast to be £53.4m for Babergh and £81.1m for Mid Suffolk as shown in Table 5 that follows.

Table 5: Investments funded by borrowing

Cumulative investments funded by borrowings						
Babergh District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Capital Investments	53.42	53.37	57.94	62.58	61.89	57.93
Total Funded by borrowing	**53.42**	**53.37**	**57.94**	**62.58**	**61.89**	**57.93**

Cumulative investments funded by borrowings						
Mid Suffolk District Council	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Capital Investments	73.22	81.12	97.35	91.29	75.76	64.65
Total Funded by borrowing	**73.22**	**81.12**	**97.35**	**91.29**	**75.76**	**64.65**

Rate of return received:

9.5 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 6: Investments net rate of return

Investments net rate of return						
Babergh District Council	2020/21 Actual %	2021/22 Forecast Outturn %	2022/23 Budget %	2023/24 Forecast %	2024/25 Forecast %	2025/26 Forecast %
Treasury Management Investments	2.63	2.73	3.11	3.11	3.11	3.12
Other Capital Investments	3.13	3.53	3.53	3.53	3.53	3.53
CIFCO Ltd (1)	3.44	3.35	3.34	3.38	3.42	3.47
CIFCO Ltd (2)	3.41	3.98	3.98	3.53	3.08	2.65
Babergh Growth Company	0.00	0.00	2.72	5.23	2.76	2.77
All investments (Average)	**3.40**	**3.64**	**3.65**	**3.54**	**3.47**	**3.20**
Investments net rate of return						
Mid Suffolk District Council	**2020/21 Actual %**	**2021/22 Forecast Outturn %**	**2022/23 Budget %**	**2023/24 Forecast %**	**2024/25 Forecast %**	**2025/26 Forecast %**
Treasury Management Investments	2.82	2.79	3.24	3.25	3.25	3.26
CIFCO Ltd (1)	2.43	2.57	2.63	2.71	2.77	2.84
CIFCO Ltd (2)	3.19	3.98	3.98	3.53	3.08	2.65
Gateway 14 Ltd	4.20	6.36	4.88	5.30	5.77	6.69
Mid Suffolk Growth Company	0.00	0.00	5.88	5.95	4.77	2.38
All investments (Average)	**3.21**	**4.25**	**4.00**	**4.33**	**4.29**	**4.01**

Note: The returns for Gateway 14 and the Growth companies varies due to the timing of repayments as properties are sold/developed and loans repaid in full.

APPENDIX C: JOINT TREASURY MANAGEMENT STRATEGY 2022/23

1. Introduction

1.1 The Joint Treasury Management strategy contains the following:

- Borrowing Strategy (section 4)
- Annual Investment Strategy (section 5)
- Treasury Management Indicators (Appendix D)
- Economic and Interest Rate Forecast (Appendix E)
- Existing Investment and Debt Portfolio (Appendix F)
- Treasury Management Policy Statement (Appendix G)

1.2 Treasury management is the management of the Councils' cash flows, borrowing and investments, and the associated risks. Babergh and Mid Suffolk invest surplus funds and both Councils borrow to fund capital investment and manage cash flows. Both Councils are therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates.

1.3 The successful identification, monitoring and control of financial risk are therefore central to the Councils' prudent financial management.

1.4 The Councils will continue to:

- Make use of call accounts, if necessary
- Use the strongest/lowest risk non-credit rated building societies
- Use covered bonds (secured against assets) for longer term investments
- Consider longer term investments in property or other funds

1.5 The Local Government Act 2003 requires the Councils to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities 2017 (the Prudential Code) when determining how much money they can afford to borrow.

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

1.7 The DLUHC Investment Guidance 2018, in paragraph 21, requires local authorities to prioritise Security, Liquidity and Yield in that order of importance.

1.8 The Joint Treasury Management Strategy for 2022/23 continues to focus primarily on the effective management and control of risk and striking a balance between the security, liquidity and yield of those investments. The Councils' objective when investing money is to strike an appropriate balance between risk and return.

1.9 Details of investments held for service purposes or for commercial profit are included in the Joint Investment Strategy shown in Appendix B.

2. External Context

2.1 A detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix E.

3. Local Context

Interest rates on Investments and Borrowing

3.1 For the purpose of setting the budget, it has been assumed that new short-term investments will be made at an average rate of between 0.01% and 0.08%, and that new long-term loans will be borrowed at an average rate between 1.8% and 2.8%.

Capital Financing Requirement

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

3.3 As at 30 November 2021, Babergh held £118.67m of borrowing and £21.63m of investments, Mid Suffolk held £132.88m of borrowing and £19.75m of investments. This is set out in further detail at Appendix F. Forecast changes in these sums are shown in the following balance sheet analysis:

Table 1: Capital Financing Requirement Summary and forecast

Cumulative Capital Financing Requirement Babergh	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Total CFR	160.21	162.03	182.96	184.81	182.81	179.53
Less: Other Debt Liabilities *	0.00	0.00	(0.30)	(0.22)	(0.14)	(0.05)
Loans CFR	**160.21**	**162.03**	**182.65**	**184.59**	**182.68**	**179.48**
Less: External Borrowing**	(127.09)	(104.40)	(93.84)	(93.28)	(86.71)	(80.12)
Internal (Over) Borrowing (Cumulative)	**33.12**	**57.63**	**88.81**	**91.31**	**95.97**	**99.36**
Less: Balances & Reserves-General Fund	(24.23)	(18.33)	(17.74)	(17.55)	(17.45)	(17.37)
Less: Balances & Reserves-HRA	(19.59)	(9.10)	(3.57)	(5.63)	(4.73)	(5.70)
Less: Working Capital Surplus	0.13	0.13	0.13	0.13	0.13	0.13
New Net (Investment) / Borrowing Requirement	**(10.57)**	**30.33**	**67.64**	**68.26**	**73.92**	**76.42**

Cumulative Capital Financing Requirement Mid Suffolk	2020/21 Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Total CFR	183.77	194.34	245.19	245.70	227.26	209.57
Less: Other Debt Liabilities *	0.00	0.00	(0.34)	(0.24)	(0.14)	(0.05)
Loans CFR	**183.77**	**194.34**	**244.85**	**245.46**	**227.12**	**209.52**
Less: External Borrowing**	(142.57)	(118.34)	(98.73)	(90.10)	(88.95)	(87.79)
Internal (Over) Borrowing (Cumulative)	**41.20**	**76.01**	**146.13**	**155.36**	**138.17**	**121.73**
Less: Balances & Reserves-General Fund	(45.66)	(43.73)	(38.17)	(37.77)	(37.46)	(37.16)
Less: Balances & Reserves-HRA	(8.84)	(3.01)	(2.92)	(2.70)	(3.02)	(3.77)
Add: Working Capital Deficit	(1.81)	(1.81)	(1.81)	(1.81)	(1.81)	(1.81)
New Net (Investment) / Borrowing Requirement	**(15.11)**	**27.46**	**103.22**	**113.07**	**95.88**	**78.99**

* leases form part of the Councils' total debt
** shows only loans to which the Councils are currently committed and excludes optional refinancing.

3.4 The Councils have CFRs which increase in the short term and then decrease by the end of the medium term. This is due to the requirements of the capital programme, and investments and will therefore need to borrow up to £52.4m for Babergh and £113m for Mid Suffolk over the forecast period.

3.5 CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Councils' total debt should be lower than their highest forecast CFR over the next three years. Table 1 above shows that the Councils expect to comply with this recommendation over the forecast period.

Liability benchmark:

3.6 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 Treasury Investments for each Council over the medium-term (the lowest being £13m) to maintain sufficient liquidity but minimise credit risk.

3.7 A comparison of the Councils' actual borrowing against this alternative strategy was shown in Table 7 in Appendix A, paragraph 4.10. This table shows that when the Councils' expected outstanding debt is below the Liability Benchmark (lowest risk level) for the forecast period, it indicates a need to borrow.

