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AGENDA

COUNCIL MEETING

MONDAY, 20TH FEBRUARY, 2023 – 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, 20th February, 2023 at 5.30 pm.

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

Arthur Charvonia
Chief Executive

	BABERGH COUNCIL
DATE:	MONDAY, 20 FEBRUARY 2023 5.30 PM
VENUE:	KING EDMUND CHAMBER, ENDEAVOUR HOUSE, 8 RUSSELL ROAD, IPSWICH IP1 2BX

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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/22/39 TO CONFIRM THE MINUTES OF THE MEETING HELD ON 23 JANUARY 2023** 7 - 14

4 **BC/22/40 ANNOUNCEMENTS FROM THE CHAIRMAN AND LEADER** 15 - 16

In addition to any announcements made at the meeting, please see Paper BC/22/40 attached, detailing events attended by the Chairman and Vice-Chairman.

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.

6 **QUESTIONS BY THE PUBLIC IN ACCORDANCE WITH COUNCIL PROCEDURE RULES**

The Chairman of the Council to answer any questions by the public of which notice has been given no later than midday three clear working days before the day of the meeting in accordance with Council Procedure Rule No. 12.

7 **QUESTIONS BY COUNCILLORS IN ACCORDANCE WITH COUNCIL PROCEDURE RULES**

The Chairman of the Council, the Chairmen of Committees and Sub-Committees and Portfolio Holders to answer any questions on any matters in relation to which the Council has powers or duties or which affect the District of which due notice has been given in accordance with Council Procedure Rule No. 13.

8 **BC/22/41 GENERAL FUND BUDGET 2023/24 AND FOUR-YEAR OUTLOOK** 17 - 78

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 6 February 2023, Cabinet considered Paper BCa/22/39, the General Fund Budget for 2023/24 and four-year outlook. Paper BC/22/41 now includes all the relevant updated information plus the tax base, precepts and council tax band information at parish level, together with the necessary recommendations.

9 **BC/22/42 HOUSING REVENUE ACCOUNT (HRA) 2023/24 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 6 February 2023, Cabinet considered Paper BCa/22/40, the Housing Revenue Account Budget for 2023/24. Paper BC/22/42 includes all relevant updated information and includes the necessary recommendations.

10 **BC/22/43 CASE FOR A NEW JOINT DEPOT** 91 - 102

Cabinet Member for Assets & Investments

11 **EXCLUSION OF THE PUBLIC (WHICH TERM INCLUDES THE PRESS)**

To consider whether, pursuant to Part 1 of Schedule 12A of the Local Government Act 1972, the public should be excluded from the meeting for the business specified below on the grounds that if the public were present during this item, it is likely that there would be the disclosure to them of exempt information as indicated against the item.

The author of the report proposed to be considered in Part 2 of the Agenda is satisfied that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

PART 2

12 **RESTRICTED APPENDIX - CASE FOR A NEW JOINT DEPOT (Exempt information by virtue of Paragraph 1 of Part 1)** 103 - 122

Cabinet Member for Assets & Investments

13 **RE-ADMITTANCE OF THE PUBLIC (WHICH TERM INCLUDES THE PRESS)**

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

14 **BC/22/44 JOINT CAPITAL, INVESTMENT AND TREASURY MANAGEMENT STRATEGIES 2023/24** 123 - 192

Co-Chair of Joint Audit and Standards Committee

At its meeting on 30 January 2023, Joint Audit and Standards Committee considered Paper JAC/21/42, the Joint Capital, Investment and Treasury Management Strategies. Paper BC/22/44 now includes all the relevant updated information, together with the necessary recommendations.

15 **COUNCILLOR APPOINTMENTS**

16 **MOTIONS ON NOTICE**

Date and Time of next meeting

The next meeting is scheduled for Wednesday, 22 March 2023 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.

Evacuating the building in an emergency: Information for Visitors:

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.

BABERGH DISTRICT COUNCIL

Minutes of the meeting of the **BABERGH COUNCIL** held in the King Edmund Chamber, Endeavour House, 8 Russell Road, Ipswich on Monday, 23 January 2023 at 5.30pm

PRESENT:

Councillor:	Kathryn Grandon (Chair)	
	Derek Davis (Vice-Chair)	
Councillors:	Clive Arthey	Melanie Barrett
	Simon Barrett	Peter Beer
	David Busby	Sue Carpendale
	Trevor Cresswell	Siân Dawson
	Mick Fraser	Richard Hardacre
	John Hinton	Michael Holt
	Bryn Hurren	Robert Lindsay
	Elisabeth Malvisi	Alastair McCraw
	Mary McLaren	Zachary Norman
	John Nunn	Adrian Osborne
	Jan Osborne	Alison Owen
	Lee Parker	Stephen Plumb
	John Ward	

In attendance:

Officers:
Chief Executive (AC)
Deputy Chief Executive (KN)
Monitoring Officer (IA)
Director Corporate Resources (ME)
Corporate Manager SRP (AM)
Interim Director Communities & Wellbeing (DR)
Corporate Manager Communities (VM)
Corporate Manager Governance & Civic Office (JR)
Assistant Manager Governance (HH)

Apologies:

Sue Ayres
Jane Gould
Leigh Jamieson
Margaret Maybury
Mark Newman

47 DECLARATION OF INTERESTS BY COUNCILLORS

47.1 There were no declarations of interest.

48 BC/22/34 TO CONFIRM THE MINUTES OF THE MEETING HELD ON 22 NOVEMBER 2022

48.1 Councillor Busby apologised for a belated response in regard to the supplementary question from Mr Riley at the Council meeting held on 22 November. Councillor Busby explained that the increase in auditors' fees was largely due to extra demands made by the government on the actual auditors in terms of the fixed assets.

It was RESOLVED:-

That the Minutes of the meeting held on 22 November 2022 be confirmed and signed as a true record.

49 BC/22/35 ANNOUNCEMENTS FROM THE CHAIRMAN AND LEADER

49.1 The Chair referred Councillors to paper BC/22/35 for noting.

49.2 The Chair thanked those who had bought tickets for the Chairman's charity dinner and those who had donated to the raffle.

49.3 The Leader of the Council made the following announcements:

Levelling Up Fund
You will have heard by now that the Council's second bid for £5.8m from the Levelling Up Fund for the Hamilton Road site regeneration and Sudbury town centre transport schemes failed. Indeed, there was nothing at all for Suffolk in this LUF round. It was hugely disappointing, especially considering it had a medium to high benefits/cost ratio on monetary value in addition to other non-monetarised benefits. It has made a complex and difficult project very uncertain, and we will be talking to SCC about our options.

Photo ID for Voting
You will probably be aware by now that, as a result of last year's Elections Act, photo ID will be required for those voting in person in the council elections in May. A range of existing documents are acceptable as valid photo identification and most people will have at least one of these, but those who don't will have to obtain a Voter Authority Certificate. We now have an information page on the Council's website, where we have included a link to the application page on the gov.uk website as well as information about how a paper application can be made. This only applies to voting at a polling station – there is no change to the postal voting process.

The Council will be embarking on a comprehensive publicity campaign over the next few weeks, and we will include more details in next month's Town and Parish Briefings.

It would be good if everyone could publicise this as widely and as often as possible so that no one is denied a vote on May 4th.

50 TO RECEIVE NOTIFICATION OF PETITIONS IN ACCORDANCE WITH COUNCIL PROCEDURE RULES

50.1 None received.

51 QUESTIONS BY THE PUBLIC IN ACCORDANCE WITH COUNCIL PROCEDURE RULES

51.1 None received.

52 QUESTIONS BY COUNCILLORS IN ACCORDANCE WITH COUNCIL PROCEDURE RULES

52.1 None received.

53 BC/22/36 OVERVIEW AND SCRUTINY COMMITTEE REPORT

53.1 The Chair invited Councillor Hinton - Chair of Overview & Scrutiny Committee to introduce report BC/22/36 which was for noting.

54 TO RECEIVE REPORTS FROM CABINET MEMBERS

CMU1 – Cabinet Member for Communities and Wellbeing

54.1 The Chair invited Councillor McLaren – Cabinet Member for Communities & Wellbeing to introduce paper CMU1.

54.2 Councillor Hinton referred to the Western Suffolk Community Safety Partnership Action Plan and asked why there was no reference to the Eastern Suffolk Community Safety Partnership.

54.3 Councillor Davis clarified as the Chairman of the Western Suffolk Community Safety Partnership, that it covered the entirety of Babergh.

54.4 Councillor Holt sought assurance of Babergh's continued support for Abbeycroft Leisure in the face of the energy crisis.

54.5 Councillor McLaren conveyed her satisfaction with relations between Babergh and Abbeycroft Leisure and stated that meetings are held on a quarterly basis.

54.6 The Interim Director for Communities and Wellbeing reported that Abbeycroft Leisure was performing positively post-covid. Although they had predicted a shortfall, they were able to manage this, and although financial back up had been made available, they had never drawn on it.

CMU2 – Cabinet Member for Customers, Digital Transformation & Improvement

54.7 The Chair invited Councillor McCraw – Cabinet Member for Customers, Digital Transformations & Improvement to introduce paper CMU2.

54.8 Councillor S Barrett raised issue with the term 'customer' and suggested 'taxpayer' as more suitable alternative.

54.9 Councillor Lindsay agreed with Councillor S Barrett that the Council was not a business and suggested the term ‘citizen’, to further denote the obligations and duties that constituents are beholden.

54.10 Councillor McCraw voiced support for ‘customers’ as an appropriate term in emulation of the right culture and due respect to those the Council works for. Additionally, Councillor McCraw declared that the effect should be the focus as opposed to language-use and noted that ‘customers’ worked.

54.11 Councillor Hinton noted the involvement of ‘customer’ language-use in other similar services. In addition, Councillor Hinton questioned whether adequate provision had been made for those who have disconnected from the internet due to economic constraints that had arisen from the energy crisis.

54.12 Councillor McCraw remarked that the priority would be to dispense with streaming services rather than internet providers and noted developments in low-cost internet access, albeit something far off.

54.13 Councillor Parker raised concern with the complexity of language in paragraph 2.1.4 and enquired about the ease of access for customers.

54.14 Councillor McCraw agreed that online forms needed ease-of-use and to be jargon-free. Councillor McCraw exampled improvements on gov.uk as direction forward.

54.15 Councillor Holt raised concern that 1 in 4 people dropped out before the phone was answered and noted that this was worse over the past 4 years.

54.16 Councillor McCraw agreed and clarified that the demand increased whilst the staff to manage the demand decreased but that it was being addressed.

54.17 Councillor M Barrett asked whether there was a desire to downgrade face-to-face.

54.18 Councillor McCraw asserted that the services were not underloaded nor overloaded and that the access points in Sudbury and Hadleigh are able to meet demands.

54.19 Councillor Lindsay sought reassurance to resolve the backlog in housing repair issues. Additionally, Councillor Lindsay enquired about the track record of Placecube and the help the project provides citizens.

54.20 Councillor McCraw acknowledged that the backlog due to covid required time to work through, as well as new compliance issues was being addressed. Councillor McCraw advised that the contractors have a good track record, will provide a user forum and stated that the project cost was reasonable with anticipated reductions in the cost of running services.

55 RECOMMENDATIONS FROM CABINET / COMMITTEES

56 BCA/22/38 COUNCIL TAX REDUCTION (WORKING AGE) SCHEME 2023/24

56.1 The Chair invited Councillor Busby – Cabinet Member for Finance, Assets and Investments to introduce report BCA/22/28.

56.2 Councillor Busby detailed the purpose of the report and **PROPOSED** the recommendations contained within the report, which **SECONDED** by Councillor S. Barrett.

56.3 Councillor Fraser asked for clarification of the wording in paragraph 1.2 regarding the additional council tax award of 'up to at least' £25.

56.4 Councillor Busby clarified the base award is £25.

56.5 Councillor M. Barrett enquired whether in subsequent years the tax for recipients of the award would revert back.

56.6 Councillor Busby clarified that the £25 is a discretionary benefit that the Government has provided, which will disappear but that the 100% reduction would remain in place. Councillor Busby further explained that the aim is to avoid weekly recalculations and the intention of the scheme is to be self-funding reducing administration.

56.7 Councillors debated the matter and agreed that the current system was inefficient and problematic for residents. Clarification was stated that this scheme only affects working age recipients, however it was put forward that the implementation of the scheme should free up resources and prevent multiple reassessments being sent out. Officers confirmed that the scheme would allow for a reduction of regulatory paperwork sent to residents.

It was RESOLVED:

That Option 3 (as set out in Appendix C of the report) be used as the basis for a revised (Working Age) Council Tax Reduction Scheme for 2023/24.

In addition, the following recommendations as a result of the Governments announcements in the Provisional Settlement relating to the additional local Council Tax Support award for 2023/24.

- **That Council approved the introduction of an additional Local Council Tax Support award for 2023/24 of up to at least £25 per recipient where residual liability for Council Tax exists, as permitted under Section 13A (1) (c) of the Local Government Finance Act 1992.**

- **That Council gives authority to the Director for Corporate Resources in consultation with the Cabinet Member for Finance to agree Local Discretionary Policy as permitted under Section 13A (1) (c) of the Local Government Finance Act 1992 to determine the method of distribution for any funds remaining from the additional Council Tax Support Fund for 2023/24.**

57 JAC/21/38 HALF YEAR REPORT ON TREASURY MANAGEMENT 2022/23

57.1 The Chair invited Councillor Hurren – Co-Chair of Joint Audit and Standards Committee to introduce report JAC/21/38.

57.2 Councillor Hurren detailed the purpose of the report and **PROPOSED** the recommendations contained within, which were **SECONDED** by Councillor S. Barrett for formal noting only.

57.3 Councillor S. Barrett queried the date issued on the paper.

57.4 The Corporate Manager for Governance & Civic Office clarified that the date on the paper was the date of the Joint Audit and Standards Committee.

57.5 Councillor Busby sought clarification on 4.7 detailing confusion over Mid Suffolk's reported debt.

57.6 The Corporate Manager for Finance, Commissioning and Procurement confirmed the debt reduction of £7million in table 3 as correct and acknowledged the error stated in table 2.

57.7 Councillors debated the issue adding that Overview and Scrutiny Committee had scrutinised the item on 25th July and reiterated the importance of the committee's role in safeguarding the Council in the face of dynamic legislative currents.

It was RESOLVED:

1) That the Treasury Management activity for the first six months of 2022/23 as set out in report JAC/21/38 and Appendices be noted.

2) That it be noted that Babergh District Council's treasury management activity for the first six months of 2022/23 was in accordance with the approved Treasury Management Strategy, and that the Council has complied with all the Treasury Management Indicators for this period.

58 BC/22/37 COMMUNITY GOVERNANCE REVIEWS 2022

58.1 The Chair invited the Monitoring Officer to introduce report BC/22/37.

58.2 The Recommendations in the report were **PROPOSED** by Councillor Ward and **SECONDED** by Councillor Norman.

58.3 Councillor Owen asked how long it would take to receive an answer.

58.4 The Monitoring Officer responded that the timeline would extend until completion of the due process. The first steps highlighted were for a response from the Boundary Commission and after which, wider consultation.

58.5 Councillor S Barrett questioned the acceptability of disproportionately allocated parish councils to wards in Sudbury.

58.6 The Monitoring Officer replied that it would be subject to further consultation, which he clarified was after the initial consultation; a second stage broader consultation outside of Sudbury Town Council.

58.7 Councillors considered whether Wolsey Grange required changes. Agreement was voiced that current representation is not balanced, and that wider consultation would support the initial consultation.

It was RESOLVED:

1. **The Council agreed the recommendations contained in Appendix A.**
2. **The Council noted the reason in Appendix B, that the Community Governance Review were unable to complete the review which is ongoing.**

59 BC/22/38 SPECIAL URGENT DECISIONS TAKEN BY OFFICERS UNDER DELEGATED POWERS IN ACCORDANCE WITH PART 2 OF THE CONSTITUTION

59.1 The Chair invited the Chief Executive to introduce report BC/22/38 which was for noting.

60 COUNCILLOR APPOINTMENTS

60.1 There were no changes to placings.

61 MOTIONS ON NOTICE

61.1 None received.

The business of the meeting was concluded at 6.51pm.

……………………………………..
Chair

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Agenda Item 4

BC/22/40

BABERGH DISTRICT COUNCIL - 20 FEBRUARY 2023

CHAIRMAN'S ANNOUNCEMENTS

EVENT	LOCATION	DATE	CHAIRMAN	VICE CHAIR
JANUARY 2023				
Babergh Chairman's Charity fundraising dinner	Royal Hospital School, Holbrook	28-Jan	✓	✓
FEBRUARY 2023				
Mid Suffolk Chairman's Civic Service	St Mary the Virgin church, Bramford	05-Feb	✓	

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Agenda Item 8

BABERGH DISTRICT COUNCIL

TO:	**Council**	**REPORT NUMBER: BC/22/41**
FROM:	**Councillor David Busby, Cabinet Member for Finance**	**DATE OF MEETING: 20 February 2023**
OFFICER:	**Melissa Evans, Director, Corporate Resources**	**KEY DECISION REF NO. N/A**

GENERAL FUND BUDGET 2023/24 AND FOUR-YEAR OUTLOOK

1. PURPOSE OF REPORT

1.1 The purpose of this report is to present the General Fund Budget for 2023/24 and four-year outlook.

1.2 To enable Members to consider key aspects of the 2023/24 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 2023/24 and four-year outlook set out in the report be approved.

3.2 That the General Fund Budget for 2023/24 is based on a 2.99% increase to Band D Council Tax, which is equivalent to £5.30 per annum (10p per week) for a Band D property.

REASON FOR DECISION

To bring together all the relevant information to enable Members to approve the Councils 2023/24 General Fund Budget.

4. KEY INFORMATION

Background

4.1 In February 2022 Babergh District Council approved the General Fund Budget 2022/23 and Four-Year Outlook. The budget setting approach for 2022/23 recognised that the Council has tended to underspend the budget that has been set in recent years, primarily due to additional income being received.

4.2 Managers have traditionally used a worst-case scenario when putting their budget proposals together. Amalgamating these assumptions across the whole organisation has, in recent years, resulted in underspends. The unintended consequence is that resources are committed during the budget process that could be used for other priorities or alternatively savings must be made that are not actually needed.

4.3 For 2022/23 stretching, but realistic, assumptions were used when putting budget proposals together across both expenditure and income. However, global events, rising inflation and interest rates have created an unprecedented financial challenge for the Council resulting in a likely overspend position as detailed in 4.10 below.

National Economic Position

4.4 The national economic position has changed significantly since the budget for 2022/23 was set.

4.5 The Office for Budget Responsibility's (OBR) economic forecasts, provided alongside the Chancellor's Autumn Statement in November, showed a worse position than the numbers from March 2022. A lower growth rate for Gross Domestic Product (GDP) is the driving factor behind the UK's worsening economic prospects. In March 2022, the Office for Budget Responsibility (OBR) forecast that the UK would recover from the economic impact of the pandemic, and then continue to grow at around 1.7% per year from 2023 onwards.

4.6 The Bank of England forecast in its November Monetary Policy Committee (MPC) report that the economy will contract by 0.75% in the second half of 2022, and then continue to fall during 2023 and into the first half of 2024. The OBR is not quite as pessimistic but still forecasts a recession starting in the second half of 2022 and extending into 2023.

4.7 The pandemic led to a massive increase in public sector borrowing and the current crisis will lead to a second (smaller) peak. Increased borrowing is caused by higher interest rates (impact on the Government's debt payments), higher inflation (pensions and benefits linked to inflation), and the wider economic slowdown. Bringing down borrowing is central to the Chancellor's fiscal plans. Net borrowing was previously expected to settle around £50bn per annum but on current plans will settle at a higher level, at around £70-£80bn in 2026/27 and 2027/28.

4.8 The Consumer Price Index (CPI) increased significantly in 2022, led by high energy prices. Inflation peaked at 11.1% in October and dropped to 10.7% in November. The OBR expects inflation to return to its target level by 2027 but is forecasting it will be much lower than that beforehand and potentially even negative in 2025. Most independent forecasters take the same view as the OBR about inflation but there are still serious risks that higher levels of inflation persist into 2024 and beyond.

2022/23 Budget and Forecast Outturn

4.9 On 21 February 2022, the Council set a balanced budget for 2022/23. Excluding both housing benefits payments and income, the budget comprised of £20.6m expenditure and £10m income, to give a net service budget of £10.6m. The 2022/23 budget is primarily funded from council tax, business rates and government grants. Chart 1 below shows how the £20.6m expenditure is allocated across the services and Chart 2 below shows the breakdown of the £10m service income.