<u>Table 2: Liability Benchmark</u>

Liability Benchmark						
Babergh	**2020/21 Actual £m**	**2021/22 Forecast Outturn £m**	**2022/23 Budget £m**	**2023/24 Forecast £m**	**2024/25 Forecast £m**	**2025/26 Forecast £m**
CFR	160.21	162.03	182.96	184.81	182.81	179.53
Less: Usable Reserves	(43.82)	(27.43)	(21.31)	(23.18)	(22.18)	(23.07)
Less: Working Capital Surplus	0.13	0.13	0.13	0.13	0.13	0.13
Plus: Minimum Investments	13.01	13.09	13.06	13.05	13.03	13.00
Liability Benchmark	**129.53**	**147.82**	**174.84**	**174.81**	**173.80**	**169.59**

Liability Benchmark						
Mid Suffolk District Council	**2020/21 Actual £m**	**2021/22 Forecast Outturn £m**	**2022/23 Budget £m**	**2023/24 Forecast £m**	**2024/25 Forecast £m**	**2025/26 Forecast £m**
CFR	183.77	194.34	245.19	245.70	227.26	209.57
Less: Usable Reserves	(54.49)	(46.74)	(41.10)	(40.47)	(40.48)	(40.93)
Add: Working Capital Deficit	(1.81)	(1.81)	(1.81)	(1.81)	(1.81)	(1.81)
Plus: Minimum Investments	14.68	13.09	13.06	13.05	13.03	13.00
Liability Benchmark	**142.15**	**158.88**	**215.34**	**216.46**	**198.00**	**179.83**

4. Borrowing Strategy

Overview

4.1 As at 30 November 2021 Babergh held loans of £118.67m and Mid Suffolk £132.88m. These have increased by £11.66m for Babergh and £9.62m for Mid Suffolk on the previous year, due to funding previous years' capital programmes.

4.2 The balance sheet forecast for borrowing in Table 1 above shows that Babergh would be able to borrow up to £43.64m and Mid Suffolk could borrow up to £103.22m in 2022/23. The Councils may borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £198m for Babergh and £261m for Mid Suffolk, as shown in Appendix A Table 8.

Objectives

4.3 The Councils' 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. A secondary objective is the flexibility to renegotiate loans should the Councils' long-term plans change.

Strategy

4.4 Given the significant cuts to public expenditure and in particular to local government funding, the Councils' borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolios. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. This position will be monitored and evaluated on an ongoing basis to ensure both Councils achieve value for money.

4.5 By doing so, the Councils are able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and 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 (the Councils' treasury advisers) will assist the Councils with this 'cost of carry' and breakeven analysis.

4.6 Its output may determine whether the Councils borrow additional sums at long-term fixed rates in 2022/23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

4.7 The Councils have previously raised the majority of their long-term borrowing from the PWLB but will consider borrowing any long-term loans from other sources including banks, pension funds 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 Treasury Management Code.

4.8 PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Councils intend to avoid this activity in 2022/23 and beyond in order to retain its access to PWLB loans.

4.9 Alternatively, the Councils may arrange forward starting loans during 2022/23, 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.

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

Sources of borrowing

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

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

Municipal Bonds Agency

4.12 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

4.13 Mid Suffolk holds £4m 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 Council has the option to either accept the new rate or to repay the loan at no additional cost. All of these loans have options during 2022/23, and although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to £4m.

Short-term and variable rate loans

4.14 These loans leave the Councils 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.

Other sources of debt finance

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

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

Local Application

4.16 The Councils have previously raised the majority of their long-term borrowing from the PWLB, but continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

4.17 Consideration will be given to all forms of borrowing/financing in relation to any future capital investment plans. This is most likely to be via the Public Works Loan Board (PWLB) but consideration will also be given to borrowing from other sources such as other local authorities, commercial banks, the money markets, capital markets (stock issues, commercial paper and bills) and leasing. The Councils will receive the “certainty rate” discount of 0.2% on PWLB loans. An “infrastructure rate” discount of 0.4% is also available for lending to support nominated infrastructure projects.

4.18 In conjunction with advice from Arlingclose, both Councils will keep these sources of finance under review.

4.19 Officers will take advice on the optimum time to undertake additional borrowing and will adopt a flexible approach in consultation with their treasury advisors, after consideration of the following:

- Affordability
- Maturity profile of existing debt
- Interest rate and refinancing risks
- Borrowing source

4.20 The General Fund revenue budget for 2022/23 will include provision for interest payments relating to external borrowing and the statutory Minimum Revenue Provision (MRP) to ensure the principal is repaid. Different arrangements apply to the Housing Revenue Account (Council Housing) in that there is no MRP. The strategy and activities are affected by a number of factors, including the regulatory framework, economic conditions, best practice and interest rate/liquidity risk. Appendices D, E, F, G, H and I summarise the regulatory framework, economic background and information on key activities for the year.

4.21 In accordance with the DLUHC Guidance, the Councils will be asked to approve a revised Treasury Management Strategy if the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large, unexpected change in interest rates, or in the Councils’ capital programmes or in the level of investment balances.

Debt rescheduling

4.22 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 Councils 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.

5. Annual Treasury Investment Strategy

5.1 The Councils hold significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past twelve months, Babergh's treasury investment balances have ranged between £12.3m and £24.2m. Mid Suffolk's treasury investment balances ranged between £12.3m and £27.6m.

5.2 Balances fluctuated more than in previous years due to timing differences between funding to support Covid19 payments received from central Government and the payments being made by the Councils.

Objectives

5.3 CIPFA's TM Code requires the Councils to invest their treasury funds prudently, and to have regard to the security and liquidity of their investments before seeking the highest rate of return or yield. The Councils' 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.

5.4 Cash that is likely to be spent in the short 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 is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both short-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which investments to buy and the Councils may request their money back at short or up to 90 days' notice.

5.5 Where balances are expected to be invested for more than one year, whilst the Councils aim to achieve a total return that is equal to or higher than the prevailing rate of inflation (in order to maintain the spending power of the sum invested) it may be harder to do so, as the inflation rate is currently increasing. However, the expectation is that this will be a short term position and that inflation will reduce after 2022/23.

5.6 Table 3 shows the planned level of investments for treasury management purposes over the medium-term. Long term investments are those made for more than one year. Cash and cash equivalents include money market funds and current bank accounts.

Table 3: Treasury management investments

Treasury Management Investments Babergh District Council	31.03.2021 Actual £m	31.03.2022 Forecast Outturn £m	31.03.2023 Budget £m	31.03.2024 Forecast £m	31.03.2025 Forecast £m	31.03.2026 Forecast £m
Long Term Investments	11.17	11.09	11.06	11.05	11.03	11.00
Cash and Cash Equivalents	1.84	2.00	2.00	2.00	2.00	2.00
Total TM Investments	**13.01**	**13.09**	**13.06**	**13.05**	**13.03**	**13.00**

Treasury Management Investments Mid Suffolk District Council	31.03.2021 Actual £m	31.03.2022 Forecast Outturn £m	31.03.2023 Budget £m	31.03.2024 Forecast £m	31.03.2025 Forecast £m	31.03.2026 Forecast £m
Long Term Investments	11.16	11.09	11.06	11.05	11.03	11.00
Cash and Cash Equivalents	3.02	2.00	2.00	2.00	2.00	2.00
Total TM Investments	**14.68**	**13.09**	**13.06**	**13.05**	**13.03**	**13.00**

Governance – Treasury Management:

5.7 Decisions on treasury management investment and borrowing are made daily and are delegated to the Assistant Director - Corporate Resources (the S151 Officer) and Finance staff, who must act in line with the Joint Treasury Management Strategy approved by Full Council in February each year.

5.8 There is a Joint Half Year and Joint Annual Outturn Report on treasury management activity presented to Council. The Joint Audit and Standards Committee is responsible for scrutinising treasury management decisions.

Negative interest rates

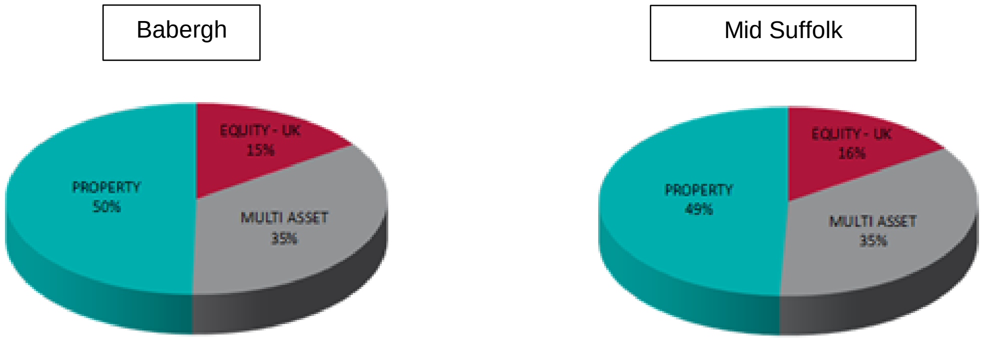
5.9 The COVID-19 pandemic increased the risk that the Bank of England might set its Bank Rate at or below zero, which could feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested. As the Bank of England increased rates in December 2021, this situation is now less likely.