Chart 1: Expenditure by Service Area (excl. housing benefits) 2022/23 (£20.6m)

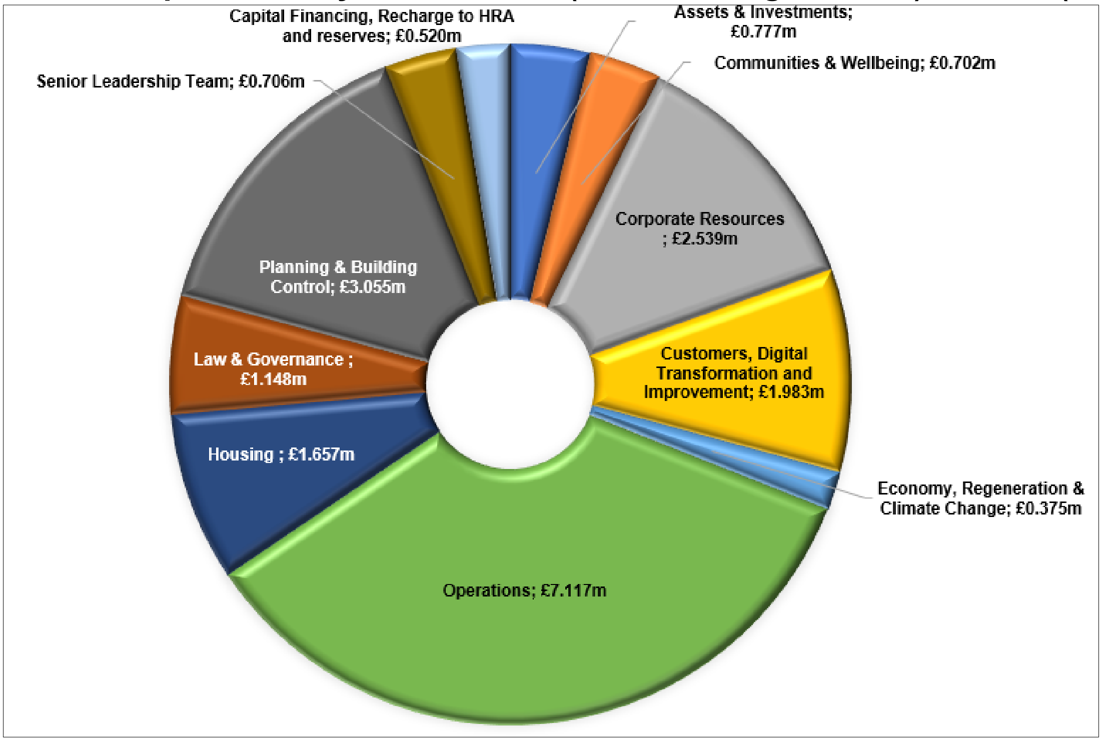
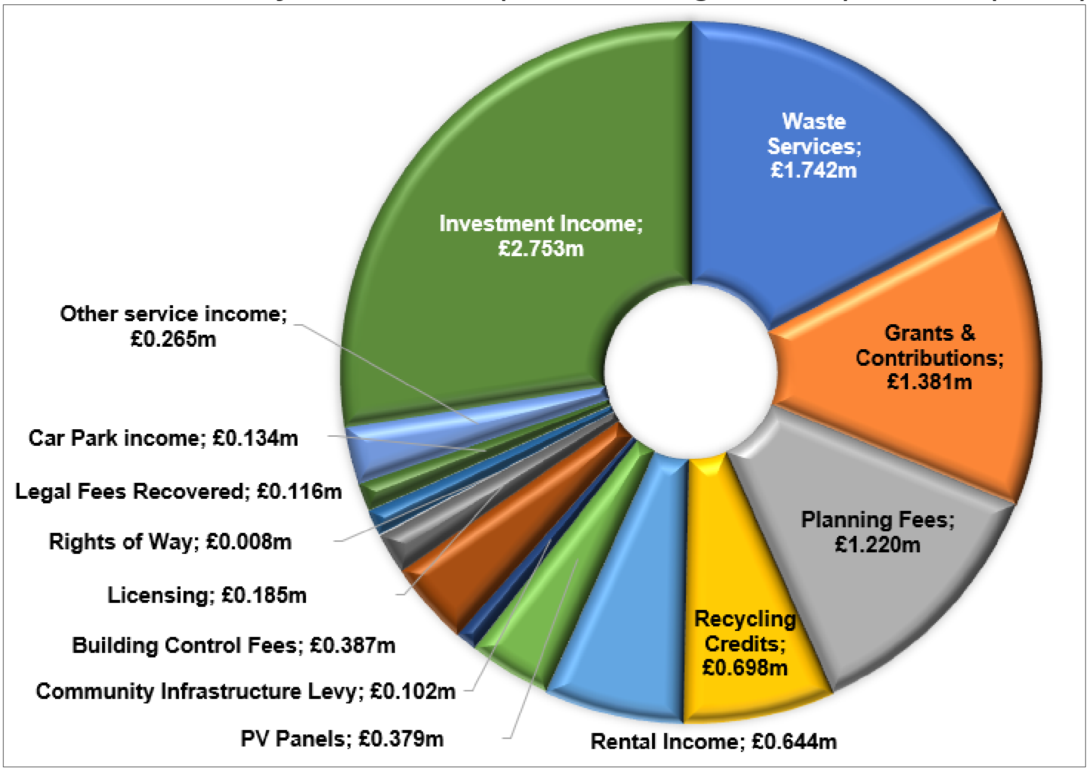


Chart 2: Income by service area (excl. housing benefits) 2022/23 (£10m)



4.10 The second quarter 2022/23 budget monitoring report was presented to Cabinet on 5 December 2022 showing a forecast overspend against budget at 31 March 2023 of £693k. The Council created an Inflationary Pressure Reserve of £500k in 2021/22 to mitigate against the impact of inflation in 2022/23. It is expected that this reserve be used to fund the majority of the deficit and that the remainder be funded by a reduced contribution to the Strategic Priorities Reserve (£527k budgeted, reduced to £334k).

4.11 The third quarter position will be presented to Cabinet on 6 March 2023.

2023/24 Budget

4.12 The approach to the budget setting for 2023/24 has been to take the 2022/23 outturn position as a starting point as the most up to date position of the Councils financial requirements going forward.

4.13 The Finance Team has worked closely with budget managers and the Senior Leadership Team to update the Councils budget requirements for 2023/24, taking into account known pressures and identifying efficiencies and savings to help offset this without negatively impacting on service delivery.

4.14 The summary in Table 1 below shows the breakdown of the Council's net cost of service for 2023/24 (£12.53m) compared to 2022/23 (£10.43m), an increase of £2.1m.

4.15 The Council's 2023/24 gross expenditure is £34.57m and income is £22.04m giving a net cost of service of £12.53m. Funding as shown in table 1 equates to £12.55m leaving a small surplus of £22k for the 2023/24 budget, which will be transferred to the Strategic Priorities Reserve.

Table 1: General Fund Budget Summary 2023/24

		2022/33 Budget £'000	2023/24 Budget £'000	Movement 2022/23 to 2023/24 £'000
Service Expenditure	Employees	9,983	11,613	1,630
	Premises	1,536	1,197	(339)
	Supplies & Services	3,917	4,800	883
	Transport	352	353	1
	Contracts	4,270	4,612	342
Service Income	Grants and Contributions	(1,381)	(1,461)	(80)
	Sales, Fees & Charges	(4,109)	(4,075)	34
	Other income (incl. rental & PV panel income)	(1,771)	(1,848)	(78)
Housing Benefits	HB Transfer Payments	12,972	11,769	(1,203)
	HB Grants and Contributions	(13,107)	(11,885)	1,222
Net Service Expenditure		**12,663**	**15,074**	**2,411**
Recharges	Recharge to HRA/Capital (Corporate Overheads)	(1,347)	(1,937)	(589)
Capital Financing Charges	Interest Payable - CIFCO long term	380	208	(172)
	Interest Payable - Other	60	1,271	1,211
	Minimum Revenue Provision (MRP)	1,445	1,708	263
Investment Income	Pooled Funds Net Income	(569)	(569)	-
	Interest Receivable - CIFCO	(2,169)	(2,187)	(18)
	Interest Receivable - Other	(15)	(15)	-
Reserves	Transfers to/from Reserves	(18)	(1,025)	(1,007)
Total Net Cost of Services		**10,430**	**12,528**	**2,099**
Government Grants	New Homes Bonus	(802)	(825)	(23)
	Revenue Support Grant (RSG)	-	(130)	(130)
	Services Grant	(147)	(86)	61
	Rural Services Delivery Grant	(238)	(266)	(28)
	Funding Guarantee	-	(68)	(68)
	Lower Tier Services Grant	(96)	-	96
Business Rates	Business Rates	(3,041)	(4,069)	(1,028)
	Growth / Pooling Benefit	(333)	(457)	(124)
	Enterprise Zone income	(216)	(238)	(22)
	Business Rates (surplus) / deficit	218	25	(193)
Council Tax	Council Tax	(6,185)	(6,472)	(287)
	Council Tax (surplus) / deficit	(116)	36	152
Total Funding		**(10,957)**	**(12,551)**	**(1,594)**
	Net surplus transferred to Strategic Priorities Reserve	527	22	(505)

2023/24 Budget Assumptions and Risks

4.16 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. Assumptions made when constructing the budget for 2023/24 were reviewed and assessed by the Overview and Scrutiny Committee in November 2022 and in January 2023, report reference BOS/22/01 and BOS/22/02 and so have not all been repeated here.

4.17 The budget for 2022/23 was a surplus of £527k however due to a continuation of financial pressures, and a shortfall in funding to meet the overall increasing costs, the position for next year has worsened by £505k as shown in table 2 below.

Table 2: General Fund Overall budget changes

	£'000	£'000
2022/23 Surplus		**(527)**
Pressures		
Pay award, increments, and pay review (of which £790k is reserve/grant funded)	1,900	
Short term borrowing –higher interest rates £19m @ 3.5%	665	
Short term borrowing – new borrowing	375	
Minimum Revenue Provision – capital spend on refuse freighters	260	
Waste contract inflation and disposal costs increase	390	
Reduction to planning income	230	
Insurance premiums - current costs + 10% inflation	80	
Shared Revenues Partnership - increase to contract costs	70	
Removal of Savings contingency	70	
Bank charges increase	70	
Additional Training budget requirement	50	
ICT contract increase	50	
Increase in Postage costs	40	
Revenue costs associated with the implementation of the Parking Strategy	40	
Residents Survey	30	
Other smaller items	203	
Total Pressures		**4,523**
Savings/additional income		
Removal of Pension lump sum	(400)	
Recharge to HRA for Grounds maintenance	(420)	
Income from garden waste and recycling credits	(180)	
Recharge to HRA / Capital	(250)	
Additional Homelessness Grant	(130)	
Joint Local Plan – reduction in Professional fees	(130)	
Removal of security costs Hadleigh Offices	(110)	
Savings Endeavour House	(50)	
Increase in chargeable amount for CIL admin	(50)	
Vacancy Management Factor – 5% but increased due to pay award	(70)	
Licensing income growth and additional fees	(40)	
Other items	(164)	
Total Savings/additional income		**(1,994)**
Movement in Reserves		(430)
Funding Changes		(1,594)
Total Net increase		**505**
2023/24 Surplus		**22**

4.18 The charts below show the breakdown of expenditure and income excluding Housing Benefits payments and compensating income. Chart 3 below shows how the £22.8m service expenditure is allocated across the services, and Chart 4 shows the breakdown by expenditure type. Chart 5 shows the breakdown of total income of £10.2m.

Chart 3: Expenditure by Service Area (excl. housing benefits) 2023/24 (£22.8m)

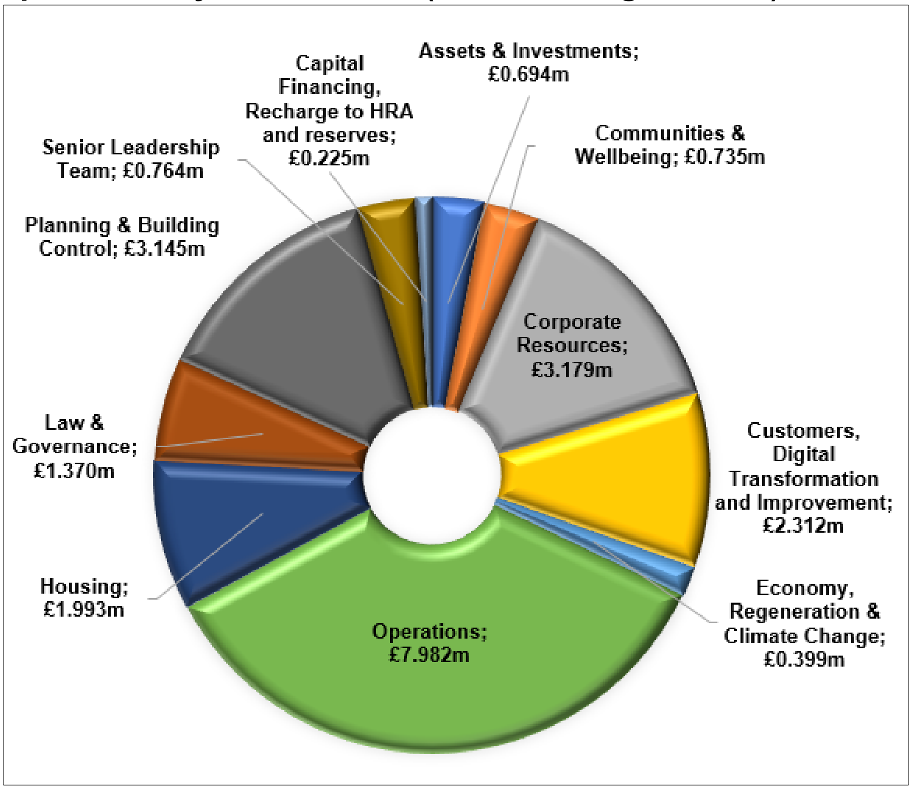


Chart 4: Expenditure by Type (excl. housing benefits) 2023/24 (£22.8m)

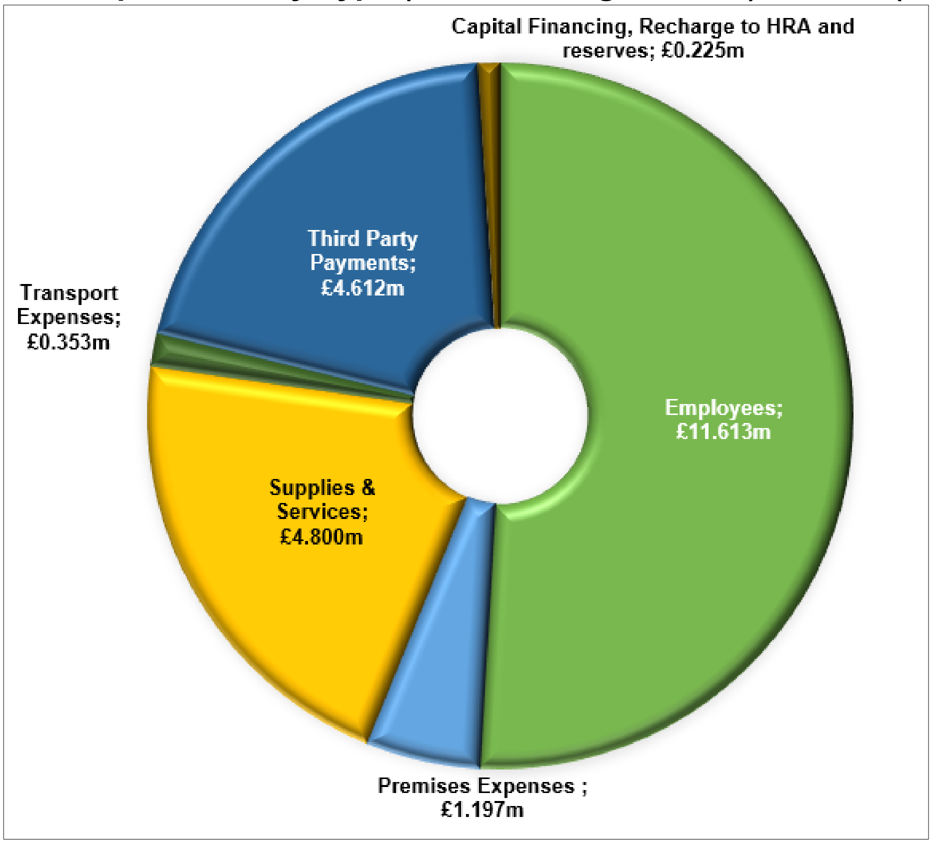
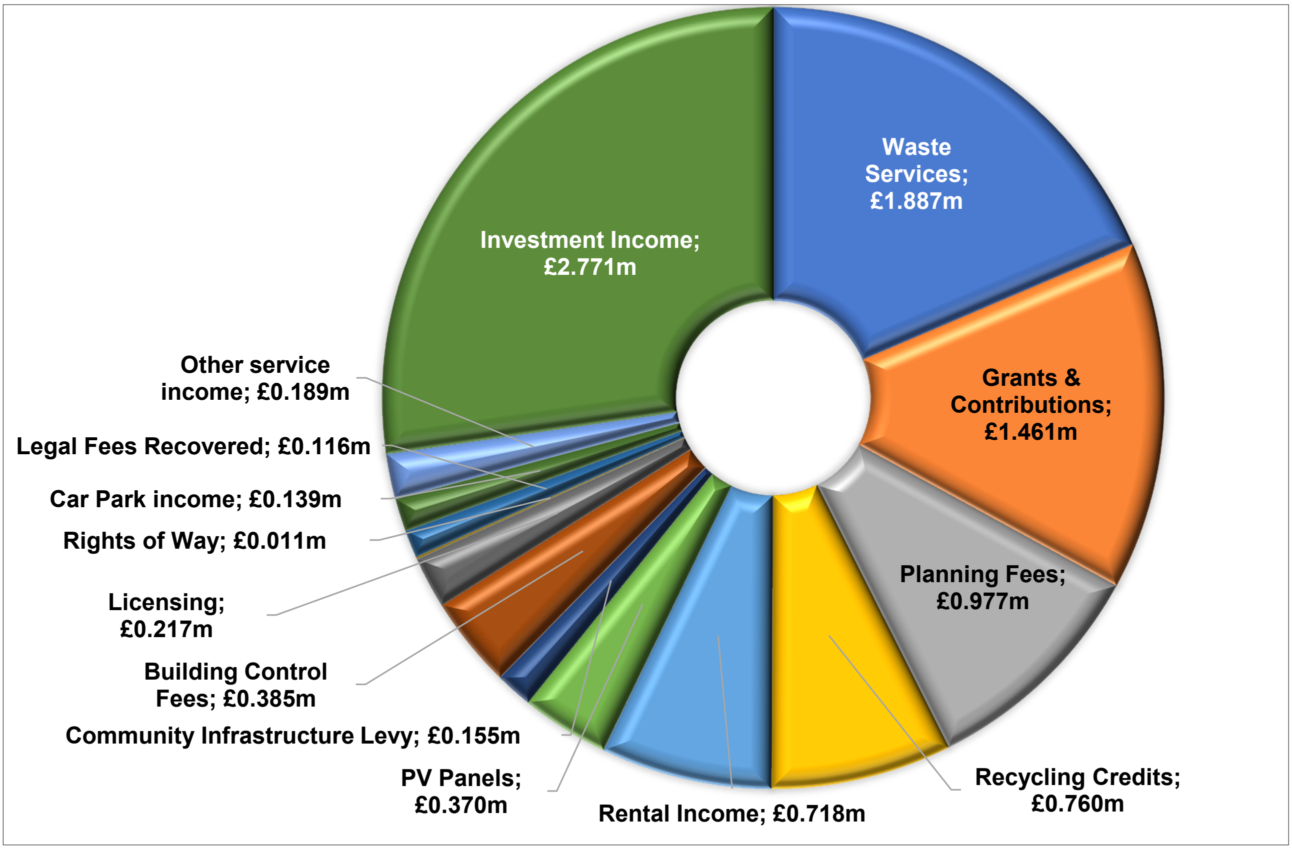


Chart 5: Total Income (excl. housing benefits) 2023/24 (£10.2m)



Funding

4.19 The Chancellor presented the Autumn Statement on 17 November 2022 in the context of the national economic position. A Policy Statement on 12 December 2022 announced the key principles that ministers would use in both the 2023/24 and 2024/25 local government finance settlement. The provisional local government finance settlement for 2023/24 was then announced on 19 December 2022 and the final 2023/24 Local Government Finance settlement was published on 6 February 2023. Some of the key headlines for local government and specifically our council are as follows:

- Core spending power estimated to increase annually by an average of 9.4%, but this assumes maximum council tax increases. A large part of this is due to increases in adult social care grants.

- Council tax increase thresholds increased from 1.99% to 2.99% and a further 2% for social care. For District Councils' council tax can be increased by the higher of 2.99% or £5, which the Government believes protects local taxpayers from excessive council tax increases.