Strategy

5.10 Given the increasing risk and very low returns from short-term unsecured bank investments, both Councils have diversified into higher yielding asset classes. This diversification represents a continuation of the strategy adopted in 2015/16.

5.11 The value of these funds can fluctuate and they are therefore considered to be long term investments. The Councils have invested in a number of strategic pooled funds, across a variety of asset classes to minimise risk, as shown below.

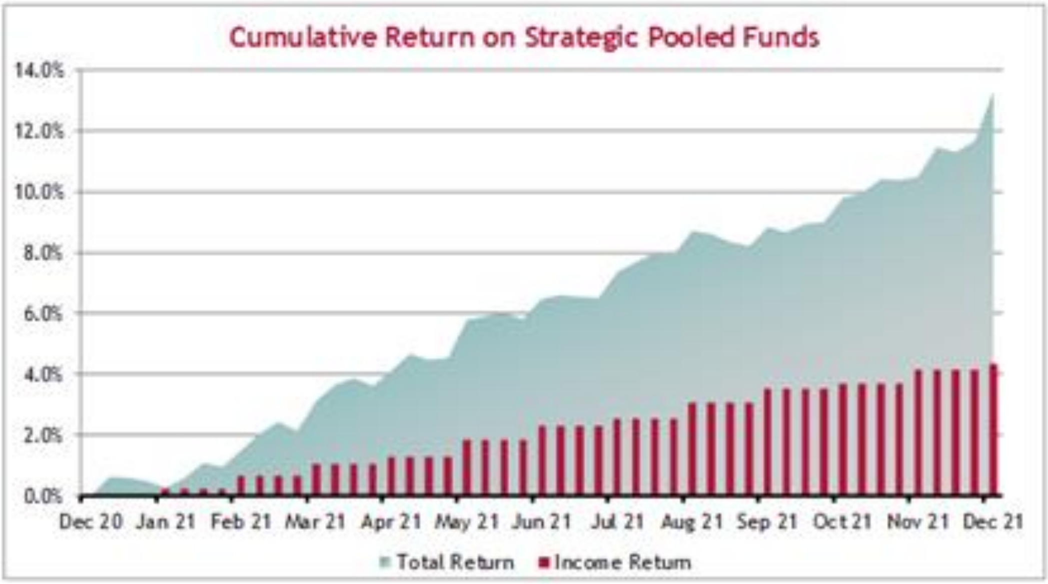
Chart 1: Strategic pooled funds asset class allocation for both Councils



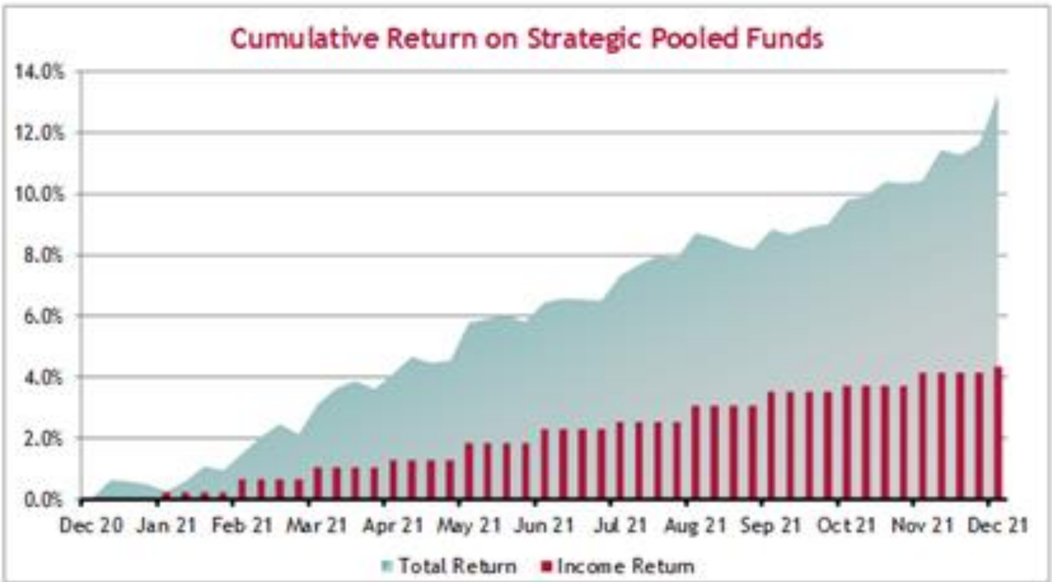
5.12 Although these funds have incurred unrealised capital losses, the overall total return for each has been positive with a total return of 13.3% for Babergh and 13.26% for Mid Suffolk in 2021 as illustrated in the following charts:

Chart 2: Cumulative return on strategic pooled funds

Babergh



Mid Suffolk



Environment, social and governance (ESG) issues

5.13 In 2019 the Councils declared a climate emergency with the ambition to make the Councils carbon neutral by 2030.

5.14 In light of climate change-related risks in particular, increasing attention is being given to responsible investment by investors globally, resulting in an increasing appreciation that assessing ESG factors is not only a moral issue to be addressed, but also a key part of understanding long-term investment risk.

5.15 The United Nations gives the following examples of ESG issues within its Principles for Responsible Investment;

Environmental	**Social**	**Governance**
• Climate change • Greenhouse gas emissions • Resource depletion • Waste and pollution • Deforestation	• Human rights • Working conditions (including slavery and child labour) • Local communities • Employee relations and diversity	• Bribery and Corruption • Board diversity and structure • Executive pay • Political lobbying and donations • Tax strategy

5.16 An increasing number of ESG focussed funds are emerging that follow certain criteria for investments, such as abiding with the UN Principles of Responsible Investment, or not investing in certain industries such as weapons, fossil fuels or alcohol and tobacco.

5.17 Although regulations on ESG investments are gaining more clarity and standardisation, with the Government publishing a report in October 2021 called Greening Finance: A Roadmap to Sustainable Investing, careful due diligence is still required to ensure that a fund lives up to the claims being made and its ESG principles match the Councils' priorities for environmental / ethical investing.

5.18 The subject has been debated by both Joint Audit and Standards Committee in May 2021 and the Cabinets in January 2022. The Cabinets agreed to monitor treasury management investments in relation to all three aspects of ESG reporting as this develops and look to make changes to investments at an appropriate time that would strengthen ESG performance but be within acceptable financial considerations.

Business Models

5.19 Under the new IFRS 9 standard, accounting for certain investments depends on the Councils' "business model" for managing them. The Councils aim to achieve value from their internally managed 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

5.20 The minimum proposed investment criteria for UK counterparties in the 2022/23 Treasury Management Strategy remains at A-. (See Appendix I for a list). (Note: This would be the lowest credit rating determined by credit rating agencies).

5.21 In line with advice received from Arlingclose the Councils may invest surplus funds with any of the counterparty types in Table 4 that follows, subject to the cash limits (per counterparty) and the time limits shown.

Table 4: Approved investment counterparties and limits for Babergh and Mid Suffolk

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£2m	100%
Secured investments *	25 years	£2m	100%
Banks (unsecured) *	13 months	£2m	100%
Building societies (unsecured) *	13 months	£2m	25%
Registered providers (unsecured) *	5 years	£1m	25%
Money market funds *	n/a	£2m	100%
Strategic pooled funds	n/a	£5m	100%
Other investments *	5 years	£1m	10%

Table 4 should be read in conjunction with the following notes:

- **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) as part of a diversified pool e.g. via a peer-to-peer platform.

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

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

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

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

- **Money market funds**
  Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Councils 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 Council 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 Councils' 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 Councils' investment at risk.

Council banker and Operational bank accounts

5.22 The Councils may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, 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 Councils maintaining operational continuity. Both Councils bank with Lloyds Bank plc which currently has a credit rating of A+.

Risk assessment and credit ratings

5.23 Credit ratings are obtained and monitored by the Councils 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.

5.24 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.

5.25 See the table in Appendix I for an explanation of the credit ratings issued by the main credit ratings agencies.

Other information on the security of investments

5.26 The Councils understand 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 Councils 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.