- Business rates announcements included the following:
    - The business rates multiplier will be frozen. Compensation for this will is being provided based on the Consumer price Index (CPI) at 10.1% via an uplift to Baseline Funding Level of 3.74%, with the remainder paid via section 31 grant.
    - 75% discount for retail, hospitality, and leisure sectors (50% in 2022/23).
    - 3-year support for small businesses for properties losing Small Business Rates Relief or Rural Rates Relief.

    - Revaluation to go ahead as planned in 2023/24, with a transitional relief scheme for businesses.

- The current approach to the New Homes Bonus (NHB) is being applied to 2023/24 with a further one-year allocation for housing growth between October 2021 and October 2022. There will be no further legacy payments with the final one being made in 2022/23.

- Revenue Support Grant (RSG) will be received in 2023/24. This is due to family Annex Council Tax Discount Grant and LCTS Administration Grant being rolled up into the settlement. These were previously accounted for within service income, so this change does not impact the overall budget position.

- Rural Services Delivery Grant is being maintained at the same level as 2022/23.

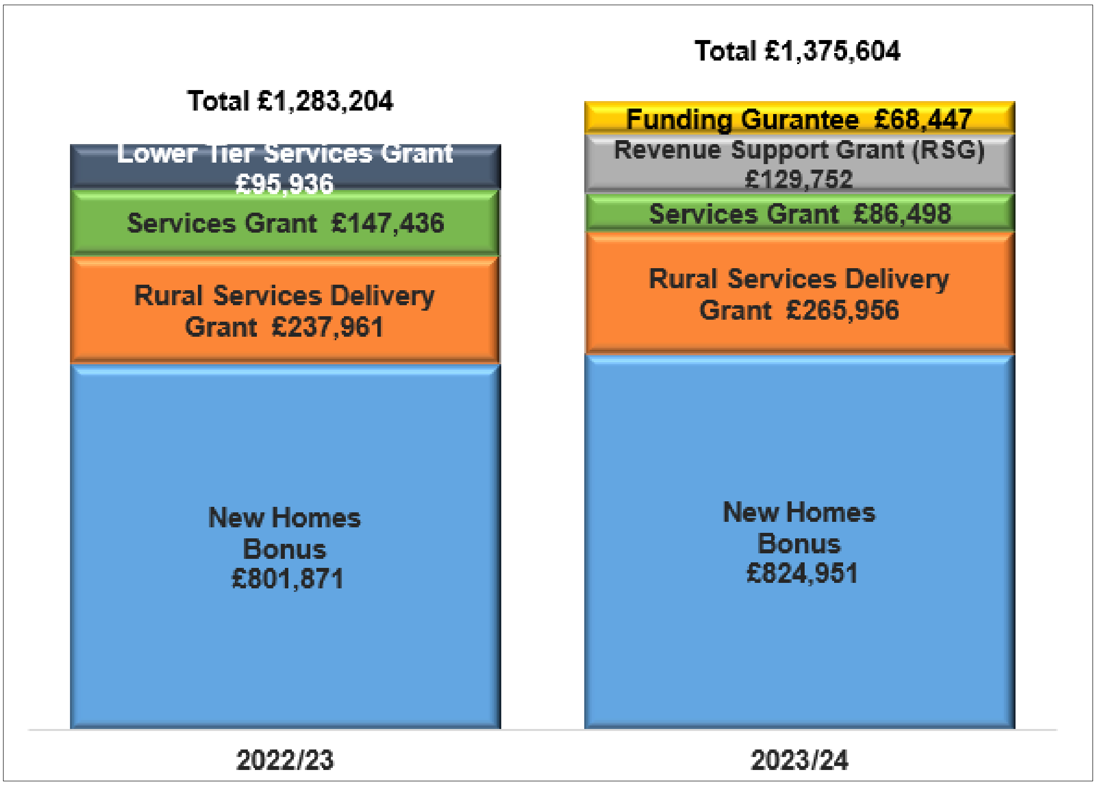
- Services Grant has reduced. Part of the reduction is the removal of funding for the National Insurance Contribution increase.

- Lower Tier Services Grant has been abolished from 2023/24 onwards.

- A new grant has been created to ensure every authority has an increase in Core Spending Power (CSP) of at least 3%. This Funding Guarantee Grant will be funded from the Lower Tier Services Grant (LTSG) and the reduced cost of New Homes Bonus (NHB).

4.20 The Councils 2023/24 provisional grant allocations have increased by £92.4k (7.2%) compared to 2022/23 as shown below.

Chart 6: Government grant allocations 2022/23 and Provisional 2023/24



New Homes Bonus

4.21 Since NHB was introduced in 2011/12 the Council has received £12.7m 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 Strategic Priorities reserve. For 2023/24 Babergh will be using most of the £825k allocation of NHB to balance the budget.

4.22 As shown in Table 3 below, the use of NHB to balance the budget has increased from 34% in 2022/23 to 97% in 2023/24.

Table 3: New Homes Bonus used from 2017/18 to 2023/24

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Amount of NHB received	1,212	866	683	1,055	835	802	825
NHB used to balance the budget	1,197	866	683	343	692	275	803
% of NHB allocation to balance budget	**99%**	**100%**	**100%**	**33%**	**83%**	**34%**	**97%**

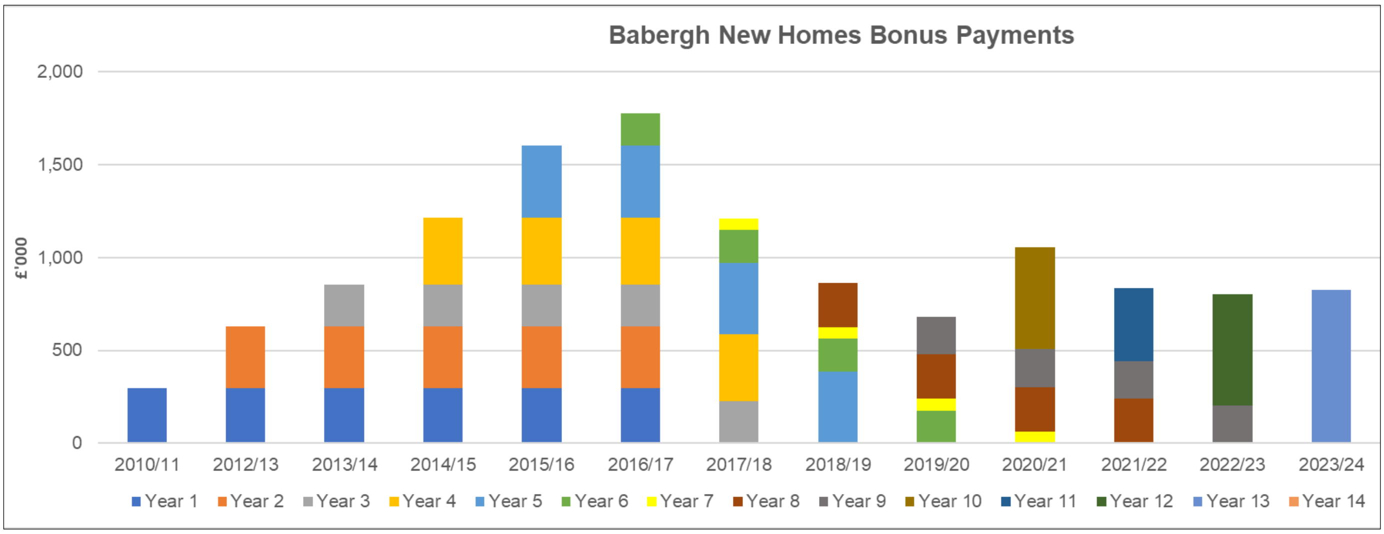
4.23 Table 4 and Graph 1 below shows the NHB over the last twelve years. This shows how NHB has declined from a peak of £1.8m in 2016/17 to £825k in 2023/24, after the Government announced it would reduce the allocation from 6 years to 5 years in 2017/18 and to 4 years in 2018/19 and continued to phase out the legacy payments, as well as introducing a 0.4% growth baseline in 2017/18.

4.24 For 2023/24 the 0.4% growth baseline for Babergh means that the first 161 new homes built received no payment.

Table 4: New Homes Bonus sums per year

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	Provisional 2023/24
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													825
Year 14													
Year 15													
Year 16													
Total	**295**	**630**	**856**	**1,215**	**1,602**	**1,779**	**1,212**	**866**	**683**	**1,055**	**835**	**802**	**825**

Graph 1: New Homes Bonus Payments



Council Tax

4.25 The impact from Covid19 on collection rates, the number of Local Council Tax Reduction (LCTR) claimants and the build rate of new homes across the district has all influenced the tax base for 2023/24. A 1.6% increase has been calculated, which will generate additional council tax income of £99k.

4.26 On the 23 January 2023 Babergh Council approved changes to the Working Age Local Council Tax Reduction Scheme. The changes will allow up to 100% maximum reduction for all legacy benefit households and introduce a simplified scheme for Universal Credit (UC) customers that will allow 'passported' claims to be automated based on the UC financial data without additional verification. The approval included the provision of a transitional protection scheme to support those households who would be worse off under the simplified UC scheme. The cost of the scheme will be funded from the Covid19 reserve.

4.27 In addition to this the Government announced, as part of the Provisional Settlement, additional local Council Tax Support award for 2023/24. Babergh has been allocated £118k which will be used to reduce council tax bills for current working age and pension age Local Council Tax Support (LCTS) claimants by up to £25. At the Council meeting on 23 January 2023 delegation was given to the Director of Corporate Resource and the Cabinet Member for Finance to determine the method of distribution of any funds remaining from the additional Council Tax Support Fund for 2023/24.

4.28 An increase in Band D Council Tax of 2.99% is recommended for 2023/24, which will generate additional income of £188k.

4.29 A deficit of £36k is currently projected for the Collection Fund in 2022/23, which is £152k less than the previous year. The way that the Collection Fund operates means that this surplus will be recognised in the Council's budget in 2023/24.

Business Rates

4.30 The headlines for Business Rates are as follows:

- Following the NNDR1 Government return submitted in January 2023, an increase in business rates of £1.028m is expected. This is a result of the Government's commitment to compensate Councils for the freeze on the multiplier.
- The benefit from being part of the Suffolk business rates pool will increase by £124k and the impact of the Collection Fund forecast balance at the end of March 2023 increases the resources available by £193k.
- Additional income of £22k is forecast from the Enterprise Zone at Sproughton.

Reserves

4.31 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.

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

4.33 In 2023/24 the Council is using £1.1m from earmarked reserves against specific service expenditure and projects as shown below.

4.34 The Covid19 reserve with a balance of £998k, will help to fund initiatives in response to the cost-of-living crisis.

4.35 Alongside transfers from reserves, the Council is also transferring £71k to earmarked reserves in 2023/24 to fund future years' specific service expenditure, made up of £20k to the elections reserve and £51k to Neighbourhood planning reserves.

4.36 Table 5 below shows the planned earmarked reserves movements and balances from 31 March 2022, forecast through to 31 March 2024, including the 2023/24 budgeted surplus of £22k to the Strategic Priorities Reserve. The Council are forecasting reserve balances to be £6.7m in total at the end of the March 2024.

Table 5: Reserves

	Balance 31 March 2022 £'000	Forecast balance 31 March 2023 £'000	To reserves £'000	From reserves £'000	From reserves (Capital Programme) £'000	Estimated balance 31 March 2024 £'000
Business Rates & Council Tax	4,967	1,547				1,547
Business Rates Retention Pilot (BRRP)	812	546		(60)		486
Carry forwards	420	0				0
Climate Change and Biodiversity	309	239		(61)	(45)	133
Community Housing Fund	140	119		(28)		90
Commuted Maintenance Payments	937	937		(28)		908
Covid19	1,674	1,221		(223)		998
Elections Equipment	35	35				35
Elections Fund	70	90	20			110
Government Grants	259	254		(25)		229
Homelessness	277	176		(100)		76
Joint Local Plan	100	0				0
Neighbourhood Planning Grants	48	272	51	(27)		297
Planning (Legal)	668	698		(141)		557
Planning Enforcement	93	133				133
Rough Sleepers	88	57				57
Strategic Planning	93	93				93
Strategic Priorities	1,704	689	22	(217)		494
Temporary Accommodation	238	163		(59)		104
Waste	230	195		(122)		73
Well-being	176	274		(6)		267
Inflationary Pressures Reserve	500	0				0
TOTAL	**13,838**	**7,737**	**93**	**(1,097)**	**(45)**	**6,689**
General Fund Reserve	1,200	1,000				1,000

Medium Term Projections

4.37 Table 7 below shows the forecast position for the period 2024/25 to 2026/27. The position for 2023/24 is a small surplus of £22k followed by projected deficits of £943k, £1.6m and £546k to give a cumulative shortfall of £3.1m up to 2026/27.

4.38 Over the next three years the net cost of service increases by £2.4m, mainly due to pay awards and increments, inflationary increases on major contracts and capital financing charges and less use of reserves. The estimated tax base growth over the same period (£221k) only covers 9% of this increase. For a summary of the assumptions used, see table 6 below.

Table 6: Budget assumptions 2024/25 onwards

Description		2024/25 £'000	2025/26 £'000	2026/27 £'000
Employee Costs	Pay Award - 2%	228	234	244
	Increments - 2%	228	234	244
Contracts	Insurance Premiums • 2024/25 - 6%, • 2025/26 & 2026/27 - 2%	18	10	10
	Refuse contract • 2024/25 - 5% • 2025/26 & 2026/27 - 2%	141	59	61
	Shared Revenues Partnership - 3%	34	35	36
	ICT contract - 3%	8	8	9
Charge to HRA / Capital	Charge to HRA / Capital - 4%	(84)	(71)	(75)

4.39 No increase in council tax other than taxbase growth has been built into the projections over the next three years. However, a 2.99% increase every year for the next three years would generate an additional £613k which is only 25% of the increase in net cost of service over the same period.

4.40 A Policy Statement on 12 December 2022 announced the key principles that ministers would use in both the 2023/24 and 2024/25 local government finance settlement.

4.41 There remains some uncertainty for 2024/25, so this is not a fixed two-year settlement. We do not yet know the future of NHB, which is not expected to continue beyond 2024/25, or whether the Government will provide alternative funding in its place.

4.42 We also do not know the level of inflation next September (it is expected to be around 7.5%), and whether ministers will decide to freeze the multiplier again.

4.43 However, with the Policy Statement, we do have a reasonably good idea of what 2024/25 could look like and funding estimates for 2023/24 are taken from analysis provided by the Funding Advisory Service at Pixel based on these principles.

4.44 When calculating the expected level of funding for the next four years, the following assumptions have been made:

- New Homes Bonus will continue for 2023/24 and 2024/25 only.
- Revenue Support Grant (RSG) will be awarded for 2024/25 at the same level as 2023/24, but no further funding after that.
- The Funding Guarantee will continue into 2024/25 only, at the same level as 2023/24
- Business rates are projected to continue at the same level as 2023/24
- Nothing has been included for forecast Business Rates surplus or deficit beyond 2024/25 based on the assumption that the equalisation earmarked reserve will accommodate this.
- Council Tax increases of 2.99% for 2023/24 only, no increase modelled thereafter.
- Tax base growth of 1.6% in 2023/24, 1.17% in 2024/25, 0.83% in 2025/26 and 0.52% in 2026/27, which generates approximately £221k additional council tax income over the period.

4.45 Taking the assumptions in 4.44 above, funding reduces by £670k (5.3%) over the 4-year period from 2023/24 to 2026/27.

Table 7: Forecast Position 2024/25 - 2026/27

		2022/33 Budget £'000	2023/24 Budget £'000	2024/25 Forecast £'000	2025/26 Forecast £'000	2026/27 Forecast £'000
Service Expenditure	Employees	9,983	11,613	11,423	11,898	12,392
	Premises	1,536	1,197	1,198	1,201	1,203
	Supplies & Services	3,917	4,800	4,731	4,731	4,732
	Transport	352	353	355	355	356
	Contracts	4,270	4,612	4,795	4,898	5,003
Service Income	Grants and Contributions	(1,381)	(1,461)	(1,443)	(1,443)	(1,443)
	Sales, Fees & Charges	(4,109)	(4,075)	(4,075)	(4,075)	(4,075)
	Other income (incl. rental & PV panel income)	(1,771)	(1,848)	(1,848)	(1,848)	(1,848)
Housing Benefits	HB Transfer Payments	12,972	11,769	11,769	11,769	11,769
	HB Grants and Contributions	(13,107)	(11,885)	(11,885)	(11,885)	(11,885)
Net Service Expenditure		**12,663**	**15,074**	**15,019**	**15,601**	**16,203**
Recharges	Recharge to HRA/Capital (Corporate Overheads)	(1,347)	(1,937)	(1,956)	(2,028)	(2,102)
Capital Financing Charges	Interest Payable - CIFCO long term	380	208	208	208	208
	Interest Payable - Other	60	1,271	1,496	1,496	1,496
	Minimum Revenue Provision (MRP)	1,445	1,708	1,829	1,928	1,980
Investment Income	Pooled Funds Net Income	(569)	(569)	(569)	(569)	(569)
	Interest Receivable - CIFCO	(2,169)	(2,187)	(2,187)	(2,187)	(2,187)
	Interest Receivable - Other	(15)	(15)	(15)	(15)	(15)
Reserves	Transfers to/from Reserves	(18)	(1,025)	(110)	(74)	(74)
Total Net Cost of Services		**10,430**	**12,528**	**13,715**	**14,360**	**14,940**
Government Grants	New Homes Bonus	(802)	(825)	(825)	-	-
	Revenue Support Grant (RSG)	-	(130)	(130)	-	-
	Services Grant	(147)	(86)	(86)	-	-
	Rural Services Delivery Grant	(238)	(266)	(266)	(266)	(266)
	Funding Guarantee	-	(68)	(68)	-	-
	Lower Tier Services Grant	(96)	-	-	-	-
Business Rates	Business Rates	(3,041)	(4,069)	(4,069)	(4,069)	(4,069)
	Growth / Pooling Benefit	(333)	(457)	(457)	(457)	(457)
	Enterprise Zone income	(216)	(238)	(345)	(452)	(452)
	Business Rates (surplus) / deficit	218	25	-	-	-
Council Tax	Council Tax	(6,185)	(6,472)	(6,548)	(6,603)	(6,637)
	Council Tax (surplus) / deficit	(116)	36	(0)	(0)	(0)
Total Funding		**(10,957)**	**(12,551)**	**(12,794)**	**(11,846)**	**(11,881)**
	Strategic Priorities Reserve	527	22	-	-	-
Shortfall / (Surplus Funds)		**-**	**-**	**921**	**2,514**	**3,060**
	2023/24 SURPLUS		-	(22)	(22)	(22)
	2024/25 deficit		-	943	943	943
	2025/26 deficit		-		1,593	1,593
	2026/27 deficit		-			546
Total Shortfall / (Surplus Funding)		**-**	**-**	**921**	**2,514**	**3,060**

Medium Term Financial Strategy (MTFS) 2023-2026

4.46 To achieve its 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.

4.47 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.

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

- Cost management
- Income generation and
- Service levels.

4.49 The approach over the medium term is to transform the Council into an organisation that is thriving and not just surviving, 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

4.50 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.

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

4.52 Over the three-year period from 2024/25 the Council's cumulative deficit of £3.1m must be addressed through delivering further savings and generating additional income. 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.

4.53 As part of the 2023/24 budget setting work, Corporate Managers and Directors identified a number of areas where further savings and efficiencies could be made across the organisation. This work will continue during 2023/24 to develop a delivery and implementation plan to support the MTFS and to enable some broad-based numbers to be put against a 2-3 year programme.

4.54 It is likely that additional resources and investment will be required in order to deliver efficiencies and savings in the longer term. The Council will continue this approach to further transform the way it operates over the next three years.

4.55 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.

4.56 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.

4.57 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.

4.58 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 £1m and represents about 8% of the net budget.

4.59 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 at 31 March 2023 is £7.7m as shown in Table 5.

5. FEES AND CHARGES

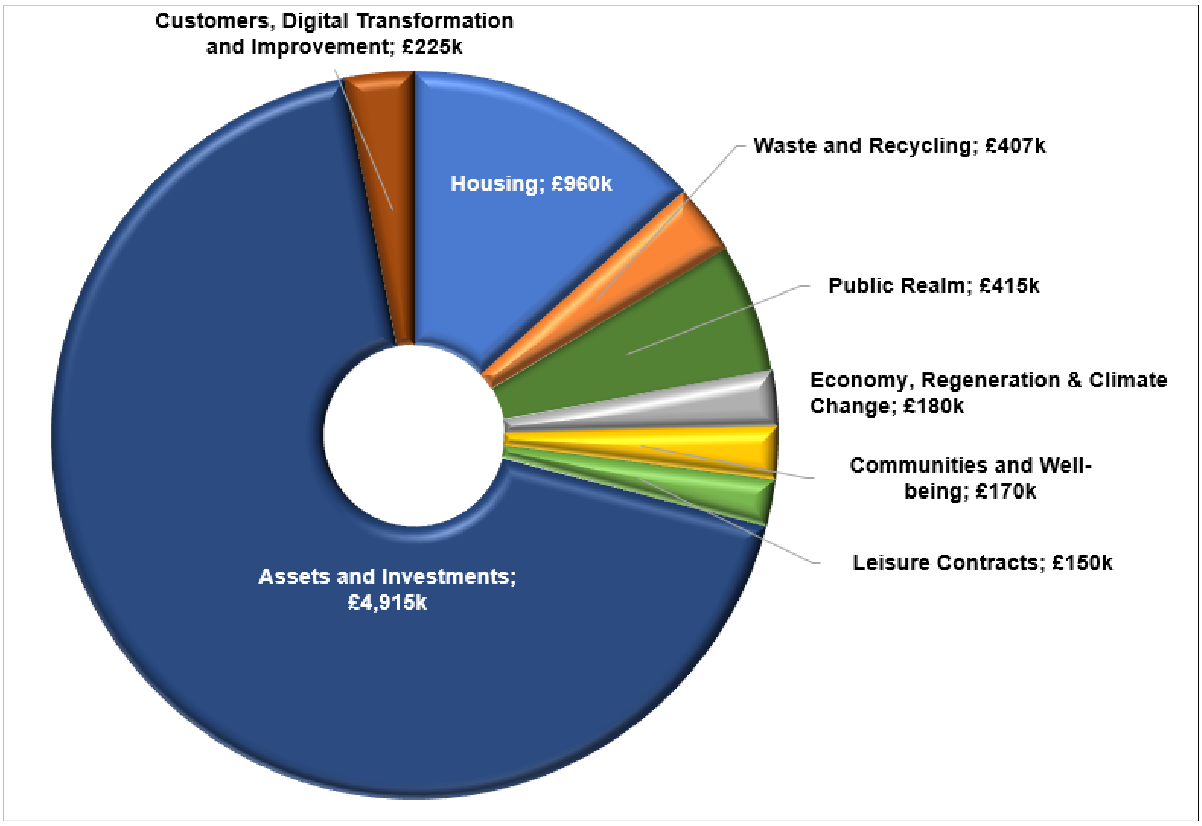
5.1 Fees and charges have been reviewed by budget holders as part of this budget setting process and a separate report was presented to Cabinet in January 2023 (BCa/22/39). The impact of the charges agreed have been built into the budget for 2023/24.

5.2 There is no planned increase included for 2024/25, 2025/26 or 2026/27.

6. CAPITAL PROGRAMME

6.1 The detailed Capital Programme is attached at Appendix A. The new capital allocation for the 2023/24 budget totals £7.2m and is shown in Chart 7 below. Along with an anticipated carry forward of £6.3m at the end of the current financial year, the total capital programme for next year is expected to be £13.5m in total.

Chart 7: Capital Budget 2023/24 (excluding carry forwards) - £7.2m



6.2 The most significant items for new planned spend are the proposed Commercial Workspace Development at Hadleigh (£1.1m) and funding for Babergh Growth (£3.8m) 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.

6.3 Following review by Joint Audit and Standards Committee in January 2023, 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.

7. LINKS TO THE CORPORATE PLAN

7.1 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.

8. FINANCIAL IMPLICATIONS

8.1 These are detailed in the report.

9. LEGAL IMPLICATIONS

9.1 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.

10. RISK MANAGEMENT

10.1 Key risks are set out below:

Key Risk Description	**Likelihood 1-4**	**Impact 1-4**	**Key Mitigation Measures**	**Risk Register and Reference**
We may be unable to react in a timely and effective way to financial demands	3 - Probable	4 - Disaster	Continued monitoring and reporting of the Councils financial forecast via quarterly reports to Cabinet	Strategic Risk Register - SRR004 BDC
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)	Finance, Commissioning and Procurement Operational Risk Register – 005BDC and 007
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	Finance, Commissioning and Procurement Operational Risk Register – 005BDC and 007
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	Finance, Commissioning and Procurement Operational Risk Register – 005BDC and 007

Key Risk Description	Likelihood 1-4	Impact 1-4	Key Mitigation Measures	Risk Register and Reference
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	Finance, Commissioning and Procurement Operational Risk Register – 005BDC
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	Finance, Commissioning and Procurement Operational Risk Register – 005BDC

11. CONSULTATIONS

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

12. EQUALITY ANALYSIS

12.1 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 under the Equality Act 2010.

13. ENVIRONMENTAL IMPLICATIONS

13.1 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.

13.2 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.

13.3 The Councils' Sustainable Travel Vision and Local Cycling and Walking Infrastructure Plan (LCWIP) was approved by cabinet in April 2022. The Sustainable Travel Vision will be used to inform the public about our key values, aims, ambitions and narrative around Sustainable Travel. The key functions of the LCWIP are to inform SCC Highways and our own planning team of our active travel infrastructure ambitions, in order to capture opportunity for delivery. To compliment the LCWIP, the Quiet Lanes Suffolk project continues to support Parishes across the district to identify and designate suitable rural lanes as 'Quiet Lanes' to make them safer for people to use for exercise and more active forms of travel.

13.4 In December 2022, funding of £300k was secured from the Office for Zero Emission Vehicles (OZEV) for the installation of EV charge points in 12 car parks across both Mid Suffolk and Babergh Building upon the bid's success, the Councils are working in partnership with SCC to create an EV charge point infrastructure plan. The plan will cover:

- Place of Business destination charging
- Provision for existing social housing residents
- Provision of rapid charging for taxis

13.5 In conjunction with SCC, the Council is engaging with local primary schools, running theatrical workshops, to highlight the issue of poor air quality and to promote sustainable travel.

13.6 Following completion of the solar carports, 40 of our existing car parking spaces now help to power Kingfisher Leisure Centre in Sudbury providing just over 16% of the centre's annual electricity demand. Babergh, alongside Mid Suffolk are among the UK's first rural local authorities to trial the technology, which will reduce the centres' reliance on the grid and cut carbon emissions. The site also includes battery storage so excess energy produced during sunnier periods can be saved for later, as well as electric vehicle charging points.

14. APPENDICES

Title	Location
Appendix A - Capital Programme	Attached
Appendix B - Budget and Council Tax Resolution, and Parish Schedules	Attached
Appendix C - Robustness of Estimates and Adequacy of Reserves	Attached
Appendix D - Budget Book 2023/24	Attached

15. BACKGROUND DOCUMENTS

Final 2023/24 Local Government Finance Settlement

BCa/22/38 Council Tax Reduction (working age) Scheme 2023/24

General Fund Financial Monitoring 2022/23 – Quarter 2 - BCa/22/32

Draft General Fund 2023/24 – BOS/22/01

Fees and Charges 2023/24 - BCa/22/39

General Fund and Housing Revenue Account 2023/24 Review of Savings Proposals update position – BOS/22/02

CAPITAL PROGRAMME 2023/24 TO 2026/27

Babergh District Council - General Fund Capital Budgets 2023/24 to 2026/27	2022/23 Anticipated C/Fwds (A)	2023/24 Budget for Approval (B)	2023/24 Total Spend Required	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast
	£'000	£'000	£'000	£'000	£'000	£'000
Housing						
Mandatory Disabled Facilities Grant	106	**760**	866	760	760	760
Renovation / Home Repair Grants	40	**100**	140	100	100	100
Empty Homes Grant	241	**100**	341	100	100	100
Grants for Affordable Housing	200	**0**	200	0	0	0
Total Housing	**587**	**960**	**1,547**	**960**	**960**	**960**
Waste and Recycling						
Replacement Refuse Freighters - Joint Scheme	0	**152**	152	231	0	0
Recycling Bins	0	**75**	75	75	75	75
Total Waste and Recycling	**0**	**227**	**227**	**306**	**75**	**75**
Economy, Regeneration and Climate Change						
Belle Vue Refurbishment / Replacement	1,901	0	1,901	0	0	0
EV Charge Points in Car Parks	0	**180**	180	0	0	0
Total Economy, Regeneration and Climate Change	**1,901**	**180**	**2,081**	**0**	**0**	**0**
Public Realm						
Vehicle and Plant Renewals	0	**120**	120	100	100	175
Planned Maintenance / Enhancements-Car Parks	0	**45**	45	15	15	15
Parking Strategy Implementation	0	**165**	165	155	0	0
Pin Mill Planned maintenance	35	**25**	60	25	25	25
Gaol Lane, Sudbury toilet refurbishment	0	**60**	60	0	0	0
Total Public Realm	**35**	**415**	**450**	**295**	**140**	**215**
Communities and Well-being						
Play equipment	239	**50**	289	50	50	50
Community Development Grants	15	**120**	135	120	120	120
Total Communities and Well-being	**254**	**170**	**424**	**170**	**170**	**170**
Leisure Contracts						
Kingfisher Leisure Centre Planned Maintenance	641	**100**	741	100	100	100
Hadleigh Leisure Planned Maintenance	0	**50**	50	50	50	50
Total Leisure Contracts	**641**	**150**	**791**	**150**	**150**	**150**
Assets and Investments						
Corporate Buildings - Planned Maintenance / Enhancements	0	**30**	30	30	30	30
Leases on Property (accounting change under new IFRS16)	0	**0**	0	136	0	0
Borehamgate	0	**60**	60	60	60	60
Strategic Investment Fund	1,906	**0**	1,906	0	0	0
A1071 Roadside Commercial Workspace Development	903	**1,075**	1,978	0	0	0
Babergh Growth Ltd	0	**3,750**	3,750	3,750	0	0
Total Assets and Investments	**2,809**	**4,915**	**7,724**	**3,976**	**90**	**90**
Customers, Digital Transformation and Improvement						
Replacement Finance Management System	0	**75**	75	0	0	0
ICT - Hardware / Software costs	112	**150**	262	150	225	150
Total Customers, Digital Transformation and Improvement	**112**	**225**	**337**	**150**	**225**	**150**
TOTAL General Fund Capital Spend	**6,339**	**7,242**	**13,581**	**6,007**	**1,810**	**1,810**
GF Financing						
External Grants and contributions	106	**895**	1,001	760	760	760
Capital Receipts	1,100	**115**	1,215	0	0	0
Reserves	0	**45**	45	0	0	0
Borrowing	5,133	**6,187**	11,320	5,247	1,050	1,050
Total GF Capital Financing	**6,339**	**7,242**	**13,581**	**6,007**	**1,810**	**1,810**

APPENDIX B

Budget and Council Tax Resolutions 2023/24

Summary of Budget 2023/24

	2023/24 Budget Requirement £	**2023/24 Council Tax at Band D £**	**2022/23 Budget Requirement £**
Babergh District Council			
General Fund Budget Requirement District Council Purposes	11,725,713	330.89	10,154,965
Estimated Parish/Town Council Precepts (net of Council Tax Support Scheme Grant)	3,297,415	93.05	3,124,740
	15,023,128	**423.93**	**13,279,705**
Settlement Funding from Government	(4,763,552)	(134.42)	(3,589,980)
Rural Services Delivery Grant	(265,956)	(7.50)	(237,960)
Revenue Support Grant (RSG)	(129,752)	(3.66)	-
Services Grant	(86,498)	(2.44)	(147,440)
Lower Tier Services Grant	-	-	(95,940)
Funding Guarantee Grant	(68,447)	(1.93)	-
Adjustment for anticipated deficit on Business Rates Collection Fund	25,137	0.71	218,020
Adjustment for anticipated surplus on Council Tax Collection Fund	35,729	1.01	(116,350)
Babergh's basic amount under section 33 of the 1992 Local Government Act	**9,769,789**	**275.69**	**9,310,055**
LESS: ***Estimated*** Parish/Town Council Precepts	(3,297,415)	(93.05)	(3,124,740)
Basic amount under s. 34 of the 1992 Act for dwellings to which no special items relate. (see section 3 below)	**6,472,374**	**182.64**	**6,185,315**
Anticipated Suffolk County Council precept requirement (see section 7 below)	53,029,588	1,496.43	50,186,983
Anticipated Police and Crime Commissioners Requirement	9,306,570	262.62	8,638,640
Estimated **Basic amount for areas where there are no special items.**	**68,808,533**	**1,941.69**	**65,010,938**

Council Tax Resolution 2023/24

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 35,437.40 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 2023/24 (excluding Parish precepts) is £6,472,374.

4. That the following amounts be calculated for the year 2023/24 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)	57,550,382
(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)	-47,780,593
(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)	9,769,789
(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)	275.69
(e)	Being the aggregate amount of all special items (Parish precepts) referred to in Section 34(1) of the Act	3,297,415
(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)	182.64

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 2023/24 for each part of its area and for each of the categories of dwellings.

7. Since the Cabinet meeting on 6 February 2023, 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 £53,029,588 which results in a Band D council tax of £1,496.43.

b) Suffolk Police and Crime Commissioner

The Police and Crime Commissioner has set their precept at £9,306,570. This results in a Band D council tax of £262.62.

c) Babergh District Council

The General Fund council tax requirement for Babergh District Council is based on an increase in council tax from £177.34 to £182.64 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 £1,941.69.

Valuation Band	Suffolk County Council £	Police and Crime Commissioner £	Babergh District Council £	Aggregated Council Tax requirement £
A	997.62	175.08	121.76	1,294.46
B	1,163.89	204.26	142.05	1,510.20
C	1,330.16	233.44	162.35	1,725.95
D	1,496.43	262.62	182.64	1,941.69
E	1,828.97	320.98	223.23	2,373.18
F	2,161.51	379.34	263.81	2,804.66
G	2,494.05	437.70	304.40	3,236.15
H	2,992.86	525.24	365.28	3,883.38

8. The Town and Parish Council Precepts for 2023/24 are detailed further in Appendix B and total £3,297,415. The increase in the average Band D for Town and Parish Councils is 3.72% and results in an average Band D council tax figure of £93.05 for 2023/24.

APPENDIX B

Council Taxbase for Parishes and District – 2023/24

Parish	COUNCIL TAX BASE 2022/23	COUNCIL TAX BASE 2023/24	% Change
Acton	687.08	710.53	3.41%
Aldham	88.85	88.97	0.14%
Alpheton	111.95	109.96	-1.78%
Erwarton	62.55	60.28	-3.63%
Assington	238.67	237.98	-0.29%
Belstead	109.81	111.04	1.12%
Bentley	361.81	369.61	2.16%
Bildeston	390.16	385.58	-1.17%
Boxford	553.31	547.65	-1.02%
Boxted	50.59	49.51	-2.13%
Brantham	944.08	963.70	2.08%
Brent Eleigh	89.62	91.74	2.37%
Brettenham	134.82	139.56	3.52%
Bures St Mary	406.61	403.85	-0.68%
Burstall	100.94	98.63	-2.29%
Capel St Mary	1,280.73	1,289.96	0.72%
Chattisham	86.48	85.14	-1.55%
Chelmondiston	411.92	412.19	0.07%
Chelsworth	88.08	90.02	2.20%
Chilton	182.18	209.65	15.08%
Cockfield	449.89	456.76	1.53%
Copdock & Washbrook	461.39	474.50	2.84%
East Bergholt	1,123.89	1,144.38	1.82%
Edwardstone	169.28	172.25	1.75%
Elmsett	328.12	319.22	-2.71%
Freston	53.64	52.00	-3.06%
Glemsford	1,295.89	1,310.15	1.10%
Great Cornard	2,862.93	2,887.76	0.87%
Great Waldingfield	636.45	636.71	0.04%
Great Wenham	57.83	60.31	4.29%
Groton	136.26	127.33	-6.55%
Hadleigh	2,964.02	3,043.36	2.68%
Harkstead	128.15	120.94	-5.63%
Hartest	238.57	238.90	0.14%
Higham	74.91	78.07	4.22%
Hintlesham	276.56	278.49	0.70%
Hitcham	311.61	317.20	1.79%
Holbrook	722.34	719.12	-0.45%

Parish	COUNCIL TAX BASE 2022/23	COUNCIL TAX BASE 2023/24	% Change
Holton St Mary	112.93	110.69	-1.98%
Kersey	189.02	192.58	1.88%
Kettlebaston	39.71	39.19	-1.31%
Lavenham	920.73	960.14	4.28%
Lawshall	415.47	407.02	-2.03%
Layham	254.56	250.35	-1.65%
Leavenheath	588.87	591.06	0.37%
Lindsey	94.14	95.57	1.52%
Little Cornard	143.22	142.33	-0.62%
Little Waldingfield	160.02	158.68	-0.84%
Little Wenham	19.87	19.80	-0.35%
Long Melford	1,604.05	1,648.47	2.77%
Milden	57.52	59.43	3.32%
Monks Eleigh	253.30	272.89	7.73%
Nayland with Wissington	541.66	546.77	0.94%
Nedging with Naughton	190.10	202.00	6.26%
Newton	232.39	254.69	9.60%
Pinewood	1,419.59	1,423.33	0.26%
Polstead	400.77	403.45	0.67%
Preston St Mary	110.70	113.88	2.87%
Raydon	266.22	256.41	-3.68%
Semer	67.15	67.91	1.13%
Shelley	32.95	35.37	7.34%
Shimpling	198.73	198.91	0.09%
Shotley	768.18	770.92	0.36%
Somerton	39.88	40.10	0.55%
Sproughton	672.36	734.86	9.30%
Stanstead	167.13	168.78	0.99%
Stoke by Nayland	301.32	305.89	1.52%
Stratford St Mary	332.52	332.37	-0.05%
Stutton	356.82	380.47	6.63%
Sudbury	4,437.62	4,520.45	1.87%
Tattingstone	236.05	241.72	2.40%
Thorpe Morieux	126.49	124.30	-1.73%
Wattisham	46.07	46.20	0.28%
Whatfield	139.61	140.19	0.42%
Wherstead	152.63	168.76	10.57%
Woolverstone	115.91	118.47	2.21%
TOTAL	**34,878.23**	**35,437.40**	**1.60%**

Precepts and Council Tax Band D for Parishes

Parish	2022/23 Parish Precept	Tax Base	Council Tax Band D	2023/24 Parish Precept	Tax Base	Council Tax Band D	Increase / Decrease (-)
	£		£	£		£	£
Acton	49,300.00	687.08	71.75	53,000.00	710.53	74.59	2.84
Aldham	1,268.00	88.85	14.27	1,326.00	88.97	14.90	0.63
Alpheton	6,009.00	111.95	53.68	6,760.00	109.96	61.48	7.80
Erwarton	-	62.55	-	-	60.28	-	0.00
Assington	10,000.00	238.67	41.90	10,000.00	237.98	42.02	0.12
Belstead	7,350.00	109.81	66.93	7,350.00	111.04	66.19	-0.74
Bentley	14,500.00	361.81	40.08	14,500.00	369.61	39.23	-0.85
Bildeston	27,750.00	390.16	71.12	29,800.00	385.58	77.29	6.17
Boxford	41,247.00	553.31	74.55	41,600.00	547.65	75.96	1.41
Boxted	400.00	50.59	7.91	800.00	49.51	16.16	8.25
Brantham	53,728.00	944.08	56.91	57,581.00	963.70	59.75	2.84
Brent Eleigh	2,700.00	89.62	30.13	2,800.00	91.74	30.52	0.39
Brettenham	5,621.25	134.82	41.69	5,422.97	139.56	38.86	-2.83
Bures St Mary	30,435.00	406.61	74.85	31,435.00	403.85	77.84	2.99
Burstall	7,361.74	100.94	72.93	7,193.00	98.63	72.93	0.00
Capel St Mary	103,406.00	1,280.73	80.74	103,229.00	1,289.96	80.02	-0.72
Chattisham	2,664.64	86.48	30.81	2,082.04	85.14	24.45	-6.36
Chelmondiston	28,170.00	411.92	68.39	29,015.00	412.19	70.39	2.00
Chelsworth	1,250.00	88.08	14.19	1,900.00	90.02	21.11	6.92
Chilton	14,210.00	182.18	78.00	17,170.00	209.65	81.90	3.90
Cockfield	50,015.00	449.89	111.17	50,780.00	456.76	111.17	0.00
Copdock & Washbrook	36,150.00	461.39	78.35	39,900.00	474.50	84.09	5.74
East Bergholt	158,052.00	1,123.89	140.63	148,000.00	1,144.38	129.33	-11.30
Edwardstone	6,133.00	169.28	36.23	6,365.00	172.25	36.95	0.72
Elmsett	10,640.00	328.12	32.43	10,400.00	319.22	32.58	0.15
Freston	2,575.00	53.64	48.01	2,575.00	52.00	49.52	1.51
Glemsford	104,678.00	1,295.89	80.78	112,978.00	1,310.15	86.23	5.45
Great Cornard	248,480.00	2,862.93	86.79	263,167.00	2,887.76	91.13	4.34
Great Waldingfield	63,000.00	636.45	98.99	60,000.00	636.71	94.23	-4.76
Great Wenham	-	57.83	-	-	60.31	-	0.00
Groton	4,566.00	136.26	33.51	4,566.00	127.33	35.86	2.35
Hadleigh	398,240.00	2,964.02	134.36	417,078.00	3,043.36	137.05	2.69
Harkstead	3,000.00	128.15	23.41	2,831.00	120.94	23.41	0.00
Hartest	12,764.00	238.57	53.50	13,938.00	238.90	58.34	4.84
Higham	-	74.91	-	-	78.07	-	0.00
Hintlesham	8,521.41	276.56	30.81	6,810.27	278.49	24.45	-6.36
Hitcham	8,183.00	311.61	26.26	8,480.00	317.20	26.73	0.47
Holbrook	31,930.00	722.34	44.20	31,930.00	719.12	44.40	0.20
Holton St Mary	6,816.00	112.93	60.36	7,154.00	110.69	64.63	4.27