5.27 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Councils will restrict investments to those organisations of higher credit quality and reduce the maximum duration of investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions.

5.28 If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Councils' cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office (DMADF) or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Investment limits

5.29 The Councils' total General Fund reserves available to cover investment losses are forecast to be £6.7m for Babergh and £18.5m for Mid Suffolk on 31 March 2022. In order to minimise the available reserves that would be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) for the majority of sectors will be £2m.

5.30 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, foreign countries and industry sectors as per Table 5. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, as the risk is diversified over many countries.

5.31 Credit risk exposures arising from non-treasury investments, financial derivatives and operational bank accounts count against the relevant investment limits.

Table 5: Additional Investment limits for Babergh and Mid Suffolk

Investment Limits	**Cash limit**
Any group of pooled funds under the same management	£5m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£2m per country

Liquidity management

5.32 The Councils use purpose-built cash flow forecasts 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 Councils being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Councils medium-term budget planning and cash flow forecasts.

5.33 The Councils will spread their 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.

APPENDIX D: TREASURY MANAGEMENT INDICATORS

The Councils measure and manage their exposure to treasury management risks using the following indicators:

1. Security

1.1 The Councils have adopted a voluntary measure of their exposure to credit risk by monitoring the value-weighted average credit score of their investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk. Positions at the 30 September 2021 were Babergh 4.80 and Mid Suffolk 5.12 respectively.

	Target
Portfolio average credit score	7.0

2. Liquidity risk

2.1 The Councils have adopted a voluntary measure of their exposure to liquidity risk by monitoring the amount they can borrow each quarter without giving prior notice.

Liquidity risk indicator	
Total sum borrowed in past 3 months without prior notice	**2022/23 Target £m**
Babergh District Council	£5m
Mid Suffolk District Council	£5m

3. Interest rate exposures

3.1 This indicator is set to control the Councils' exposure to interest rate risk. The boundary on the one-year revenue impact of a 1% rise in interest rates will be:

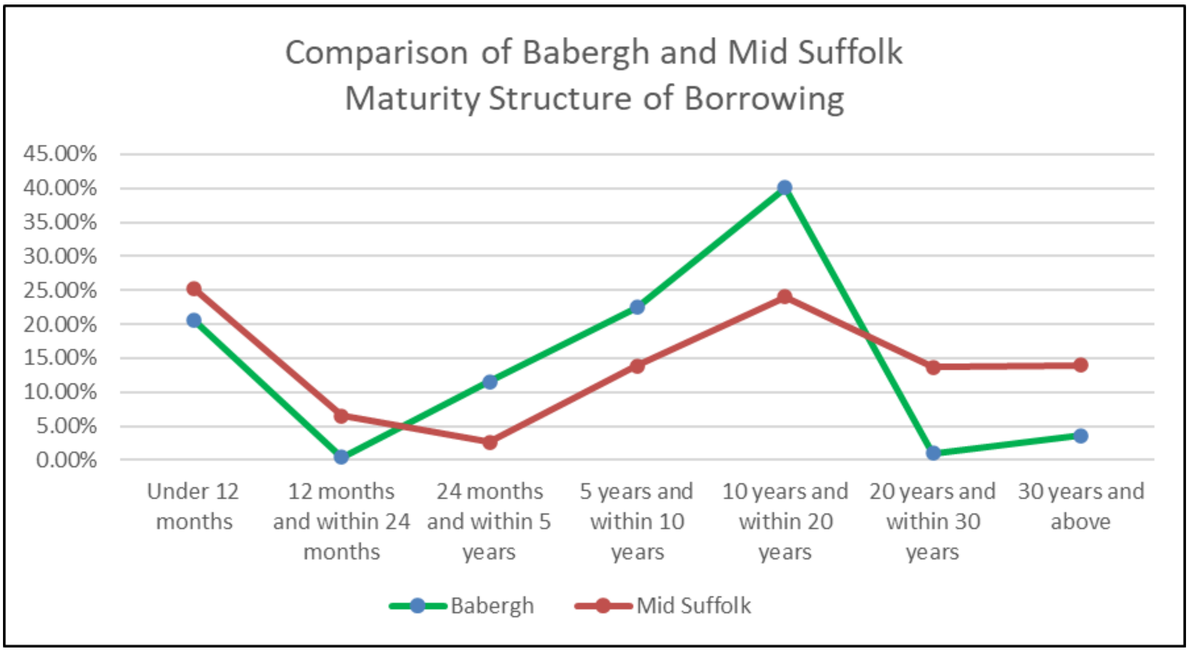
Interest rate risk indicator	
Upper impact on Revenue of a 1% increase in rates	**2022/23 Limit £m**
Babergh District Council	0.015
Mid Suffolk District Council	0.073

3.2 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.

4. Maturity structure of borrowing

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

Refinancing rate risk indicator				
% of total borrowing	**Babergh 30.11.2021 Proportion**	**Mid Suffolk 30.11.2021 Proportion**	**Lower Limit %**	**Upper Limit %**
Under 12 months	20.69%	25.28%	0.00	50.00
12 months and within 24 months	0.47%	6.48%	0.00	50.00
24 months and within 5 years	11.58%	2.61%	0.00	50.00
5 years and within 10 years	22.52%	13.88%	0.00	100.00
10 years and within 20 years	40.12%	24.02%	0.00	100.00
20 years and within 30 years	1.05%	13.70%	0.00	100.00
30 years and above	3.58%	14.01%	0.00	100.00



4.2 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.

5. Principal sums invested for periods longer than a year

5.1 The purpose of this indicator is to control the Councils exposure to the risk of incurring losses by seeking early repayment of their investments. The limits on the long-term principal sum invested to final maturities beyond the period will be:

Price risk indicator			
Limit on principal invested beyond year end	**2022/23 Limit £m**	**2023/24 Limit £m**	**2024/25 Limit £m**
Babergh District Council	£2m	£2m	£2m
Mid Suffolk District Council	£2m	£2m	£2m

6. Related Matters

6.1 The CIPFA TM Code requires the Councils to include the following in their Joint Treasury Management Strategy.

Policy on the use of financial derivatives

6.2 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).

6.3 The Councils 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 Councils are exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be considered 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.

6.4 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

6.5 In line with CIPFA's TM Code, the Councils will seek external advice and will consider that advice before entering into financial derivatives to ensure that they fully understand the implications.

Policy on apportioning interest to the Housing Revenue Account (HRA)

6.6 On 1 April 2012, the Councils notionally split each of their existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account.

6.7 Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured annually, and interest transferred between the General Fund and HRA at each Council's average interest rate on investments, adjusted for credit risk.

Markets in Financial Instruments Directive

6.8 The Councils have opted up to professional client status with their providers of financial services, including advisers, banks, brokers and fund managers, allowing 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 Councils' treasury management activities, the S151 Officer believes this to be the most appropriate status.

Financial Implications

6.9 The budget for investment income in 2022/23 is £2.76m for Babergh and £4.63m for Mid Suffolk, based on an average investment portfolio of £71.57m for Babergh and £103.94m Mid Suffolk. The average return is 3.86% for Babergh and 4.46% for Mid Suffolk.

6.10 The budget for debt interest payable in 2022/23 is £3.64m for Babergh and £4.32m for Mid Suffolk, based on an average debt portfolio of £139.03m for Babergh and £200.23m for Mid Suffolk. The average cost is 2.62% for Babergh and 2.16% for Mid Suffolk.

6.11 If actual levels of investments and borrowing, or actual interest rates, differ from that forecast, performance against budget will be correspondingly different.

Other Options Considered

6.12 The CIPFA TM Code does not prescribe any particular treasury management strategy for local authorities to adopt. The S151 Officer 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 in the following table.

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

Alternative	Impact on income and expenditure	Impact on risk management
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

APPENDIX E: ECONOMIC & INTEREST RATE FORECAST

1 Economic background

1.1 The ongoing impact on the UK from coronavirus, together with higher inflation, the likelihood of higher interest rates, and the country's trade position post-Brexit, will be major influences on the Councils' treasury management strategy for 2022/23.

1.2 The Bank of England (BoE) raised the Bank Rate by 0.15% on 16th December 2021 to 0.25% and maintained its Quantitative Easing programme at £895 billion. The Monetary Policy Committee (MPC) voted 8-1 to raise rates and unanimously to maintain the asset purchase programme. Within the December 2021 Monetary Policy Report, the Bank expected consumer price index (CPI) inflation to peak at around 6% in April 2022, about 1% higher than previous projections largely reflecting the pass-through of rises in wholesale gas and electricity prices.

1.3 UK Consumer Price Inflation (CPI) for November 2021 registered 5.1% year on year, up from 3.1% in the September. Core inflation, which excludes the more volatile components, also rose to 4.0% year on year. The most recent labour market data for the three months to October 2021 showed the unemployment rate fell to 4.2% while the employment rate rose to 75.5%. Both measures were helped by the extension of the government's furlough scheme, but this ended in September 2021 and while this may put some pressure on the jobs market, it is not expected to be material, with the BoE forecasting unemployment will fall to 4% compared to the previous forecast of 4.5%.

1.4 In August 2021, the headline 3-month average annual growth rate for wages were 7.2% for total pay and 6.0% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 4.7% while regular pay was up 3.4%. These figures should be interpreted with caution, however, as the underlying wage growth is falling back from current rates, Moreover, there has also been a fall in the number and proportion of lower paid jobs, helping to push up the average earnings figure.

1.5 GDP grew by 5.5% in the second calendar quarter of 2021, compared to a fall of -1.6% quarter on quarter in the previous three months, with the annual rate jumping to 23.6% from -6.1%. Here too, base effects from 2020 have resulted in the high Q2 2021 data. Monthly GDP estimates have shown the economy is recovering, with the economy now just 0.8% below its pre-pandemic level. Looking ahead, the BoE's November 2021 Monetary Policy Report forecasts economic growth will rise by 1.5% in Q3 2021, 1.0% in Q4 2021 with the economy expected to get back to its pre-pandemic level in Q1 2022. GDP growth is now expected to be around 5% in 2022 (revised down from 6%), before slowing to 1.5% in 2023 and 1% in 2024.

1.6 GDP growth in the euro zone increased by 2.2% in calendar Q3 2021 following a gain of 2.1% in the second quarter and a decline of -0.3% in the first. Headline inflation has been strong, with CPI registering 4.1% year-on-year (y/y) in October, the fourth successive month of inflation. Core CPI inflation was 2.1% y/y in October, the third month of successive increases from July's 0.7% y/y. At these levels, inflation is above the European Central Bank's target of 'below, but close to 2%', putting some pressure on its long-term stance of holding its main interest rate of 0%.

1.7 The US economy expanded at an annualised rate of 2.0% in Q3 2021, slowing sharply from gains of 6.7% and 6.3% in the previous two quarters. In its November 2021 interest rate announcement, the Federal Reserve continue to maintain the Fed Funds rate at between 0% and 0.25% but outlined its plan to reduce its asset purchase programme. Having bought $120 billion of bonds each month during the pandemic to keep interest rates low, the Fed confirmed that purchases will be scaled back, starting with a $15 billion reduction in November 2021. In terms of the timing of any interest rate hikes, Fed Chair Jerome Powell said the central bank can be patient about doing so.

2 Credit outlook

2.1 Since the start of 2021, relatively benign credit conditions have led to credit default swap (CDS) prices for the larger UK banks to remain low and have steadily edged down throughout the year to almost pre-pandemic levels. The improved economic outlook during 2021 helped bank profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of coronavirus-related business support measures by the government means the full impact on bank balance sheets may not be known for some time.

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

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

3 Underlying assumptions

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

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

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

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

3.5 The outlook, however, appears weaker. Household spending faces pressures from a combination of higher prices and tax rises. In the immediate term, the Omicron variant has already affected growth – Q4 2021 and Q1 2022 activity could be weak at best.

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

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

4 Interest Rate Forecast

4.1 The Authority's treasury management adviser, Arlingclose, is forecasting that BoE Bank Rate will rise to 0.50% in Q1 of 2022, but then remain there. Risks to the forecast are initially weighted to the upside but becoming more balanced over time. The Arlingclose central forecast remains below the market forward curve.

4.2 Gilt yields will remain broadly flat from current levels. Yields have fallen sharply at the longer end of the yield curve, but expectations of a rise in Bank rate have maintained short term gilt yields at higher levels. Easing expectations for Bank Rate over time could prompt the yield curve to steepen, as investors build in higher inflation expectations. The risks around the gilt yield forecasts vary. The risk for short and medium-term yields is initially on the upside but shifts lower later. The risk for long-term yields is weighted to the upside.

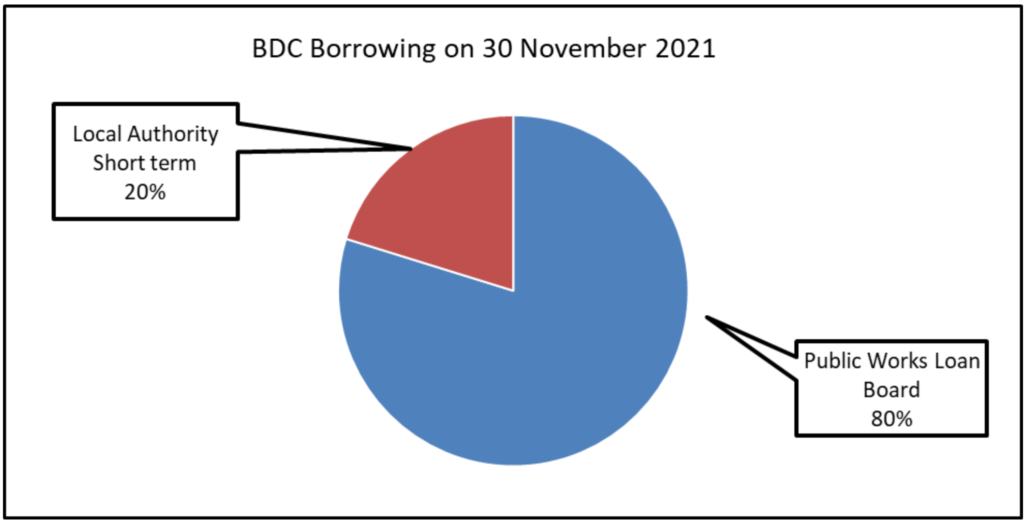
4.3 Table 1 Interest Rate Forecast

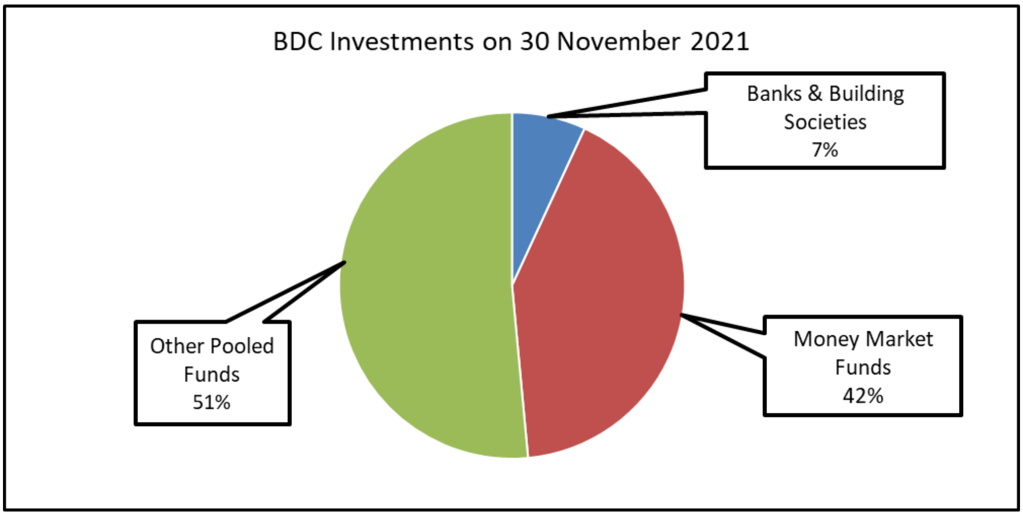
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk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