Precepts and Council Tax Band D for Parishes

Parish	2022/23 Parish Precept	Tax Base	Council Tax Band D	2023/24 Parish Precept	Tax Base	Council Tax Band D	Increase / Decrease (-)
	£		£	£		£	£
Kersey	10,080.00	189.02	53.33	11,420.00	192.58	59.30	5.97
Kettlebaston	2,750.00	39.71	69.25	2,750.00	39.19	70.17	0.92
Lavenham	87,433.00	920.73	94.96	110,100.00	960.14	114.67	19.71
Lawshall	9,104.00	415.47	21.91	9,376.00	407.02	23.04	1.13
Layham	11,500.00	254.56	45.18	11,500.00	250.35	45.94	0.76
Leavenheath	19,461.00	588.87	33.05	19,728.00	591.06	33.38	0.33
Lindsey	4,949.00	94.14	52.57	5,185.00	95.57	54.25	1.68
Little Cornard	7,940.00	143.22	55.44	8,348.00	142.33	58.65	3.21
Little Waldingfield	9,181.00	160.02	57.37	9,104.00	158.68	57.37	0.00
Little Wenham	-	19.87	-	-	19.80	-	0.00
Long Melford	151,080.00	1,604.05	94.19	166,000.00	1,648.47	100.70	6.51
Milden	962.65	57.52	16.74	981.89	59.43	16.52	-0.22
Monks Eleigh	19,000.00	253.30	75.01	21,090.00	272.89	77.28	2.27
Nayland with Wissington	41,758.00	541.66	77.09	42,952.00	546.77	78.56	1.47
Nedging with Naughton	5,850.00	190.10	30.77	6,633.50	202.00	32.84	2.07
Newton	13,625.97	232.39	58.63	18,242.81	254.69	71.63	13.00
Pinewood	165,071.00	1,419.59	116.28	173,781.00	1,423.33	122.09	5.81
Polstead	22,500.00	400.77	56.14	24,500.00	403.45	60.73	4.59
Preston St Mary	6,243.00	110.70	56.40	6,742.00	113.88	59.20	2.80
Raydon	15,800.00	266.22	59.35	16,650.00	256.41	64.93	5.58
Semer	3,500.00	67.15	52.12	3,500.00	67.91	51.54	-0.58
Shelley	-	32.95	-	-	35.37	-	0.00
Shimpling	10,413.00	198.73	52.40	11,265.00	198.91	56.63	4.23
Shotley	65,630.00	768.18	85.43	65,865.00	770.92	85.44	0.01
Somerton	1,000.00	39.88	25.08	1,000.00	40.10	24.94	-0.14
Sproughton	62,132.00	672.36	92.41	69,266.00	734.86	94.26	1.85
Stanstead	10,323.00	167.13	61.77	10,787.54	168.78	63.91	2.14
Stoke by Nayland	13,300.00	301.32	44.14	13,500.00	305.89	44.13	-0.01
Stratford St Mary	16,100.00	332.52	48.42	16,100.00	332.37	48.44	0.02
Stutton	11,110.00	356.82	31.14	11,210.00	380.47	29.46	-1.68
Sudbury	734,000.00	4,437.62	165.40	785,000.00	4,520.45	173.66	8.26
Tattingstone	14,000.00	236.05	59.31	15,500.00	241.72	64.12	4.81
Thorpe Morieux	3,593.00	126.49	28.41	4,122.00	124.30	33.16	4.75
Wattisham	2,120.00	46.07	46.02	2,120.00	46.20	45.89	-0.13
Whatfield	3,231.00	139.61	23.14	3,231.00	140.19	23.05	-0.09
Wherstead	5,985.00	152.63	39.21	6,948.00	168.76	41.17	1.96
Woolverstone	2,900.00	115.91	25.02	3,000.00	118.47	25.32	0.30
Total	**3,124,739.66**	**34,878.23**	**4,113.70**	**3,297,415.02**	**35,437.40**	**4,262.06**	**148.36**

Precept for each banding by Parish

	Valuation Bands (£)							
	A	B	C	D	E	F	G	H
Babergh District Council	121.76	142.05	162.35	182.64	223.23	263.81	304.40	365.28
Suffolk County Council	997.62	1,163.89	1,330.16	1,496.43	1,828.97	2,161.51	2,494.05	2,992.86
Police and Crime Commissioner	175.08	204.26	233.44	262.62	320.98	379.34	437.70	525.24
Aggregate of Council Tax Requirements	**1,294.46**	**1,510.20**	**1,725.95**	**1,941.69**	**2,373.18**	**2,804.66**	**3,236.15**	**3,883.38**

Parish	Total Amount of Council Tax for 2023/24							
	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	1,344.19	1,568.22	1,792.25	2,016.28	2,464.34	2,912.40	3,360.47	4,032.56
Aldham	1,304.39	1,521.79	1,739.19	1,956.59	2,391.39	2,826.19	3,260.98	3,913.18
Alpheton	1,335.45	1,558.02	1,780.60	2,003.17	2,448.32	2,893.47	3,338.62	4,006.34
Erwarton	1,294.46	1,510.20	1,725.95	1,941.69	2,373.18	2,804.66	3,236.15	3,883.38
Assington	1,322.47	1,542.89	1,763.30	1,983.71	2,424.53	2,865.36	3,306.18	3,967.42
Belstead	1,338.59	1,561.68	1,784.78	2,007.88	2,454.08	2,900.27	3,346.47	4,015.76
Bentley	1,320.61	1,540.72	1,760.82	1,980.92	2,421.12	2,861.33	3,301.53	3,961.84
Bildeston	1,345.99	1,570.32	1,794.65	2,018.98	2,467.64	2,916.30	3,364.97	4,037.96
Boxford	1,345.10	1,569.28	1,793.47	2,017.65	2,466.02	2,914.38	3,362.75	4,035.30
Boxted	1,305.23	1,522.77	1,740.31	1,957.85	2,392.93	2,828.01	3,263.08	3,915.70
Brantham	1,334.29	1,556.68	1,779.06	2,001.44	2,446.20	2,890.97	3,335.73	4,002.88
Brent Eleigh	1,314.81	1,533.94	1,753.08	1,972.21	2,410.48	2,848.75	3,287.02	3,944.42
Brettenham	1,320.37	1,540.43	1,760.49	1,980.55	2,420.67	2,860.79	3,300.92	3,961.10
Bures St Mary	1,346.35	1,570.75	1,795.14	2,019.53	2,468.31	2,917.10	3,365.88	4,039.06
Burstall	1,343.08	1,566.93	1,790.77	2,014.62	2,462.31	2,910.01	3,357.70	4,029.24
Capel St Mary	1,347.81	1,572.44	1,797.08	2,021.71	2,470.98	2,920.25	3,369.52	4,043.42
Chattisham	1,310.76	1,529.22	1,747.68	1,966.14	2,403.06	2,839.98	3,276.90	3,932.28
Chelmondiston	1,341.39	1,564.95	1,788.52	2,012.08	2,459.21	2,906.34	3,353.47	4,024.16
Chelsworth	1,308.53	1,526.62	1,744.71	1,962.80	2,398.98	2,835.16	3,271.33	3,925.60
Chilton	1,349.06	1,573.90	1,798.75	2,023.59	2,473.28	2,922.96	3,372.65	4,047.18
Cockfield	1,368.57	1,596.67	1,824.76	2,052.86	2,509.05	2,965.24	3,421.43	4,105.72
Copdock & Washbrook	1,350.52	1,575.61	1,800.69	2,025.78	2,475.95	2,926.13	3,376.30	4,051.56
East Bergholt	1,380.68	1,610.79	1,840.91	2,071.02	2,531.25	2,991.47	3,451.70	4,142.04
Edwardstone	1,319.09	1,538.94	1,758.79	1,978.64	2,418.34	2,858.04	3,297.73	3,957.28
Elmsett	1,316.18	1,535.54	1,754.91	1,974.27	2,413.00	2,851.72	3,290.45	3,948.54
Freston	1,327.47	1,548.72	1,769.96	1,991.21	2,433.70	2,876.19	3,318.68	3,982.42
Glemsford	1,351.95	1,577.27	1,802.60	2,027.92	2,478.57	2,929.22	3,379.87	4,055.84
Great Cornard	1,355.21	1,581.08	1,806.95	2,032.82	2,484.56	2,936.30	3,388.03	4,065.64
Great Waldingfield	1,357.28	1,583.49	1,809.71	2,035.92	2,488.35	2,940.77	3,393.20	4,071.84
Great Wenham	1,294.46	1,510.20	1,725.95	1,941.69	2,373.18	2,804.66	3,236.15	3,883.38
Groton	1,318.37	1,538.09	1,757.82	1,977.55	2,417.01	2,856.46	3,295.92	3,955.10
Hadleigh	1,385.83	1,616.80	1,847.77	2,078.74	2,540.68	3,002.62	3,464.57	4,157.48
Harkstead	1,310.07	1,528.41	1,746.76	1,965.10	2,401.79	2,838.48	3,275.17	3,930.20
Hartest	1,333.35	1,555.58	1,777.80	2,000.03	2,444.48	2,888.93	3,333.38	4,000.06
Higham	1,294.46	1,510.20	1,725.95	1,941.69	2,373.18	2,804.66	3,236.15	3,883.38
Hintlesham	1,310.76	1,529.22	1,747.68	1,966.14	2,403.06	2,839.98	3,276.90	3,932.28
Hitcham	1,312.28	1,530.99	1,749.71	1,968.42	2,405.85	2,843.27	3,280.70	3,936.84
Holbrook	1,324.06	1,544.74	1,765.41	1,986.09	2,427.44	2,868.80	3,310.15	3,972.18

Precept for each banding by Parish

	Valuation Bands (£)							
	A	B	C	D	E	F	G	H
Babergh District Council	121.76	142.05	162.35	182.64	223.23	263.81	304.40	365.28
Suffolk County Council	997.62	1,163.89	1,330.16	1,496.43	1,828.97	2,161.51	2,494.05	2,992.86
Police and Crime Commissioner	175.08	204.26	233.44	262.62	320.98	379.34	437.70	525.24
Aggregate of Council Tax Requirements	**1,294.46**	**1,510.20**	**1,725.95**	**1,941.69**	**2,373.18**	**2,804.66**	**3,236.15**	**3,883.38**

Parish	Total Amount of Council Tax for 2023/24							
	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	1,337.55	1,560.47	1,783.40	2,006.32	2,452.17	2,898.02	3,343.87	4,012.64
Kersey	1,333.99	1,556.33	1,778.66	2,000.99	2,445.65	2,890.32	3,334.98	4,001.98
Kettlebaston	1,341.24	1,564.78	1,788.32	2,011.86	2,458.94	2,906.02	3,353.10	4,023.72
Lavenham	1,370.91	1,599.39	1,827.88	2,056.36	2,513.33	2,970.30	3,427.27	4,112.72
Lawshall	1,309.82	1,528.12	1,746.43	1,964.73	2,401.34	2,837.94	3,274.55	3,929.46
Layham	1,325.09	1,545.93	1,766.78	1,987.63	2,429.33	2,871.02	3,312.72	3,975.26
Leavenheath	1,316.71	1,536.17	1,755.62	1,975.07	2,413.97	2,852.88	3,291.78	3,950.14
Lindsey	1,330.63	1,552.40	1,774.17	1,995.94	2,439.48	2,883.02	3,326.57	3,991.88
Little Cornard	1,333.56	1,555.82	1,778.08	2,000.34	2,444.86	2,889.38	3,333.90	4,000.68
Little Waldingfield	1,332.71	1,554.82	1,776.94	1,999.06	2,443.30	2,887.53	3,331.77	3,998.12
Little Wenham	1,294.46	1,510.20	1,725.95	1,941.69	2,373.18	2,804.66	3,236.15	3,883.38
Long Melford	1,361.59	1,588.53	1,815.46	2,042.39	2,496.25	2,950.12	3,403.98	4,084.78
Milden	1,305.47	1,523.05	1,740.63	1,958.21	2,393.37	2,828.53	3,263.68	3,916.42
Monks Eleigh	1,345.98	1,570.31	1,794.64	2,018.97	2,467.63	2,916.29	3,364.95	4,037.94
Nayland with Wissington	1,346.83	1,571.31	1,795.78	2,020.25	2,469.19	2,918.14	3,367.08	4,040.50
Nedging with Naughton	1,316.35	1,535.75	1,755.14	1,974.53	2,413.31	2,852.10	3,290.88	3,949.06
Newton	1,342.21	1,565.92	1,789.62	2,013.32	2,460.72	2,908.13	3,355.53	4,026.64
Pinewood	1,375.85	1,605.16	1,834.47	2,063.78	2,522.40	2,981.02	3,439.63	4,127.56
Polstead	1,334.95	1,557.44	1,779.93	2,002.42	2,447.40	2,892.38	3,337.37	4,004.84
Preston St Mary	1,333.93	1,556.25	1,778.57	2,000.89	2,445.53	2,890.17	3,334.82	4,001.78
Raydon	1,337.75	1,560.70	1,783.66	2,006.62	2,452.54	2,898.45	3,344.37	4,013.24
Semer	1,328.82	1,550.29	1,771.76	1,993.23	2,436.17	2,879.11	3,322.05	3,986.46
Shelley	1,294.46	1,510.20	1,725.95	1,941.69	2,373.18	2,804.66	3,236.15	3,883.38
Shimpling	1,332.21	1,554.25	1,776.28	1,998.32	2,442.39	2,886.46	3,330.53	3,996.64
Shotley	1,351.42	1,576.66	1,801.89	2,027.13	2,477.60	2,928.08	3,378.55	4,054.26
Somerton	1,311.09	1,529.60	1,748.12	1,966.63	2,403.66	2,840.69	3,277.72	3,933.26
Sproughton	1,357.30	1,583.52	1,809.73	2,035.95	2,488.38	2,940.82	3,393.25	4,071.90
Stanstead	1,337.07	1,559.91	1,782.76	2,005.60	2,451.29	2,896.98	3,342.67	4,011.20
Stoke by Nayland	1,323.88	1,544.53	1,765.17	1,985.82	2,427.11	2,868.41	3,309.70	3,971.64
Stratford St Mary	1,326.75	1,547.88	1,769.00	1,990.13	2,432.38	2,874.63	3,316.88	3,980.26
Stutton	1,314.10	1,533.12	1,752.13	1,971.15	2,409.18	2,847.22	3,285.25	3,942.30
Sudbury	1,410.23	1,645.27	1,880.31	2,115.35	2,585.43	3,055.51	3,525.58	4,230.70
Tattingstone	1,337.21	1,560.07	1,782.94	2,005.81	2,451.55	2,897.28	3,343.02	4,011.62
Thorpe Morieux	1,316.57	1,535.99	1,755.42	1,974.85	2,413.71	2,852.56	3,291.42	3,949.70
Wattisham	1,325.05	1,545.90	1,766.74	1,987.58	2,429.26	2,870.95	3,312.63	3,975.16
Whatfield	1,309.83	1,528.13	1,746.44	1,964.74	2,401.35	2,837.96	3,274.57	3,929.48
Wherstead	1,321.91	1,542.22	1,762.54	1,982.86	2,423.50	2,864.13	3,304.77	3,965.72
Woolverstone	1,311.34	1,529.90	1,748.45	1,967.01	2,404.12	2,841.24	3,278.35	3,934.02

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).

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:

   a) The General Fund Budget requirement for the District Council purposes in 2023/24 will be £182.64, based on a 2.99% increase to Council Tax for a Band D property.

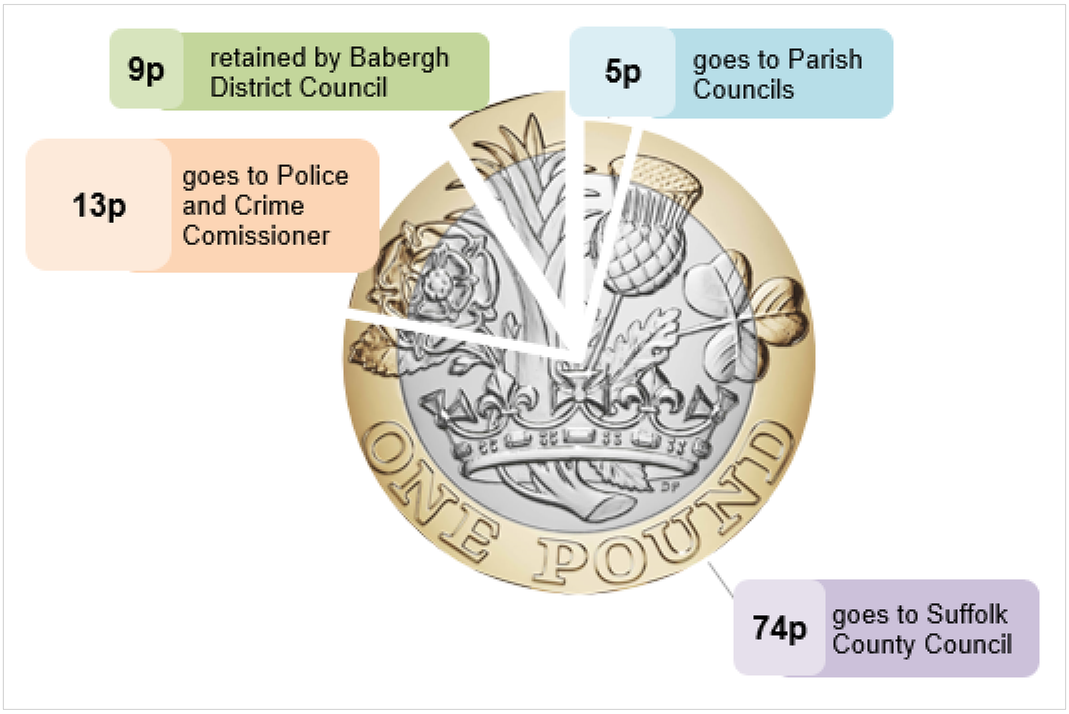
   b) The County Council precept requirement will be £1,496.43 for a Band D property in 2023/24, an increase of £57.51 (3.99%).

   c) The Police and Crime Commissioner's precept requirement will be £262.62, an increase of £14.94 (6.03%).

   d) At the time of preparing this report, not all Parish / Town Councils have supplied formal notification of their 2023/24 precept. The final figures will be reported to Council later this month.

4) Each £1 of council tax collected by the District Council is distributed as per chart 8 below.

Chart 8: Where the Council Tax collected goes



5) 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.

6) 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 2023/24 are expected to be as follows:

17 April 2023	15 May 2023	15 June 2023	17 July 2023
15 August 2023	15 September 2023	16 October 2023	15 November 2023
15 December 2023	15 January 2024	15 February 2024	15 March 2024

<u>Section 25 report on the robustness of estimates and adequacy of reserves</u>

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 2023/24.

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) <u>Role of the Chief Finance Officer</u>

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 and charges and income from local taxation (business rates and council tax).

2.6 The 2022 index, which provides the relative position for the 2021/22 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) <u>Budget Planning and Budget Management</u>

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 2023/24 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. Budget assumptions for 2023/24 have 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 recommending the final budget 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.

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 inflationary pressures and cost of supplies currently affecting the Councils finances. Some comments on the areas of the budget having key financial impacts or significant changes for 2023/24 are set out below:

- **Pay and Pensions** – The budget includes provision for pay increases of 4% for 2023/24 and 2% for each of the following 3 years to 2026/27 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 £110k per annum.

  Based on the 2022 triennial pension fund valuation the contribution rate has been increased to 26% from 23% from 2023/24 and the lump sum contribution towards the deficit removed.

  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 £570k, 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. 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** –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 is not expected to come into force until April 2025 at the earliest.

- **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. 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 2023/24 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 2022/23 was set. This means that a 1.6% increase has been calculated for the tax base for 2023/24, which will generate additional council tax income of £99k.

- **Government Funding –** Revenue Support Grant (RSG) will be received in 2023/24 as a result of the Family Annex Council Tax Discount Grant and LCTS Administration Grant being rolled up into the settlement. These were previously accounted for within service income, so does not impact the overall budget position.