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

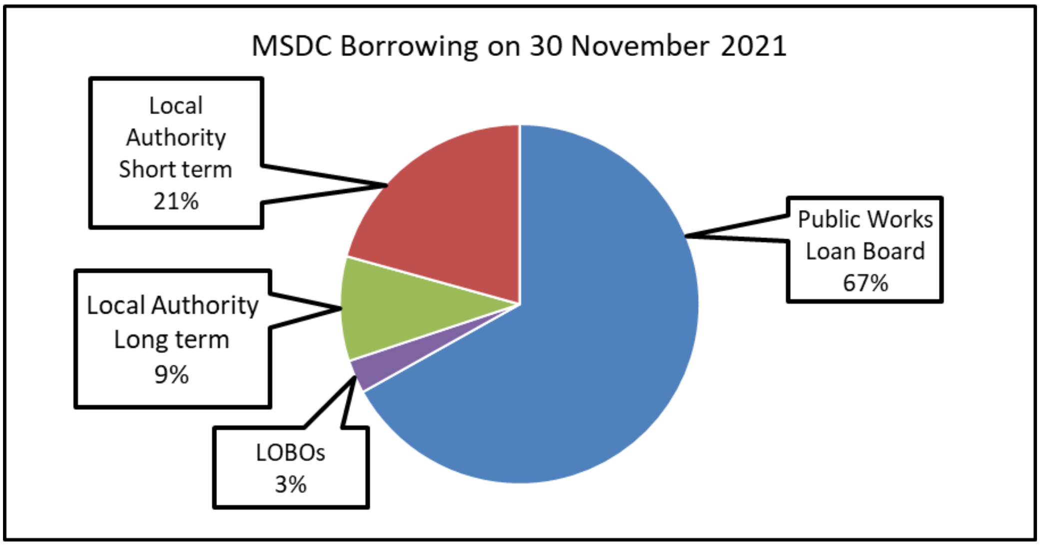
APPENDIX F: EXISTING INVESTMENT & DEBT PORTFOLIO POSITION

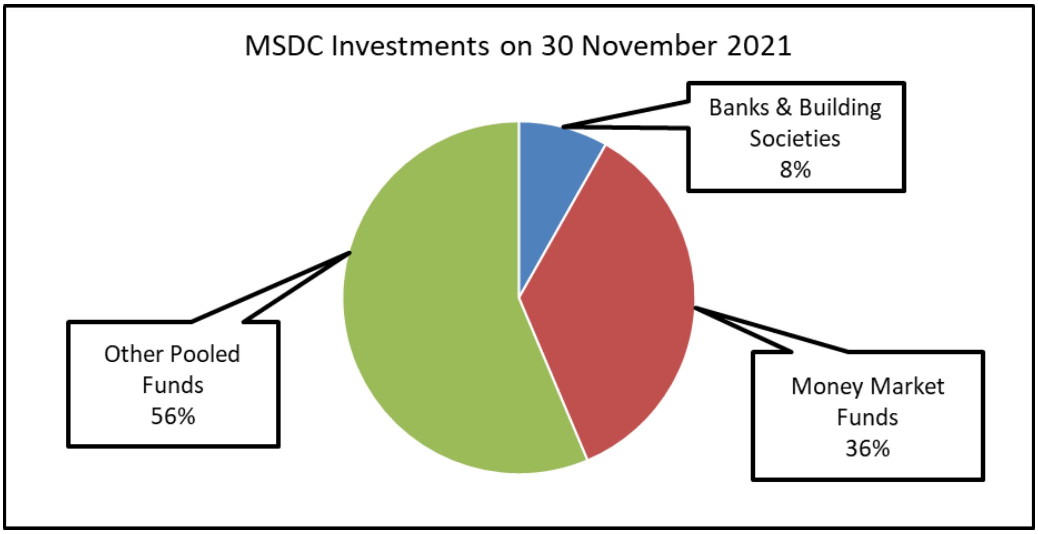
Babergh	30.11.2021 Portfolio £m	Average Rate %
External Borrowing:		
Public Works Loan Board	94.67	3.19%
Local Authority Short term	24.00	0.08%
Total External borrowing	**118.67**	2.56%
Treasury Investments:		
Banks & Building Societies	1.49	0.00%
Money Market Funds	9.00	0.01%
Other Pooled Funds	11.14	5.02%
Total Treasury Investments	**21.63**	2.59%
Net Debt	**97.04**	





Mid Suffolk	30.11.2021 Portfolio £m	Average Rate %
External Borrowing:		
Public Works Loan Board	88.88	3.28%
LOBOs	4.00	4.21%
Local Authority Long term	12.50	0.00%
Local Authority Short term	27.50	0.23%
Total External borrowing	**132.88**	2.37%
Treasury Investments:		
Banks & Building Societies	1.62	0.00%
Money Market Funds	7.00	0.01%
Other Pooled Funds	11.13	5.03%
Total Treasury Investments	**19.75**	2.84%
Net Debt	**113.13**	





APPENDIX G: TREASURY MANAGEMENT POLICY STATEMENT

1. Introduction and Background

1.1 The Councils adopt the key recommendations of the CIPFA Code of Practice on Treasury Management in Public Services 2017 Edition (the TM Code) as described in Section 5 of the Code.

1.2 In addition, the Department for Levelling-Up, Housing and Communities (DLUHC) revised guidance on Local Councils Investments issued in 2018 requires councils to approve a treasury management investment strategy before the start of each financial year.

1.3 Accordingly, the Councils will create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.

- Suitable treasury management practices (TMPs), setting out the manner in which the Councils will seek to achieve those policies and objectives, and prescribing how they will manage and control those activities.

1.4 The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the TM Code, subject only to amendment where necessary to reflect the particular circumstances of the Councils. Such amendments will not result in the Councils materially deviating from the TM Code's key principles.

1.5 The Full Council meeting for Babergh and Mid Suffolk will receive recommendations from the Joint Audit & Standards Committee on their treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a half-year review and an annual outturn report after its close.

1.6 The Councils delegate responsibility for the implementation of their treasury management policies and practices to the Cabinet, monitoring to the Joint Audit and Standards Committee and the execution and administration of treasury management decisions to the Section 151 Officer and/or Corporate Manager - Financial Services, who will act in accordance with the Councils policy statement, the TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

1.7 The Joint Audit and Standards Committee is responsible for ensuring effective scrutiny of the Joint Treasury Management Strategy and policies.

2. Policies and Objectives of Treasury Management Activities

2.1 The Councils define their treasury management activities in line with the TM Code definition as: "the management of the organisations investments and cash flows, their banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance associated with those risks."

2.2 The Councils regard the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of their treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on the risk implications for the Councils and any financial instruments entered into to manage these risks.

2.3 The Councils recognise that effective treasury management will provide support towards the achievement of their business and service objectives. They are therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques within the context of effective risk management.

2.4 Both Councils' borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken, and the type of borrowing should allow the Councils transparency and control over their debt.

2.5 Both Councils' primary objectives in relation to investments remain the security of capital. The liquidity or accessibility of the Councils investments followed by the yield earned on investments remain important but are secondary considerations.

APPENDIX H: ANNUAL MINIMUM REVENUE PROVISION (MRP) STATEMENT 2022/23

1.1 Where the Councils finance their capital expenditure by debt, they 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 Councils to have regard to the former DLUHC's on Minimum Revenue Provision (the DLUHC Guidance) most recently issued in 2018 effective from 1 April 2018.

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

1.3 The DLUHC has published a consultation on proposed changes to capital finance regulations in respect of MRP. The closing date for responses is 8 February 2022. It can be accessed at https://www.gov.uk/government/consultations/changes-to-the-capital-framework-minimum-revenue-provision. It is proposed that these changes would be effective from 2023/24.

1.4 A charge to a revenue account for MRP cannot be a negative charge.

1.5 The DLUHC Guidance requires Full Council to approve an Annual MRP Statement each year and recommends a number of options for calculating an amount of MRP that they consider to be prudent. The following paragraph lists the options recommended in the Guidance.

1.6 The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

1.7 For capital expenditure incurred before 1 April 2008, MRP will be determined in accordance with the former regulations that applied on 31 March 2008, incorporating an "Adjustment A" of £2.4m for Mid Suffolk (Option 1). Babergh does not have any capital expenditure incurred before 1st April 2008 on which to charge MRP.

1.8 For capital expenditure incurred after 31 March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset on an annuity basis using an interest rate equivalent to the average PWLB annuity rate for the year of expenditure. MRP charges start in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years. (Option 3).

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

Where former operating leases have been brought onto the balance sheet on 1 April 2022 due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or discounts, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.

1.10 Where investments are made in the Councils' subsidiaries for the purpose of the companies purchasing land and buildings, MRP will be charged over 40 years.

1.11 For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Councils will make no MRP charge, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. While this is not one of the options in the DLUHC Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred on the loan is fully funded over the life of the assets.