  The Council's core Government funding also includes the Rural Services Delivery Grant (RSDG), New Homes Bonus (NHB), Lower Tier Services Grant and the Funding Guarantee Grant. This Funding Guarantee Grant will be funded from the Lower Tier Services Grant (LTSG) and the reduced cost of New Homes Bonus (NHB).

  There remains uncertainty beyond 2023/24, so the medium-term figures are based on the current level of RSDG continuing and NHB reducing in 2025/26 and future years.

- **Welfare Reforms, Benefits and Council Tax Reductions** – At a forecast of £12m for 2023/24, 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 £16.9m 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 is currently reviewing feedback from a consultation on MRP which ended in February 2022. This included an amendment which would require the Council to start making MRP on its loans to its companies, rather than set aside the capital receipts from repayments as it does currently. If this change is implemented this could increase costs.

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.

Conclusion

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 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 minimum level of unearmarked reserves in 2023/24 will remain at £1m after being reduced from £1.2m in 2022/23. This represents 8% of the annual General Fund Budget. There is currently no intention to increase the reserve, this is partly based on the understanding that there are further sums available in earmarked reserves that will not be fully spent during 2023/24 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 £6.7m at 31 March 2024. The Strategic Priorities Reserve is continuing to support the delivery of the Council's Joint Corporate Plan in 2023/24.

4. Background Documents

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

Melissa Evans - Director, Corporate Resources (Section 151 Officer)

Babergh District Council
Budget Book
2023/24

Table of Contents

CONTENTS	PAGE

General Fund Revenue Budget Summary

		2022/23 £'000	2023/24 £'000	Movement £'000
Service Costs	Employees	9,983	11,613	1,630
	Premises	1,536	1,197	(339)
	Supplies and Services	3,917	4,800	883
	Transport	352	353	1
	Contracts	4,270	4,612	342
Service Income	Grants and Contributions	(1,381)	(1,461)	(80)
	Sales, Fees and Charges	(4,109)	(4,075)	34
	Other income (incl. rental and PV panel income)	(1,771)	(1,848)	(78)
Housing Benefits	HB Transfer Payments	12,972	11,769	(1,203)
	HB Grants and Contributions	(13,107)	(11,885)	1,222
Net Service Expenditure		**12,663**	**15,074**	**2,411**
Recharges	Recharge to HRA/Capital (Corporate Overheads)	(1,347)	(1,937)	(589)
Capital Financing Charges	Interest Payable - CIFCO	380	208	(172)
	Interest Payable - Other	60	1,271	1,211
	Minimum Revenue Provision (MRP)	1,445	1,708	263
Investment Income	Pooled Funds Net Income	(569)	(569)	-
	Interest Receivable - CIFCO	(2,169)	(2,187)	(18)
	Interest Receivable - Other	(15)	(15)	-
Reserves	Transfers to / (from) reserves	(18)	(1,025)	(1,007)
Total Net Cost of Services		**10,430**	**12,528**	**2,099**
Government Grants	New Homes Bonus	(802)	(825)	(23)
	Revenue Support Grant (RSG)	-	(130)	(130)
	Services Grant	(147)	(86)	61
	Rural Services Delivery Grant	(238)	(266)	(28)
	Funding Guarantee	-	(68)	(68)
	Lower Tier Services Grant	(96)	-	96
Business Rates	Business Rates	(3,041)	(4,069)	(1,028)
	Growth / Pooling Benefit	(333)	(457)	(124)
	Enterprise Zone income	(216)	(238)	(22)
	Business Rates (surplus) / deficit	218	25	(193)
Council Tax	Council Tax	(6,185)	(6,472)	(287)
	Council Tax Collection Fund (surplus) / deficit	(116)	36	152
Total Funding		**(10,957)**	**(12,551)**	**(1,594)**
Strategic Priorities Reserve		527	22	(505)
Shortfall / (Surplus Funds)		**-**	**-**	**-**

General Fund Revenue Budget - Services and Activities Summary

	Employees £'000	Premises £000	Supplies and Services £'000	Transport £'000	Contracts £'000	Transfer Payments £'000	Grants and Cont'ns £'000	Sales, Fees and Charges £'000	Other income £'000	Transfer to/(from) reserves £000	Net Expenditure £'000
Assets and Investments	**261**	**224**	**208**	**0**	**1**	**-**	**(61)**	**-**	**(331)**	**-**	**301**
Strategic Property	133	224	193	0	1	-	-	-	(331)	-	219
The Councils' Companies	129	-	15	-	-	-	(61)	-	-	-	82
Communities and Wellbeing	**379**	**223**	**341**	**11**	**243**	**-**	**(250)**	**-**	**-**	**(130)**	**815**
Communities	379	5	341	11	-	-	(18)	-	-	(130)	587
Leisure Contracts	-	217	-	-	243	-	(232)	-	-	-	228
Corporate Resources	**1,423**	**115**	**479**	**30**	**1,131**	**11,769**	**(12,013)**	**-**	**(118)**	**(182)**	**2,635**
Finance, Commissioning & Procurement	812	115	359	28	1,131	11,769	(12,013)	-	(118)	(143)	1,940
HR and Organisational Development	612	-	120	2	-	-	-	-	-	(39)	695
Customers, Digital Transformation and Improvement	**1,555**	**-**	**347**	**1**	**409**	**-**	**-**	**-**	**-**	**(103)**	**2,210**
Communications	203	-	31	0	-	-	-	-	-	-	235
Customer Operations	645	-	6	1	-	-	-	-	-	(38)	614
ICT	303	-	265	-	409	-	-	-	-	-	977
Strategic Policy, Performance and Insight	403	-	45	-	-	-	-	-	-	(65)	384
Economy, Regeneration and Climate Change	**456**	**2**	**76**	**3**	**0**	**-**	**-**	**-**	**(22)**	**(39)**	**477**
Economic Growth and Climate Change	337	1	58	3	0	-	-	-	(17)	-	382
Climate Change and Sustainability	119	2	18	-	-	-	-	-	(5)	(39)	95
Operations (formerly Environment and Commercial Partnerships)	**2,504**	**404**	**1,440**	**210**	**2,827**	**-**	**(77)**	**(2,393)**	**(773)**	**(223)**	**3,919**
Health and Safety, Business Continuity and Emergency Planning	200	-	60	1	-	-	-	-	-	(50)	212
Public Protection	765	-	72	16	-	-	(18)	(249)	-	-	586
Public Realm	1,159	387	402	128	-	-	(59)	(255)	-	(28)	1,735
Recycling, Waste and Fleet	344	17	905	64	2,827	-	-	(1,889)	(773)	(144)	1,350
Service Improvement	35	-	-	-	-	-	-	-	-	-	35
Housing	**1,342**	**230**	**382**	**40**	**0**	**-**	**(578)**	**(6)**	**(525)**	**(207)**	**677**
Housing Solutions	1,342	230	382	40	0	-	(578)	(6)	(525)	(207)	677

General Fund Revenue Budget - Services and Activities Summary

	Employees £'000	Premises £000	Supplies and Services £'000	Transport £'000	Contracts £'000	Transfer Payments £'000	Grants and Cont'ns £'000	Sales, Fees and Charges £'000	Other income £'000	Transfer to/(from) reserves £000	Net Expenditure £'000
Law and Governance	**563**	**-**	**805**	**3**	**-**	**-**	**(128)**	**(137)**	**(46)**	**20**	**1,079**
Electoral Services and Land Charges	168	-	102	-	-	-	(5)	(137)	(25)	20	123
Governance and Civic Office	56	-	405	3	-	-	-	(0)	(2)	-	462
Internal Audit	65	-	31	0	-	-	-	-	(3)	-	93
Legal & Information Governance Services	273	-	267	-	-	-	(123)	-	(16)	-	401
Planning and Building Control	**2,439**	**0**	**652**	**54**	**-**	**-**	**(240)**	**(1,538)**	**-**	**(162)**	**1,205**
Building Control	509	0	15	24	-	-	-	(410)	-	-	139
Development Management, Heritage and Enforcement	1,335	-	421	29	-	-	-	(974)	-	(187)	624
Service Improvement	38	-	-	-	-	-	-	-	-	-	38
Strategic Planning	555	-	216	1	-	-	(240)	(155)	-	25	403
Senior Leadership Team	**691**	**-**	**71**	**2**	**-**	**-**	**-**	**-**	**(33)**	**-**	**731**
Senior Leadership Team	691	-	71	2	-	-	-	-	(33)	-	731
Total	**11,613**	**1,197**	**4,800**	**353**	**4,612**	**11,769**	**(13,346)**	**(4,075)**	**(1,848)**	**(1,025)**	**14,049**

General Fund Revenue Budget - Assets and Investments

	Employees £'000	Premises £000	Supplies and Services £'000	Transport £'000	Contracts £'000	Transfer Payments £'000	Grants and Cont'ns £'000	Sales, Fees and Charges £'000	Other income £'000	Transfer to/(from) reserves £000	Net Expenditure £'000
Strategic Property	**133**	**223**	**192**	**-**	**1**	**-**	**-**	**-**	**(331)**	**-**	**219**
Asset Management	8	-	-	-	-	-	-	-	-	-	9
Asset Utilisation	125	50	44	-	-	-	-	-	(1)	-	217
Belle Vue	-	11	-	-	-	-	-	-	-	-	11
Borehamgate Shopping Centre	-	23	26	-	-	-	-	-	(215)	-	(166)
Calais St Depot	-	2	-	-	-	-	-	-	-	-	2
Chilton Depot	-	34	-	-	-	-	-	-	(1)	-	34
Creeting Rd Depot	-	40	5	-	-	-	-	-	-	-	45
Endeavour House - HQ	-	41	101	-	-	-	-	-	-	-	142
Industrial Estates	-	-	-	-	1	-	-	-	(69)	-	(68)
Navigation House	-	2	-	-	-	-	-	-	(16)	-	(14)
South Suffolk Business Centre	-	-	-	-	-	-	-	-	(30)	-	(30)
Stowmarket Customer Access Point	-	7	16	-	-	-	-	-	-	-	23
Wenham Depot	-	11	1	-	-	-	-	-	-	-	11
Wenham Depot Touch Down Point	-	3	-	-	-	-	-	-	-	-	3
The Councils' Companies	**129**		**15**	**-**	**-**	**-**	**(61)**	**-**	**-**	**-**	**82**
The Councils' Companies	129		15	-	-	-	(61)	-	-	-	82
Total Assets and Investments	**261**	**223**	**207**	**-**	**1**	**-**	**(61)**	**-**	**(331)**	**-**	**301**

General Fund Revenue Budget - Communities and Wellbeing

	Employees £'000	Premises £000	Supplies and Services £'000	Transport £'000	Contracts £'000	Transfer Payments £'000	Grants and Cont'ns £'000	Sales, Fees and Charges £'000	Other income £'000	Transfer to/(from) reserves £000	Net Expenditure £'000
Communities	**379**	**5**	**341**	**11**	**-**	**-**	**(18)**	**-**	**-**	**(130)**	**587**
Community Development	372		1	11	-	-	-	-	-	(60)	324
Community Achievement Awards			3		-	-	-	-	-		3
Community Safety - CCTV		1	44		-	-	(18)	-	-		27
Community Safety - General			24		-	-	-	-	-		24
Grants and Contributions			213		-	-	-	-	-	(64)	149
Mobile CCTV		5			-	-	-	-	-		5
Policy and Strategy Health and Well-being	-		41		-	-	-	-	-		41
Wellbeing CCG Funding	6		-	-	-	-	-	-	-	(6)	-
Womens Cycle Tour			15		-	-	-	-	-		15
Leisure Contracts	**-**	**217**	**-**	**-**	**243**	**-**	**(232)**	**-**	**-**	**-**	**228**
Hadleigh Pool	-	86			103	-	(112)	-	-	-	77
Kingfisher Leisure Centre	-	131	-		140	-	(120)	-	-	-	151
Total Communities and Wellbeing	**379**	**223**	**341**	**11**	**243**	**-**	**(250)**	**-**	**-**	**(130)**	**815**

General Fund Revenue Budget - Corporate Resources

	Employees £'000	Premises £000	Supplies and Services £'000	Transport £'000	Contracts £'000	Transfer Payments £'000	Grants and Cont'ns £'000	Sales, Fees and Charges £'000	Other income £'000	Transfer to/(from) reserves £000	Net Expenditure £'000
Finance, Commissioning and Procurement	**812**	**115**	**359**	**28**	**1,131**	**11,769**	**(12,013)**	**-**	**(118)**	**(143)**	**1,940**
Bank Charges	-	-	147	-	-	-	-	-	-	-	147
Central Stationery and equipment	-	-	4	-	-	-	-	-	-	-	4
Commissioning and Procurement	186	-	-	-	-	-	-	-	-	(67)	119
Council Tax Collection	-	-	2	-	-	-	-	-	(108)	-	(106)
External Audit	-	-	95	-	-	-	-	-	-	-	95
Financial Resources	477	-	52	1	-	-	-	-	-	(57)	473
Insurance Premiums	149	115	16	27	-	-	-	-	-	-	307
NNDR Collection	-	-	-	-	-	-	(128)		(10)	-	(138)
Rent Allowances	-	-	-	-	-	6,064	(6,157)	-	-	(19)	(112)
Rent Rebates to HRA Dwellings	-	-	-	-	-	5,705	(5,728)	-	-	-	(23)
Shared Revenues Partnership	-	-	-	-	1,131	-	-	-	-	-	1,131
Treasury Management	-	-	44	-	-	-	-	-	-	-	44
HR and Organisational Development	**612**	**-**	**120**	**2**	**-**	**-**	**-**	**-**	**-**	**(39)**	**695**
HR and Organisational Development	612	-	120	2	-	-	-	-	-	(39)	695
Total Corporate Resources	**1,423**	**115**	**479**	**30**	**1,131**	**11,769**	**(12,013)**	**-**	**(118)**	**(182)**	**2,635**

General Fund Revenue Budget - Customers, Digital Transformation and Improvement

	Employees £'000	Premises £000	Supplies and Services £'000	Transport £'000	Contracts £'000	Transfer Payments £'000	Grants and Cont'ns £'000	Sales, Fees and Charges £'000	Other income £'000	Transfer to/(from) reserves £000	Net Expenditure £'000
Communications	**203**	**-**	**31**	**0**	**-**	**-**	**-**	**-**	**-**	**-**	**235**
Communications	203	-	31	0	-	-	-	-	-	-	235
Customer Operations	**645**	**-**	**6**	**1**	**-**	**-**	**-**	**-**	**-**	**(38)**	**614**
Customer Services	645	-	6	1	-	-	-	-	-	(38)	614
ICT	**303**	**-**	**265**	**-**	**409**	**-**	**-**	**-**	**-**	**-**	**977**
ICT	303	-	265	-	409	-	-	-	-	-	977
Strategic Policy, Performance and Insight	**403**	**-**	**45**	**-**	**-**	**-**	**-**	**-**	**-**	**(65)**	**384**
Strategic Policy, Performance and Insight	403	-	45	-	-	-	-	-	-	(65)	384
Total Customers, Digital Transformation and Improvement	**1,555**	**-**	**347**	**1**	**409**	**-**	**-**	**-**	**-**	**(103)**	**2,210**

Page 65

General Fund Revenue Budget - Economy, Regeneration and Climate Change

	Employees £'000	Premises £000	Supplies and Services £'000	Transport £'000	Contracts £'000	Transfer Payments £'000	Grants and Cont'ns £'000	Sales, Fees and Charges £'000	Other income £'000	Transfer to/(from) reserves £000	Net Expenditure £'000
Economic Growth and Climate Change	**337**	**1**	**58**	**3**	**-**	**-**	**-**	**-**	**(17)**	**-**	**382**
Economy and Business	194	-	21	2	-	-	-	-	-	-	217
Hadleigh Market	-	1	12	-	-	-	-	-	(12)	-	1
Town Centres	24	-	-	-	-	-	-	-	-	-	24
Regeneration	119	-	-	1	-	-	-	-	-	-	120
Visitor Economy	-	-	25	-	-	-	-	-	(5)	-	20
Climate Change and Sustainability	**119**	**2**	**18**	**-**	**-**	**-**	**-**	**-**	**(5)**	**(39)**	**95**
Climate Change and Sustainability	119	2	18	-	-	-	-	-	(5)	(39)	95
Total Economy, Regeneration and Climate Change	**456**	**2**	**76**	**3**	**-**	**-**	**-**	**-**	**(22)**	**(39)**	**477**

Page 66

General Fund Revenue Budget - Operations (formerly Environment and Commercial Partnerships)

	Employees £'000	Premises £000	Supplies and Services £'000	Transport £'000	Contracts £'000	Transfer Payments £'000	Grants and Cont'ns £'000	Sales, Fees and Charges £'000	Other income £'000	Transfer to/(from) reserves £000	Net Expenditure £'000
Health and Safety, Business Continuity and Emergency Planning	**200**	**-**	**60**	**1**	**-**	**-**	**-**	**-**	**-**	**(50)**	**212**
Business Continuity /Emergency Planning	50	-	-	-	-	-	-	-	-	(50)	-
Civil Protection and Emergency Planning	-	-	27	-	-	-	-	-	-	-	27
Health and Safety	150	-	34	1	-	-	-	-	-	-	185
Public Protection	**765**	**0**	**72**	**16**	**-**	**-**	**(18)**	**(249)**	**-**	**-**	**586**
Abandoned Vehicles	-	-	1	-	-	-	-	(90)	-	-	(90)
Alcohol, Entertainment and Late Night Refreshment Licensing	-	-	-	-	-	-	-	(15)	-	-	(15)
Animal Welfare Licensing	-	-	3	-	-	-	-	(1)	-	-	2
Covid-19 Test and Trace	18	-	-	-	-	-	(18)	-	-	-	(0)
Dog Control	-	-	14	-	-	-	-	-	-	-	14
Environmental Protection	322	-	7	10	-	-	-	(14)	-	-	325
Food and Safety (General)	315	-	1	6	-	-	-	(6)	-	-	316
Gambling and Small Lotteries	-	-	-	-	-	-	-	(7)	-	-	(7)
Health and Safety Regulation	-	-	-	-	-	-	-	(3)	-	-	(3)
Land Drainage	-	-	2	-	-	-	-	-	-	-	2
Licensing Staff Costs	110	-	-	-	-	-	-	-	-	-	110
Mobile Home Sites	-	-	-	-	-	-	-	(1)	-	-	(1)
Other Housing Matters	-	-	8	-	-	-	-	-	-	-	8
Pavement Licences	-	-	-	-	-	-	-	(3)	-	-	(3)
Pleasure Boat Licence	-	-	-	-	-	-	-	(0)	-	-	(0)
Scrap Metal	-	-	-	-	-	-	-	(2)	-	-	(2)
Taxi and Private Hire Licensing	-	-	27	-	-	-	-	(97)	-	-	(70)
Water Sampling	-	-	10	-	-	-	-	(10)	-	-	-

Page 67

General Fund Revenue Budget - Operations (formerly Environment and Commercial Partnerships)) - Cont'd

	Employees £'000	Premises £000	Supplies and Services £'000	Transport £'000	Contracts £'000	Transfer Payments £'000	Grants and Cont'ns £'000	Sales, Fees and Charges £'000	Other income £'000	Transfer to/(from) reserves £000	Net Expenditure £'000
Public Realm	**1,159**	**387**	**402**	**128**	**-**	**-**	**(59)**	**(255)**	**-**	**(28)**	**1,735**
Areas of Outstanding Natural Beauty	-	-	32	-	-	-	-	-	-	-	32
Car Parks General	40	321	114	-	-	-	-	(146)	-	-	329
Civil Parking Enforcement	-	-	87	-	-	-	-	(62)	-	-	24
Footpaths	27	-	1	1	-	-	(5)	(6)	-	-	18
Open Spaces	758	4	93	73	-	-	(43)	-	-	(28)	857
Public Conveniences	-	20	63	-	-	-	-	-	-	-	83
Public Tree Programme	46	41		3	-	-	-	-	-	-	90
Street and Major Road Cleansing	289	-	8	51	-	-	(11)	(41)	-	-	296
The Greenways Project	-	-	6	-	-	-	-	-	-	-	6
Recycling, Waste and Fleet	**344**	**17**	**905**	**64**	**2,827**	**-**	**-**	**(1,889)**	**(773)**	**(144)**	**1,350**
Bring Sites	17	-	82	0	-	-	-	-	(130)	(1)	(32)
Domestic Waste	215	-	315	1	2,117	-	-	(83)	(409)	(18)	2,138
Garden Waste	86	-	181	0	553	-	-	(1,123)	(233)	(79)	(614)
Joint Waste Contract	-	17	39	62	-	-	-	-	-	-	118
Trade Waste	26	-	288	0	157	-	-	(684)	-	(45)	(259)
Service Improvement	**35**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**35**
Service Improvement	35	-	-	-	-	-	-	-	-	-	35
Total Operations (formerly Environment and Commercial Partnerships)	**2,504**	**404**	**1,440**	**209**	**2,827**	**-**	**(77)**	**(2,393)**	**(773)**	**(223)**	**3,919**

General Fund Revenue Budget - Housing

	Employees £'000	Premises £000	Supplies and Services £'000	Transport £'000	Contracts £'000	Transfer Payments £'000	Grants and Cont'ns £'000	Sales, Fees and Charges £'000	Other income £'000	Transfer to/(from) reserves £000	Net Expenditure £'000
Housing Solutions	**1,342**	**230**	**382**	**40**	**-**	**-**	**(578)**	**(6)**	**(525)**	**(207)**	**677**
Afghan Resettlement Programme	-	-	15	-	-	-	(15)	-	-	-	-
Choice Based Lettings	96	-	-	1	-	-	-	-	-	-	97
Community Housing Fund	28	-	4	1	-	-	-	-	-	(28)	5
Domestic Abuse Funding	25	-	-	22	-	-	(43)	-	-	-	4
Guaranteed Rent Scheme	54	100	-	-	-	-	-	-	(94)	(16)	44
HMO Licence	-	-	-	-	-	-	-	(1)	-	-	(1)
Homeless Prevention Fund	423	-	12	8	-	-	(89)	-	(2)	(84)	267
Homelessness Private Sector	-	18	118	-	-	-	(85)	(2)	-	-	49
Homes for Ukraine	20	-	-	-	-	-	-	-	(20)	-	-
Housing Standards	202	-	1	4	-	-	-	-	-	-	207
Independent Living Service	-	1	20	-	-	-	(42)	-	-	-	(21)
Old School House	-	24	8	-	-	-	-	-	(32)	-	(0)
Other Temp Accommodation	164	8	3	2	-	-	-	-	-	(59)	118
PV Panels	-	39	181	-	-	-	-	-	(370)	-	(149)
Rent Deposit Scheme	25	40	1	1	-	-	(61)	-	(8)	-	(2)
Rough Sleepers Intervention	180	-	5	-	-	-	(243)	-	-	-	(58)
Strategic Housing	125	-	15	1	-	-	-	(3)	-	(20)	118
Total Housing	**1,342**	**230**	**382**	**40**	**-**	**-**	**(578)**	**(6)**	**(525)**	**(207)**	**677**

General Fund Revenue Budget - Law and Governance

	Employees £'000	Premises £000	Supplies and Services £'000	Transport £'000	Contracts £'000	Transfer Payments £'000	Grants and Cont'ns £'000	Sales, Fees and Charges £'000	Other income £'000	Transfer to/(from) reserves £000	Net Expenditure £'000
Electoral Services and Land Charges	**168**	**-**	**102**	**-**	**-**	**-**	**(5)**	**(137)**	**(25)**	**20**	**123**
Elections	-	-	25	-	-	-	-	-	(25)	20	20
Electoral Registration	82	-	49	-	-	-	-	(2)	-	-	129
Information Management	-	-	6	-	-	-	-	-	-	-	6
Land Charges	87	-	21	-	-	-	(5)	(135)	-	-	(32)
Governance and Civic Office	**56**	**-**	**405**	**3**	**-**	**-**	**-**	**-**	**(2)**	**-**	**462**
Central Postal Services	16	-	65	-	-	-	-	-	-	-	81
Central Printing	-	-	6	-	-	-	-	-	-	-	6
Cost of Democracy	(169)	-	314	3	-	-	-	-	(2)	-	146
Governance	209	-	19	-	-	-	-	-	-	-	228
Internal Audit, Risk and Data	**65**	**-**	**31**	**-**	**-**	**-**	**-**	**-**	**(3)**	**-**	**93**
Internal Audit	65	-	31	-	-	-	-	-	(3)		93
Legal & Information Governance Services	**273**	**-**	**267**	**-**	**-**	**-**	**(123)**	**-**	**(16)**	**-**	**401**
Legal & Information Governance Services	273	-	267	-	-	-	(123)	-	(16)	-	401
Total Law and Governance	**563**	**-**	**805**	**3**	**-**	**-**	**(128)**	**(137)**	**(46)**	**20**	**1,079**

Page 71

General Fund Revenue Budget - Planning and Building Control

	Employees £'000	Premises £000	Supplies and Services £'000	Transport £'000	Contracts £'000	Transfer Payments £'000	Grants and Cont'ns £'000	Sales, Fees and Charges £'000	Other income £'000	Transfer to/(from) reserves £000	Net Expenditure £'000
Building Control	**509**	**-**	**15**	**24**	**-**	**-**	**-**	**(409)**	**-**	**-**	**139**
Building Control - commercial income	-	-	2	-	-	-	-	(6)	-	-	(5)
Building Regulations - chargeable service	352	-	12	17	-	-	-	(380)	-	-	-
Building Regulations - non chargeable service	76	-	-	4	-	-	-	-	-	-	80
Building Regulations - other activities	51	-	-	2	-	-	-	-	-	-	53
Street Naming and Numbering	31	-	2	1	-	-	-	(23)	-	-	11
Development Management, Heritage & Enforcement	**1,335**	**-**	**421**	**29**	**-**	**-**	**-**	**(974)**	**-**	**(187)**	**624**
Conservation	132	-	-	5	-	-	-	(15)	-	-	122
Development Management - appeals	-	-	216	-	-	-	-	-	-	(128)	88
Development Management	1,016	-	177	20	-	-	-	(889)	-	(46)	277
Planning Enforcement	188	-	13	5	-	-	-	-	-	(13)	193
Planning Performance Agreement	-	-	15	-	-	-	-	(25)	-	-	(10)
Pre Application Charging	-	-	-	-	-	-	-	(45)	-	-	(45)
Service Improvement	**38**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**38**
Service Improvement	38	-	-	-	-	-	-	-	-	-	38
Strategic Planning	**555**	**-**	**216**	**1**	**-**	**-**	**(240)**	**(155)**	**-**	**25**	**403**
CIL	156	-	-	1	-	-	-	(155)	-	-	1
Development Policy and Local Plans	361	-	136	1	-	-	-	-	-	-	497
Neighbourhood Plan Designations	27	-	79	-	-	-	(240)	-	-	25	(110)
S106 Monitoring	12	-	-	-	-	-	-	-	-	-	12
Strategic Planning General	-	-	2	-	-	-	-	-	-	-	2
Total Planning and Building Control	**2,439**	**-**	**652**	**54**	**-**	**-**	**(240)**	**(1,538)**	**-**	**(162)**	**1,204**

General Fund Revenue Budget - Senior Leadership Team

	Employees £'000	Premises £000	Supplies and Services £'000	Transport £'000	Contracts £'000	Transfer Payments £'000	Grants and Cont'ns £'000	Sales, Fees and Charges £'000	Other income £'000	Transfer to/(from) reserves £000	Net Expenditure £'000
Senior Leadership Team	**691**	**-**	**71**	**2**	**-**	**-**	**-**	**-**	**(33)**	**-**	**731**
Corporate Management	45	-	-	-	-	-	-	-	-	-	45
Senior Leadership Team	646	-	71	2	-	-	-	-	(33)	-	685
Total Senior Leadership Team	**691**	**-**	**71**	**2**	**-**	**-**	**-**	**-**	**(33)**	**-**	**731**
Total Net Service Expenditure	**11,613**	**1,196**	**4,799**	**352**	**4,611**	**11,769**	**(13,346)**	**(4,074)**	**(1,848)**	**(1,025)**	**14,048**

Page 72

Housing Revenue Account Budget 2023/24

	Budget 2023/24 £'000
Dwelling Rents	(18,740)
Service Charges	(607)
Non Dwelling Income	(238)
Other Income	(67)
Interest Received	(10)
Total Income	**(19,662)**
Housing Management	5,158
Building Services Surveyors and Compliance	1,870
Housing Trade Team	3,130
Repairs and Maintenance (all areas except Trades Team)	1,030
Bad Debt Provision	100
Total cost of service	**11,287**
Depreciation	4,817
Interest payable	3,068
Revenue Contribution to Capital	1,092
Deficit / (Surplus) for Year	**602**

General Fund Capital Programme 2023/24 to 2026/27

Babergh District Council - General Fund Capital Budgets 2023/24 to 2026/27	2022/23 Anticipated C/Fwds (A)	2023/24 Budget for Approval (B)	2023/24 Total Spend Required	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast
	£'000	£'000	£'000	£'000	£'000	£'000
Housing						
Mandatory Disabled Facilities Grant	106	**760**	866	760	760	760
Renovation / Home Repair Grants	40	**100**	140	100	100	100
Empty Homes Grant	241	**100**	341	100	100	100
Grants for Affordable Housing	200	**0**	200	0	0	0
Total Housing	**587**	**960**	**1,547**	**960**	**960**	**960**
Waste and Recycling						
Replacement Refuse Freighters - Joint Scheme	0	**152**	152	231	0	0
Recycling Bins	0	**75**	75	75	75	75
Total Waste and Recycling	**0**	**227**	**227**	**306**	**75**	**75**
Economy, Regeneration and Climate Change						
Belle Vue Refurbishment / Replacement	1,901	0	1,901	0	0	0
EV Charge Points in Car Parks	0	**180**	180	0	0	0
Total Economy, Regeneration and Climate Change	**1,901**	**180**	**2,081**	**0**	**0**	**0**
Public Realm						
Vehicle and Plant Renewals	0	**120**	120	100	100	175
Planned Maintenance / Enhancements-Car Parks	0	**45**	45	15	15	15
Parking Strategy Implementation	0	**165**	165	155	0	0
Pin Mill Planned maintenance	35	**25**	60	25	25	25
Gaol Lane, Sudbury toilet refurbishment	0	**60**	60	0	0	0
Total Public Realm	**35**	**415**	**450**	**295**	**140**	**215**
Communities and Well-being						
Play equipment	239	**50**	289	50	50	50
Community Development Grants	15	**120**	135	120	120	120
Total Communities and Well-being	**254**	**170**	**424**	**170**	**170**	**170**

General Fund Capital Programme 2023/24 to 2026/27

Babergh District Council - General Fund Capital Budgets 2023/24 to 2026/27	2022/23 Anticipated C/Fwds (A)	2023/24 Budget for Approval (B)	2023/24 Total Spend Required	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast
	£'000	£'000	£'000	£'000	£'000	£'000
Leisure Contracts						
Kingfisher Leisure Centre Planned Maintenance	641	**100**	741	100	100	100
Hadleigh Leisure Planned Maintenance	0	**50**	50	50	50	50
Total Leisure Contracts	**641**	**150**	**791**	**150**	**150**	**150**
Assets and Investments						
Corporate Buildings - Planned Maintenance / Enhancements	0	**30**	30	30	30	30
Leases on Property (accounting change under new IFRS16)	0	**0**	0	136	0	0
Borehamgate	0	**60**	60	60	60	60
Strategic Investment Fund	1,906	**0**	1,906	0	0	0
A1071 Roadside Commercial Workspace Development	903	**1,075**	1,978	0	0	0
Babergh Growth Ltd	0	**3,750**	3,750	3,750	0	0
Total Assets and Investments	**2,809**	**4,915**	**7,724**	**3,976**	**90**	**90**
Customers, Digital Transformation and Improvement						
Replacement Finance Management System	0	**75**	75	0	0	0
ICT - Hardware / Software costs	112	**150**	262	150	225	150
Total Customers, Digital Transformation and Improvement	**112**	**225**	**337**	**150**	**225**	**150**
TOTAL General Fund Capital Spend	**6,339**	**7,242**	**13,581**	**6,007**	**1,810**	**1,810**
GF Financing						
External Grants and contributions	106	**895**	1,001	760	760	760
Capital Receipts	1,100	**115**	1,215	0	0	0
Borrowing	5,133	**6,232**	11,365	5,247	1,050	1,050
Total GF Capital Financing	**6,339**	**7,242**	**13,581**	**6,007**	**1,810**	**1,810**

Housing Revenue Account Capital Programme 2023/24 to 2025/26

BABERGH DC CAPITAL PROGRAMME BUDGET	2022/23 Indicative Carry Forwards (A)	2023/24 Budget for approval (B)	2023/24 Total Spend Required (A + B)	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast
	£'000	£'000	£'000	£'000	£'000	£'000
Housing Revenue Account						
Planned Maintenance & Response						
Planned Maintenance	900	3,326	4,226	2,611	2,605	2,584
Other Maintenance	0	2,000	2,000	2,000	2,000	2,000
ICT Projects	44	163	207	200	200	200
Neighbourhood Improvements	0	500	500	500	500	500
Council House Adaptations	0	400	400	200	200	200
Horticulture and play equipment	130	220	350	30	30	30
Total Housing Maintenance	**1,074**	**6,609**	**7,683**	**5,541**	**5,535**	**5,514**
New build programme including acquisitions	**0**	**802**	**802**	**2,480**	**3,750**	**750**
TOTAL HRA Capital Spend	**1,074**	**7,411**	**8,485**	**8,021**	**9,285**	**6,264**
HRA Financing						
External Grants and contributions	0	190	190	0	0	0
Capital Receipts (from SO Sales)	0	291	291	1,488	0	0
New build 1-4-1 capital receipts	0	321	321	992	1,500	300
Major Repairs Reserve	0	4,817	4,817	4,809	4,809	4,727
Revenue Contributions	0	1,092	1,092	0	0	0
Borrowing	1,074	700	1,774	732	2,976	1,237
Total HRA Capital Financing	**1,074**	**7,411**	**8,485**	**8,021**	**9,285**	**6,264**

Reserves - General Fund

Earmarked Reserve	Balance 31 March 2022 £'000	Forecast balance 31 March 2023 £'000	To reserves £'000	From reserves £'000	From reserves (Capital Programme) £'000	Estimated balance 31 March 2024 £'000
Business Rates and Council Tax	4,967	1,547	-	-		1,547
Business Rates Retention Pilot (BRRI	812	546	-	(60)		486
Carry forwards	420	-	-	-		-
Climate Change and Biodiversity	309	239	-	(61)	(45)	133
Community Housing Fund	140	119	-	(28)		90
Commuted Maintenance Payments	937	937	-	(28)		908
COVID19	1,674	1,221	-	(223)		998
Elections Equipment	35	35	-	-		35
Elections Fund	70	90	20	-		110
Government Grants	259	254	-	(25)		229
Homelessness	277	176	-	(100)		76
Joint Local Plan	100	-	-	-		-
Neighbourhood Planning Grants	48	272	51	(27)		297
Planning (Legal)	668	698	-	(141)		557
Planning Enforcement	93	133	-	-		133
Rough Sleepers	88	57	-	-		57
Strategic Planning	93	93	-	-		93
Strategic Priorities	1,704	689	-	(217)		472
Temporary Accommodation	238	163	-	(59)		104
Waste	230	195	-	(122)		73
Well-being	176	274	-	(6)		267
Inflationary Pressures Reserve	500	-	-	-		-
Total Earmarked Reserves	**13,838**	**7,737**	**71**	**(1,097)**	**(45)**	**6,667**

General Fund Reserve	1,000	1,000	-	-	-	1,000

Page 77

Reserves - Housing Revenue Account

Earmarked Reserve	Balance 31 March 2022 £'000	Forecast balance 31 March 2023 £'000	Capital Programme Financing	From reserves £'000	Estimated balance 31 March 2024 £'000
Strategic Priorities	16,096	12,087	(1,264)	(602)	10,221
Big 20	94	94	-	-	94
Building Council Homes Programme (	20	20	-	-	20
Total Earmarked Reserves	**16,210**	**12,201**	**(1,264)**	**(602)**	**10,335**

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

Agenda Item 9

BABERGH DISTRICT COUNCIL

TO:	**Council**	**REPORT NUMBER: BC/22/42**
FROM:	**Councillor David Busby, Cabinet Member for Finance**	**DATE OF MEETING: 20 February 2023**
OFFICER:	**Melissa Evans, Director, Corporate Resources**	**KEY DECISION REF NO. N/A**

HOUSING REVENUE ACCOUNT (HRA) 2023/24 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 2023/24.

1.2 To enable Members to consider key aspects of the 2023/24 HRA Budget, including council house rent levels.

2 OPTIONS CONSIDERED

2.1 The Housing Revenue Account Budget for 2023/24 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 2023/24 set out in this report, be approved.

3.2 That an increase of 7% for council house rents, equivalent to an average rent increase of £6.68 for social rent and £9.41 for affordable rent, a week be implemented.

3.3 That the CPI increase of 10.1% in garage rents, equivalent to an average rent increase of £4.86 or £4.91 (private rental), a month be implemented.

3.4 That an increase of 7% for sheltered housing service charges, equivalent to £12.19 a month, be implemented.

3.5 That an increase for sheltered housing utility charges, equivalent to £7.42 a month (8% for heating and 11% for water), be implemented, following no utility increase for 3 years (since 2019/20).

3.6 That in principle, Right to Buy (RTB) receipts should be retained within the Housing Revenue Account, to enable continued development and acquisition of new council dwellings.

REASON FOR DECISION

To bring together all the relevant information to enable Members to approve the Councils Housing Revenue Account Budget

4 KEY INFORMATION

Background

4.1 The Council's current HRA Business Plan presents a 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. In addition, the Business Plan is used to plan and understand any potential borrowing requirements which are needed to adhere is Social Housing Regulations such as the Consumer Standards and the Decent Homes Standard

4.2 The housing landscape will look very different in years to come, as such the Council has taken the decision to carry out a full review of the business plan, taking into account all compliance requirements, stock condition data and the emerging Social Housing Regulation Bill. As such a one-year interim budget has been produced. Members can expect a revised and up to date business plan to be presented before the next budget setting period. This will include a series of presentations which provide Members with the appropriate stress testing and scenario planning to enable a longer-term view to be take. This will also give comfort to our customers as our planned and estate enhancements will be included in the plan.

4.3 Members should also note that officers will be working with customers during the year to understand their aspiration around how we create place to be proud of. This forms part of the new housing regulations, and as such officers will consult with customers on what they would like to prioritise in the new business plan.

4.4 The information presented to Overview and Scrutiny Committee in January 2023 and Cabinet focused on the budget for 2023/24. 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 2023/24 budget.

4.5 Following a period of five years that saw annual 1% rent reductions, which ended in March 2020, councils were 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. However, the cost of living crisis has resulted in the Government making a change to the rent settlement. This is a significant risk to the HRA as the recent reductions and now the rent cap, leaves the Council at risk of not being able to meet its legal obligations. This is again against the backdrop of aging stock which requires urgent investment.

4.6 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.

4.7 The 2023/24 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.

2022/23 Budget and Forecast Outturn

4.8 On 21 February 2022 the Council set the HRA budget for 2022/23 showing a surplus of £511k

4.9 The second quarter 2023 budget monitoring report was presented to Cabinet on 5 December 2022 showing a forecast adverse variance of £825k against the budgeted surplus of £511k. The key factors in this position are the additional costs being incurred to address the backlog in void and responsive repairs, as well as increasing materials costs due to inflation.

4.10 The third quarter position will be presented to Cabinet on 6 March 2023.

2023/24 Budget Proposals

4.11 In preparing the budget for 2023/24 the various headings have been thoroughly reviewed against the forecast for 2022/23, to ensure that they are set on a realistic basis for next year.

4.12 Assumptions made when constructing the budget for 2023/24 were reviewed and assessed by the Overview and Scrutiny Committee in November 2022 and January 2023, report references BOS/22/01 and BOS/22/02 and so have not been repeated here.

4.13 The budget for 2022/23 was a surplus of £511k, however due to a continuation of financial pressures described above and in the quarter 2 financial monitoring the position for next year has worsened by £1.1m as shown in table 1.

Table 1: budget changes

	£'000	£'000
2022/23 Surplus		**(511)**
Pressures		
Pay award, increments, pay review (Reserve/grant funded £25k)	1,682	
Repairs inc. voids (inflation and increase based on outturn)	1,735	
Sheltered schemes (utility costs)	369	
Depreciation	269	
Recharge from General Fund for grounds maintenance	448	
Stock conditions survey	125	
Software Licenses (inflation)	116	
Equipment, Tools and Materials (inflation)	92	
Fixtures and Fittings for Sheltered Housing improvements	41	
Property Servicing (heating) – remedial works & ongoing service requirements	82	
Other small items (net)	137	
Total Draft Pressures		**5,096**
Savings/additional Income		
Rental income – based on 7% increase	(1,483)	
Garage Rents Increased by 10%	(55)	
Increased Building Services Recharges – work on GF assets	(811)	
Interest payable	(93)	
Reducing in Revenue contribution to capital	(1,541)	
Total Draft Savings/additional Income		**(3,983)**
Total Net increase		**1,113**
2023/24 Draft Deficit		**602**

4.14 The current draft position for 2023/24 shows an overall deficit of £602k.

4.15 The Councils total cost of service has increased by £4.029m or 56%, and income has increased by £1.551m or 9%, as shown in table 2 below.