1.12 No MRP will be charged in respect of assets held within the Housing Revenue Account. However, voluntary MRP contributions from the HRA may be made.

1.13 Capital expenditure incurred during 2021/22 will not be subject to an MRP charge until 2022/23 and capital expenditure incurred during 2022/23 will not be subject to an MRP charge until 2023/24.

1.14 If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement will be put to Full Council at that time.

1.15 Based on the Councils' latest estimates of their Capital Financing Requirements on 31 March 2022, the budget for MRP for 2022/23 has been set as follows:

Estimated Capital Financing Requirement		
Babergh District Council	**31.3.2022 Estimated CFR £m**	**2022/23 Estimated MRP £m**
Capital expenditure before 01.04.2008	(0.375)	-
Unsupported capital expenditure after 31.3.2008	30.083	1.709
Transferred debt to HRA	(0.325)	-
Loans to other bodies repaid in instalments	44.628	-
Total General Fund	**74.011**	**1.709**
Assets in the Housing Revenue Account	8.597	-
HRA subsidy reform payment	79.097	-
Transferred debt from GF	0.325	-
Total Housing Revenue Account	**88.019**	**-**
Total CFR	**162.030**	**1.709**

Estimated Capital Financing Requirement		
Mid Suffolk District Council	31.3.2022 Estimated CFR £m	2022/23 Estimated MRP £m
Capital expenditure before 01.04.2008	8.057	0.085
Unsupported capital expenditure after 31.3.2008	28.494	1.476
Transferred debt to HRA	(1.750)	-
Loans to other bodies repaid in instalments	66.522	-
Total General Fund	**101.322**	**1.561**
Assets in the Housing Revenue Account	34.064	-
HRA subsidy reform payment	57.206	-
Transferred debt from GF	1.750	-
Total Housing Revenue Account	**93.021**	**-**
Total CFR	**194.343**	**1.561**

APPENDIX I: INSTITUTIONS MEETING HIGH CREDIT RATINGS CRITERIA

1.1 Detailed below is the list of the banks and building societies that both Councils can lend to (based on information on credit risk and credit ratings available in November 2021). This will be continuously monitored as the position changes throughout the year as credit ratings are reviewed and additional market information is evaluated.

1.2 This is based on UK Banks and Building Societies A-, Money Market Funds, Foreign Banks AA-. Foreign banks must be in a country with a sovereign rating of AAA.

Counterparty	**Long term rating - Fitch**	**Duration**
UK BANKS		
Bank of Scotland PLC	A+	100 days
Barclays Bank PLC	A+	100 days
Barclays Bank UK PLC	A+	100 days
Handelsbanken PLC	AA	100 days
HSBC Bank PLC	AA-	100 days
HSBC UK Bank PLC	AA-	100 days
Lloyds Bank PLC	A+	100 days
National Westminster Bank	A+	100 days
Natwest Markets PLC	A+	100 days
Royal Bank of Scotland PLC	A+	100 days
Santander UK PLC	A+	100 days
Standard Chartered Bank	A+	100 days
UK BUILDING SOCIETIES		
Nationwide Building Society	A+	100 days
FOREIGN BANKS		
Australia		
Australia and NZ Banking Group	A+	100 days
Commonwealth Bank of Australia	A+	100 days
National Australia Bank	A+	100 days
Westpac Banking Group	A+	100 days
Canada		
Bank of Montreal	AA	100 days
Bank of Nova Scotia	AA	100 days
Canadian Imperial Bank of Commerce	AA	100 days
National Bank of Canada	AA-	100 days
Royal Bank of Canada	AA	100 days
Toronto-Dominion Bank	AA	100 days
Finland		
Nordea Bank ABP	AA	100 days
Netherlands		
Cooperative Rabobank	AA-	100 days

Counterparty	Long term rating - Fitch	Duration
MONEY MARKET FUNDS (MMF)		
Aberdeen Standard Sterling Liquidity Fund	AAAmmf	Overnight
Goldman Sterling Liquid Reserves Fund	AAAmmf	Overnight
Insight Sterling Liquidity Fund	AAAmmf	Overnight
Federated Investors (UK) Sterling Liquidity Fund	AAAmmf	Overnight
Invesco AIM STUC Sterling Liquidity Portfolio	AAAmmf	Overnight
Blackrock Institutional Sterling Liquidity Fund	AAAmmf	Overnight

1.3 MMFs – Federated is domiciled in the UK for tax and administration purposes, Standard Life, Goldman Sachs, BlackRock, Invesco and Insight are domiciled in Ireland for tax and administration purposes.

Long Term Investments Grades - Fitch

Agency - Fitch	
Rating	**Definition**
AAA	Highest credit quality – 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality 'AA' ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	High credit quality – 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

Long Term Investments Grades – Moody's

Agency - Moody's	
Rating	**Definition**
Aaa	Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.
Aa1	Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.
Aa2	
Aa3	
A1	Obligations rated A are considered upper-medium grade and are subject to low credit risk.
A2	
A3	

Long Term Investments Grades – Standard & Poor’s

Agency - Standard & Poor’s	
Rating	**Definition**
AAA	An obligator rated ‘AAA’ has extremely strong capacity to meet its financial commitments. ‘AAA’ is the highest issuer credit rating assigned by Standard & Poor’s.
AA	An obligator rated ‘AA’ has very strong capacity to meet its financial commitments. It differs from the highest rated obligators only to a small degree.
A	An obligator rated ‘A’ has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligators in higher rated categories.

APPENDIX J: GLOSSARY OF TERMS

CCLA	Churches, Charities and Local Authority Property Fund
CFR	Capital Financing Requirement. The underlying need to borrow to finance capital expenditure.
CIPFA	The Chartered Institute of Public Finance and Accountancy. This is the leading professional accountancy body for public services.
DLUHC	Department for Levelling Up, Housing and Communities. This is a ministerial department.
DMADF	Debt Management Account Deposit Facility.
Funding Circle	Accounts set up to lend money to local and national businesses at competitive rates
GDP	Gross Domestic Product. This is the market value of all officially recognised goods and services produced within a country in a given period of time.
HRA	Housing Revenue Account. The statutory account to which are charged the revenue costs of providing, maintaining and managing Council dwellings. These costs are financed by tenants' rents.
LOBO	Lender's Option Borrower's Option. This is a loan where the lender has certain dates when they can increase the interest rate payable and, if they do, the Council has the option of accepting the new rate or repaying the loan.
MIFID II	Markets in Financial Instruments Directive 2014/65/EU. Effective from 1 January 2018. The Councils have met the conditions to opt up to professional status. The Councils will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice.
MPC	Monetary Policy Committee – A committee of the Bank of England which meets each month to decide the official interest in the UK. It is also responsible for other aspects of the Government's monetary policy framework such as quantitative easing and forward guidance.
MRP	Minimum Revenue Provision. Local authorities are required to make a prudent provision for debt redemption on General Fund borrowing.

PWLB	Public Works Loan Board - offers loans to local authorities below market rates.
QE	Quantitative Easing. The purchase of Government bonds by the Bank of England to boost the money supply.
T Bills	Treasury Bill. A short-term Government Bond.
UBS	UBS Multi Asset Income Fund (UK) - a pooled fund

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BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

TO:	**JOINT AUDIT AND STANDARDS COMMITTEE**	**REPORT NUMBER:** **IRJAC/21/18**
FROM:	**Katherine Steel, Assistant Director – Corporate Resources**	**DATE OF MEETING: 24 January 2022**
OFFICER:	**Katherine Steel, Assistant Director – Corporate Resources**	

ARRANGEMENTS FOR THE APPOINTMENT OF EXTERNAL AUDITORS

1. PURPOSE OF REPORT

1.1 This report outlines the options available to the Councils to appoint an external auditor to undertake the work from the 2023/24 Final Accounts for a five-year period and makes a recommendation of the preferred option.

1.2 The Councils' will need to consider the options available and decide which is the preferred option at the February Full Council meetings, to meet the deadline of 11 March 2022 to notify Public Sector Audit Appointments Ltd (PSAA) if they wish to 'opt-in' to the sector led body approach.

2. OPTIONS CONSIDERED

2.1 Three options have been considered as set out in section 4 of the report below.

3. RECOMMENDATIONS

3.1 Note the arrangements and options for appointing an external auditor to audit the Final Accounts of the Councils from 2023/24.

3.2 Recommend to the Councils to continue to 'opt-in' to the sector led body (Public Sector Audit Appointments Ltd (PSAA)) for the independent appointment of the Councils' external auditor, beginning with responsibilities for the financial year 2023/24.

REASON FOR DECISION

To enable the Councils to appoint an external auditor, as required by the Local Audit and Accountability Act 2014.

4. KEY INFORMATION

Background

4.1 In September 2016, the Joint Audit and Standards Committees received report JAC85 regarding the appointment of external auditors for a period of five years from 1 April 2018. The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors, and the setting of audit fees for all local government and NHS bodies in England.

4.2 At the end of the transitional arrangements, public bodies were asked to specify their preferred method of appointing external auditors, and a sector led body (the Public Sector Audit Appointments Ltd (PSAA)) was chosen.

4.3 A sector led body can negotiate contracts with firms nationally, maximising the opportunity for the most economic and efficient approach for procurement of external audit on behalf of the whole sector. The scheme was designed to save time and resources for local government bodies and, through collective procurement, secure the best prices without compromising on audit quality.

4.4 Babergh and Mid Suffolk District Councils agreed to opt-in to the sector led body at the Full Council meetings in September 2016.

Appointing Process from 2023/24

4.5 The Department of Levelling Up, Housing and Communities (DLUHC) has confirmed that PSAA will continue in its role as the Appointing Person for the next appointment of external auditors.

4.6 During the present contract period there have been some big issues affecting local government audit:

- The audit industry is under heavy scrutiny
- There is great regulatory pressure to improve audit quality
- Audit resources are stretched, and other factors cause delay
- Delayed local audit opinions are a huge unresolved concern
- Local government audit's focus is being questioned
- Additional work means additional fees are needed
- Regulations need updating.

4.7 The PSAA scheme aims to secure the delivery of an audit service of the required quality for every opted in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services. PSAA plan to provide:

- Transparent and independent auditor appointment
- Best opportunity to secure the value for money appointment of a qualified, registered auditor
- Ongoing management of any independence issues
- Proportionate PSAA costs and redistribution of any surpluses
- Collective efficiency savings by undertaking one major procurement
- A dedicated, experienced team
- Key updates to all Section 151 officers and Audit Committee Chairs
- Avoid the need to establish an auditor panel and undertake an auditor procurement
- Same auditor appointment for significant collaborations or joint working initiatives.

4.8 The proposed contract duration is five years, with an option to extend for a further one or two years with supplier agreement using a single tender, restricted procedure.

4.9 The way that external audit has operated over the last couple of years has been challenging. There is a limited number of firms in the market and too few qualified auditors employed by those firms, alongside capacity challenges generally. This has led to a situation where many audits have been delayed, as has been experienced by Babergh and Mid Suffolk. A lack of capacity in the audit market has been exacerbated by increased requirements placed on external auditors by the audit regulator. The drive for audit quality has resulted in auditors needing more assurance, and the additional work has driven higher fees which is likely to continue.

4.10 There is a risk that depending upon how the contract specification, issued by PSAA, is worded, to improve the timeliness and quality of audits, that the main firms may consider that they need to split their audit and non-audit businesses, to ensure the correct focus on audit quality. This could lead to a further reduction in the number of firms willing to bid for the national contracts.

4.11 As the clients in the contract, Babergh and Mid Suffolk have little influence over what they are procuring. The nature and scope of the audit is determined by codes of practice and guidance and the regulation of the audit market is undertaken by a third party, currently the Financial Reporting Council. It is understood that the PSAA has several initiatives it would like to consider as part of the upcoming national procurement to send a strong message to the market and to open greater competition.

4.12 We consider it important that as councils we coordinate our efforts through the national arrangements to ensure that our voice (as clients) is heard to tackle some of the challenges currently being experienced. It is recommended that Babergh and Mid Suffolk opt into the PSAA arrangements for the appointing process as it is felt that this is our best option to work alongside other councils and influence a particularly difficult market.

4.13 The Local Government Association's (LGA) view is that the national framework remains the best option for local authorities.

4.14 Indicative timescales for the process are as follows:

11 March 2022	Deadline for eligible bodies to notify PSAA of their decision to opt in
June 2022	PSAA will award new contracts
December 2022	PSAA Board will confirm auditor appointments for 2023/24

Options

4.15 Procurement via PSAA is the recommended approach but there are two other options available to the Councils which have been considered and discounted.

Option 1 - Make a standalone appointment

4.16 To make a stand-alone appointment the Councils would need to set up an Auditor Panel. The members of the panel must be wholly or a majority independent members as defined by the Act. Independent members for this purpose are independent appointees; this excludes current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Councils' external audit. A new independent auditor panel established by the Councils would be responsible for selecting the auditor.

Advantages/benefits

4.17 Setting up an auditor panel allows the Councils to take maximum advantage of the new local appointment regime and have local input to the decision.

Disadvantages/risks

4.18 Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £15,000 plus on-going expenses and allowances. It is also unclear whether the Councils will be able to attract sufficient individuals with the required skills and experience to undertake the role.

4.19 The Councils will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.

4.20 The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.

4.21 Bids may not be received as the value of a local contract will be insignificant compared to the national contract.

Option 2 - Set up a Joint Auditor Panel/local joint procurement arrangements

4.22 The Act enables the Council to join with other authorities to establish a joint auditor panel. Again, this will need to be constituted of wholly (or a majority) of independent appointees (members). Further legal advice will be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council will need to liaise with other local authorities to assess the appetite for such an arrangement. The likelihood within Suffolk is that the other authorities are likely to opt-in to the PSAA arrangements as they all did with the previous appointment round.

Advantages/benefits

4.23 The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across several authorities.

4.24 There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

Disadvantages/risks

4.25 The decision-making body will be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used, or possibly only one elected member representing each Council, depending on the constitution agreed with the other bodies involved.

4.26 The choice of auditor could be complicated where individual Councils have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for the Council. Where this occurs, some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint auditor panel selects a firm that is conflicted for these Councils, then the Councils may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

4.27 Bids may be limited as the value of the local contract will be insignificant compared to the national contract.

5. LINKS TO CORPORATE PLAN

5.1 The appointment of an external auditor is a statutory requirement of the Councils and as such contributes towards the fitness of purpose of the governance arrangements to ensure that the ambitions of the Corporate Plan can be achieved.

6. FINANCIAL IMPLICATIONS

6.1 The scale fee for the audit of the 2021/22 accounts is £42,585 for Babergh and £38,437 for Mid Suffolk, but this excludes any local fee variations (for perceived local risk areas, changes to audit requirements etc).

6.2 External audit fees could increase when the current contract ends for the audit of the 2022/23 accounts, to address some of the issues being experienced within the sector, but this is likely to happen regardless of the route taken to appoint an external auditor.

6.3 The cost of establishing a local or joint Auditor Panel will include the cost of recruiting independent appointees (members), servicing the Panel, running a bidding and tender evaluation process, letting of a contract, and paying members fees and allowances.

6.4 Opting-in to the PSAA approach provides maximum opportunity to limit the extent of any increases in audit fees by entering a large-scale collective procurement arrangement and would not incur the costs of establishing an Auditor Panel.

7. LEGAL IMPLICATIONS

7.1 Legislation requires a resolution of Council if a local authority wishes to opt into the national arrangement (the PSAA). The deadline for this decision is 11 March 2022.

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

7.3 Section 8 governs the procedure for appointment including that the Authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor.

7.4 Section 8 and Schedule 3 provides that where a relevant authority is a local authority operating an executive arrangement the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements.

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

7.6 Section 17 gives the Secretary of State the power to make regulations in relation to an ‘appointing person’ specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.

8. RISK MANAGEMENT

8.1 This report is not linked to any of the Council’s Corporate / Significant Business Risks.

8.2 The disadvantages / risks of the options considered are described within section 4 of this report.

9. CONSULTATIONS

9.1 The options have been considered across the group of Suffolk Chief Financial Officers and it is likely that the other authorities will also recommend opting-in to the PSAA approach.

10. EQUALITY ANALYSIS

10.1 An Equality Impact Assessment (EIA) is not required because the recommendation does not have an impact on any of the protected characteristics.

11. ENVIRONMENTAL IMPLICATIONS

11.1 There are no environmental implications arising from the content and recommendation of this report.

12. BACKGROUND DOCUMENTS

12.1 Report JAC85 to Joint Audit and Standards Committee 12 September 2016 – Changes to arrangements for appointment of external auditors.