Table 2: Summary

	Budget 2022/23	Budget 2023/24	Movement 22/23 vs Budget 23/24
	£'000	**£'000**	**£'000**
Dwelling Rents	(17,273)	(18,740)	(1,467)
Service Charges	(598)	(607)	(9)
Non-Dwelling Income	(183)	(238)	(55)
Other Income	(48)	(67)	(19)
Interest Received	(10)	(10)	-
Total Income	**(18,111)**	**(19,662)**	**(1,551)**
Housing Management	3,096	5,158	2,062
Building Services Surveyors and Compliance	1,178	1,870	692
Housing Trade Team	2,361	3,130	769
Repairs and Maintenance (all areas except Trades Team)	484	1,030	545
Bad Debt Provision	139	100	(39)
Total cost of service	**7,258**	**11,287**	**4,029**
Depreciation	4,548	4,817	269
Interest payable	3,161	3,068	(93)
Revenue Contribution to Capital	2,633	1,092	(1,541)
Deficit / (Surplus) for Year	**(511)**	**602**	**1,113**

4.16 In calculating the 2023/24 budget, the following assumptions have been made:

Income

4.17 **Dwelling Rents** - an increase of 7% (rent cap) has been built into the budget for 2023/24. It is assumed that no properties will be purchased by the tenant through the Right to Buy mechanism and the number of voids is expected to be 7% higher than the forecast 2022/23 outturn position (current void rate is 1.2%). All budget changes mentioned will generate £1.467m additional income.

4.18 Tables 3 and 4 below show the impact on income levels that would be available to the HRA as alternative options for a rent increase in 2023/24 compared to the maximum that is currently built into the budget. Table 3 shows the impact on the 2023/24 budget and Table 4 shows the cumulative impact over 1, 5, 10 and 30 years.

Table 3: Rent Scenarios

Babergh Rents	Current (2022/23) £	2023/24 Budget (7% increase) £	3% increase £	5% increase £
Social housing rents	16,218,215	17,353,468	16,704,781	17,029,185
Affordable rents	1,299,845	1,390,828	1,338,834	1,364,850
Other rents	145,166	155,327	149,521	152,424
Shared ownership properties	174,856	187,096	180,102	183,599
Less 1% voids	(229,978)	(245,673)	(236,877)	(241,477)
Total rents	**17,608,104**	**18,841,047**	**18,136,360**	**18,488,580**
Deficit / (Surplus) for the year	1,447,124	214,181	918,867	566,647
Net increase	**-**	**1,232,943**	**528,256**	**880,477**

Table 4: Rent increase – impact on HRA Business Plan

Rent increase	One year £	Five years £	10 years £	30 years £
3%	528,256	2,641,282	5,282,565	15,847,694
5%	880,477	4,402,383	8,804,765	26,414,295
7% (rent cap)	1,232,943	6,164,715	12,329,430	36,988,289

4.19 The average weekly social rent will increase by £6.68, from £95.47 to £102.15. For affordable housing, the weekly rent will increase by an average of £9.41 from £134.39 to £143.80.

4.20 Of the Council's 3,453 tenants, 1,127 (32%) that we know of are in receipt of Housing Benefit and 1,189 (34%) in receipt of 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.

4.21 **Sheltered Housing** - it is proposed that service charges are increased by 7% to recover expected costs in 2023/24. Increases to utility costs are also being proposed:

- Heating - an increase of 8% which equates to an average of £1 per week or £5.72 per month.
- Water - an increase of 11% which equates to an average £0.26 per week or £1.70 per month.
- The increases which are based on historic costs should recover 50% of the recent increase in gas and electricity prices, ensuring that the overall package of cost increases is manageable for our tenants. The increase will mean an element of subsidy to tenants in 2023/24 until the prices are increased again in 2024/25.

4.22 Garage rents are being increased in line with CPI, officers will be prioritising this in 2023/24 as we are currently receiving around 40 enquiries per month.

Garages can be hard to let in some areas and sites are under review to assess their suitability for development.

4.23 **Other income** – the level of income from leaseholders is higher than the current budget and so been increased by £6k in 2023/24. Additional income £12k for wayleaves and easements is also included in the budget for 2023/24.

Housing Management

4.24 An overall increase to the budget of £2.062m is proposed for 2023/24. The increase is required for the annual pay award and increments (£636k), inflationary increases (£652k), stock condition survey (£125k), Transformation Project (£393k), Capita One housing costs moved to HRA budget from the General Fund (£83k), Sheltered Housing furniture update (£41k), additional grounds maintenance charges from Public Realm (£108k) and an increase in temporary accommodation charges (£24k).

Building Services

4.25 An overall increase to the budget of £2.006m is proposed for 2023/24. In 2022, the decision was made to carry out a diagnostic and transformation programme within Building Services. This followed a significant period of increasing costs and reducing customer satisfaction. The programme which aims to provide and implement excellence within Building Services is well underway. There are three separate work streams: compliance, assets, and Direct Labour Organisation (DLO). The journey to excellence will take several years to complete however Members can expect to see steady progress over the next 18 months.

Depreciation

4.26 The depreciation charge has increased by £269k due to the revaluation of the housing stock at 31 March 2022. The value of the housing stock at 31 March 2022 is £268.3m. The valuation basis that the Council is required to use for the financial accounts equates to 38% of market value.

Interest Payable and Bad Debt Provision

4.27 A reduction of £93k to interest payable is included in the budget for 2023/24 due to the new/build and acquisition programme not progressing as quickly as forecast in 2022/23. The interest payable figure is based on total long-term debt of £84.7m and recharges from the General Fund for short-term borrowing costs. £83.6m of the long-term debt is the debt that the Council took on when the HRA Self-financing regime was introduced in 2012.

Revenue Contribution to Capital

4.28 The revenue contribution to capital has been decreased by £1,541k to partially offset the cost of service and depreciation charge as depreciation can be used to fund capital expenditure.

Reserves

4.29 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.

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

4.31 The 2023/24 budget position means that the Council will reduce its Strategic Priorities Reserve by £1.694m.

4.32 The total balance of all earmarked reserves at 31 March 2024, as a result of the budget proposals, is forecast to be £10.508m, which equates to £2,960 per property. This is dependent on the new build and acquisition programme being delivered on target in the current financial year. Full details of the Councils earmarked reserves are shown in table 5 below.

Table 5: Earmarked reserves

	Balance at 31 March 2022	Forecast Balance at 31 March 2023	2023/24 Budget Capital Programme Financing	2023/24 Budget Deficit	Forecast Balance at 31 March 2024
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Strategic Reserves	(16,096)	(12,087)	1,092	602	(10,393)
Big 20 Reserve	(94)	(94)	0	0	(94)
Building Council Homes Programme	(20)	(20)	0	0	(20)
Total Reserves	**(16,210)**	**(12,201)**	**1,092**	**602**	**(10,508)**

4.33 In addition to this, the Council continues to hold £1m in its working balance general reserve, the equivalent of less than £300 per property.

Capital

4.34 The proposed capital programme for 2023/24 and the indicative programme for the following three years is shown in table 6 below.

Table 6: HRA Capital Programme 2023/24 to 2026/27

BABERGH DC CAPITAL PROGRAMME BUDGET	2022/23 Indicative Carry Forwards (A)	2023/24 Budget for approval (B)	2023/24 Total Spend Required (A + B)	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast
	£'000	£'000	£'000	£'000	£'000	£'000
Housing Revenue Account						v3
Planned Maintenance & Response						
Planned Maintenance	900	3,326	4,226	2,611	2,605	2,584
Other Maintenance	0	2,000	2,000	2,000	2,000	2,000
ICT Projects	44	163	207	200	200	200
Neighbourhood Improvements	0	500	500	500	500	500
Council House Adaptations	0	400	400	200	200	200
Horticulture and play equipment	130	220	350	30	30	30
Total Housing Maintenance	**1,074**	**6,609**	**7,683**	**5,541**	**5,535**	**5,514**
New build programme including acquisitions	**0**	**802**	**802**	**2,480**	**3,750**	**750**
TOTAL HRA Capital Spend	**1,074**	**7,411**	**8,485**	**8,021**	**9,285**	**6,264**
HRA Financing						
External Grants and contributions	0	190	190	0	0	0
Capital Receipts (from SO Sales)	0	291	291	1,488	0	0
New build 1-4-1 capital receipts	0	321	321	992	1,500	300
Major Repairs Reserve	0	4,817	4,817	4,809	4,809	4,727
Revenue Contributions	0	1,092	1,092	0	0	0
Borrowing	1,074	700	1,774	732	2,976	1,237
Total HRA Capital Financing	**1,074**	**7,411**	**8,485**	**8,021**	**9,285**	**6,264**

4.35 The new funding within the Capital Programme for 2023/24 totals £7.4m, with an additional £1.1m anticipated to be carried forward from 2022/23 to give a total programme of £8.5m.

4.36 The new build and acquisition programme, which includes development sites for additional homes, is expected to deliver a total of 26 affordable homes by the end of March 2027. One of the major areas being developed over the next four years includes a site in Sudbury.

4.37 Right to Buy (RTB) sales for Babergh were higher than those projected in the business plan. In 2021/22 Babergh sold 24 against an original projection of 20 sales.

4.38 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.

4.39 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 continue to explore every opportunity to enter into agreements so that any capital receipts received in future from the sale of nominated homes can 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 Key risks are set out below:

Key Risk Description	Likelihood 1-4	Impact 1-4	Key Mitigation Measures	Risk Register and Reference
We may be unable to react in a timely and effective way to financial demands	3 - Probable	4 - Disaster	Continued monitoring and reporting of the Councils financial forecast via quarterly reports to Cabinet	Strategic Risk Register - SRR004 BDC
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.	Finance, Commissioning and Procurement Operational Risk Register – 005BDC and 007

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.	Finance, Commissioning and Procurement Operational Risk Register – 005BDC and 007
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.	Finance, Commissioning and Procurement Operational Risk Register – 005BDC and 007
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.	Finance, Commissioning and Procurement Operational Risk Register – 005BDC and 007
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.	Finance, Commissioning and Procurement Operational Risk Register – 005BDC and 007

9. CONSULTATIONS

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

10. EQUALITY ANALYSIS

10.1 The 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 under the Equality Act 2010.

11. ENVIRONMENTAL IMPLICATIONS

11.1 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.

11.2 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.

11.3 The new homes 'design and technical specification' that incorporates carbon saving solutions and improve energy efficient standards for all new homes built by the Council and its Growth Company, has now been adopted by the Council.

11.4 A review of Social Housing solar systems performance is underway and will be used to further inform social housing energy generation.

11.5 Social Housing - we are preparing a programme of energy retrofits to the poorest performing properties rated with an Energy Performance Certificate rating of E and below, with a view to submitting match funding bids to the Government's Social Housing Decarbonisation Fund. A five-year programme of energy retrofits is under development aimed at raising all social housing to an Energy Performance Certificate rating of C or above.

12. BACKGROUND DOCUMENTS

BCa/22/33 Housing Revenue Account Fund Financial Monitoring 2022/23 – Quarter 2

BOS/22/01 Draft General Fund (GF) and Housing Revenue Account (HRA) 2023/24 Review of Assumptions

BOS/22/02 Draft General Fund (GF) and Housing Revenue Account (HRA) 2023/24 Review of Savings Proposals and Updated Position

BABERGH DISTRICT COUNCIL

TO:	**Council**	**REPORT NUMBER: BC/22/43**
FROM:	**Dave Busby, Cabinet Member Assets and Investments**	**DATE OF MEETING: 20 February 2023**
OFFICER:	**Emily Atack, Director Assets & Investments**	**KEY DECISION REF NO.** N/A

CASE FOR A NEW JOINT DEPOT

1. PURPOSE OF REPORT

1.1 The Councils' operational depots are no longer fit for future purpose and will not be able to meet the future needs of the Councils and our residents in the short to medium term. There are currently 3 main operational depots that are operated by a shared Babergh and Mid Suffolk workforce and joint commercial contracts. This report considers the high-level options for the Councils' future operational depot requirements and seeks to allocate the necessary capital to progress this project.

1.2 It is proposed that the Council adds a total of £6m to the capital programme from 23/24.

2. OPTIONS CONSIDERED

2.1 Do nothing. This is not considered a viable option due to the size, age and condition of the existing depots and growth of the districts.

2.2 **To operate from a single new or refurbished depot primarily serving Babergh District** but utilising the shared Babergh and Mid Suffolk workforce and joint commercial contracts. Under this option Mid Suffolk would take a similar approach, and for both Councils this has been assumed to be the same as the current service delivery model, but with improved premises. This option would not benefit from operational efficiencies and savings that could be delivered from a single shared depot site, such as reducing vehicle servicing costs, contract management costs, build costs, maintenance costs, operational space requirements and duplicated facilities. Refurbishing the existing depot whilst it continued to be operational would also pose a risk to delivering the current service and cost more. It is still very likely that an additional parking and yard space or extension would be required to meet the depot needs over the short and longer term as the current sites are constrained. This option is therefore likely to be more expensive and less efficient than a shared depot.

2.3 **To operate from a shared depot site serving both districts.** This option would provide modern fit for purpose accommodation delivering operational and occupational efficiencies and is the most financially viable option as well as the most practical and effective operational option. This in Officers' opinion offer the best option for the operation to cope with the predicted challenges in the future.

3. **To co-locate with other public sector organisations.** This option has been considered as part of the Ipswich and Central Suffolk One Public Estate Board. External consultants have been appointed by the board to consider the options for co-location. The recommended approach for Babergh & Mid Suffolk was to share a single depot with the potential for a shared vehicle workshop that could be used by other public sector organisations. There were limited benefits to any wider co-location with public sector partners. A vehicle workshop will be part of the proposed premises and as such we will continue to investigate how this could be shared with partners should we progress a single depot option as recommended.

4. RECOMMENDATIONS

4.1 That £6m is added to the Council's Capital Programmes from 23/24 budget year to deliver improved depot facilities.

4.2 Capital receipts from the disposal of existing depot sites will be added to the capital programme in later years.

REASON FOR DECISION

To enable the delivery of fit for purpose operational depot premises to serve the districts effectively and efficiently.

5. KEY INFORMATION

5.1 There are 3 main operational depots that serve Babergh and Mid Suffolk Councils supporting the delivery of waste services, building services and repairs and car parking services. The main waste depots are in Stowmarket and Sudbury with Building Service operating out of a smaller depot at Great Wenham and using the waste depots to a degree, although shared use of the larger depots has become less feasible as waste services have grown to meet the needs of the districts. The current sites occupy approximately 1.51 hectares (3.73 acres).

5.2 The Stowmarket and Sudbury depots are now over 50 years old and are no longer fit for modern purposes. As the districts have grown over the years the pressure on the sites to house additional staff and vehicles has meant that they are unable to meet the future requirements for the services. The sites are becoming obsolescent due to their layout and the number of operations being conducted from them and will be unable to take more vehicles when further services are required to be undertaken. There are significant and increasing costs of maintaining the properties in the future.

5.3 Expanding population within the districts has seen over the last 8 years an additional 5,989 net completions of new housing stock and further growth of 4,966 is predicted for the 5 next years across both Districts.

5.4 Alongside business-as-usual growth all service areas need to plan and prepare for the use of alternative fuels in the vehicle fleet. An interim step has been taken for our waste fleet, to use HVO (Hydrotreated Vegetable Oil) fuel as one of the cleanest fuels on the market. HVO is a second-generation, synthetic, advanced renewable diesel alternative that eliminates up to 90% of net CO_2 and significantly reduces nitrogen oxide (NOx), particulate matter (PM) and carbon monoxide (CO) emissions. Further changes to our vehicle fleet (such as Building Services and Public Realm vehicles) will be required as the country transitions towards fully electric or alternatively fuelled vehicles.

5.5 The changes laid out in the Resource and Waste Strategy (RAWS) represent a particular challenge for the Waste and Recycling Services. The changes proposed within the strategy include the introduction of separate household food waste collections, the collection of glass from the kerbside, segregated fibres and containers and there could be a need for similar changes to our business waste collections. These changes will put further pressures on the existing depot estate and will constrain the services that can be delivered.

5.6 Operational business service savings and income generation could be delivered in the order of £75-150,000 per annum from a single shared depot. Operating from a single modern and fit for purpose depot owned by the Councils will have a positive impact on the cost and will increase the range of potential bidders for a Waste Service collection contract at the time any re-procurement. Indeed, owning our own depot will leave the widest range of service delivery model options available to Babergh and Mid Suffolk District Councils (BMSDC) for the implementation of any future changes that may be required.

5.7 A new depot would also improve staff well-being by providing a modern fit for purpose accommodation that meets their operational needs and helps them to work effectively and efficiently to manage the increasing pressures of the services being delivered to a growing population. A staff working group with representatives from each of the operational services has been set up and has supported the preparation of this initial business case. Staff will be fully consulted if budget is secured to progress this project and alternative options have been identified.

5.8 Occupational cost savings of running a single depot would be in the order of £60,000 per annum due to reduced business rates, utility costs and maintenance for a single depot compared to the current 3 depots.

5.9 Significant capital investment is needed to secure a new depot- in the order of £12m. This would provide a site of approximately 3.25 hectares (8 acres) and accommodation for 200 operational staff – this would be more than double the current operational capacity, whilst still delivering operational financial savings to help offset the cost of capital finance. The detailed financial implications are set out in section 7 below.

5.10 If funding is approved the next stage of the project will be to identify suitable options for a single depot including staff and stakeholder consultation and engagement, to review options for the existing sites in greater detail and develop a final detailed business case based on the preferred option. The outline business case for the funding is attached as a confidential item in Appendix 1.

6. LINKS TO CORPORATE PLAN

6.1.1 This proposal aligns with the Councils' Joint Strategic Asset Management Plan for 2020-2025, a core priority of which is to strengthen the management of corporate assets, to ensure they are safe and improve the quality and value for money of the service they can deliver.

6.1.2 In addition, this proposal will support the growth of the local economies and delivery of housing coming forward within the districts.

7. FINANCIAL IMPLICATIONS

7.1 Significant capital investment is needed to secure a new depot- in the order of £12m across Babergh and Mid Suffolk District Councils, with each Council borrowing £6 million. The costs of borrowing £6 million per Council to finance a new depot are set out in the tables below, the first table shows a worst-case scenario with no disposals and therefore no receipts to off-set the capital expended for the new depot. This may be the position if a site is retained for the Councils' own use or development. The second table assumes capital receipts for the existing depots are realised in years 4 and 5, reducing the annual borrowing costs by approximately £75,000 per council.

7.2 To model the effects of the disposals, the possible scenario has been prepared to show the effect on the project finances. Looking at the worst-case scenario then the finance table, it assumes that there are no disposals to counter act the capital expended for the new depot.

7.3 The projections assume an interest rate of 4.5%. On 18th January 2023 the rate for borrowing from the Public Works Loan Board (PWLB) for a 5-year fixed maturity loan was 4.14% and the rate for a 50-year loan was 4.2%. the Councils' Treasury Management Advisors, Arlingclose, are currently projecting the 5-year rate to peak at 4.6% during 2023 before gradually dropping back and the 50-year rate to peak at 4.4% during 2023.

7.4 Looking at the worst-case scenario then the finance table, it assumes that there are no disposals to counter-act the capital expended for the new depot. This may be the position if a site is retained for the Councils own use or development.

No repayment from capital receipts

	Capital Expenditure/ receipt	MRP	Interest	Total Financing	Annual cost per Band D equivalent
2023/24	1,200,000	0	54,000	**54,000**	0.71
2024/25	2,400,000	0	162,000	**162,000**	2.14
2025/26	2,400,000	0	270,000	**270,000**	3.57
2026/27	0	33,613	268,487	**302,100**	4.00
2027/28	0	35,125	266,907	**302,032**	4.00
2028 - 2076 Average annual*	0	123,568	174,484	**298,052**	3.94
Total*	**6,000,000**	**6,000,000**	**9,396,644**	**15,396,644**	**204**

* Please note that table does not add down as the average cost per year for a number of years is shown

Repayment from receipts in years 4 & 5

	Capital Expenditure/ receipt	MRP	Interest	Total Financing	Annual cost per Band D equivalent
2023/24	1,200,000	0	54,000	**54,000**	0.71
2024/25	2,400,000	0	162,000	**162,000**	2.14
2025/26	2,400,000	0	270,000	**270,000**	3.57
2026/27	-1,250,000	33,613	212,237	**245,850**	3.25
2027/28	-1,250,000	27,766	154,738	**182,504**	2.42
2028 - 2076 Average annual*	0	71,638	101,156	**172,794**	2.29
Total*	**3,500,000**	**3,500,000**	**5,708,486**	**9,208,486**	**122**

* Please note that table does not add down as the average cost per year for a number of years is shown

The above shows the effect of the disposals in reducing the amount required to fund the project.

8. LEGAL IMPLICATIONS

8.1 Any land or property purchase would be subject to the usual due diligence process to analyse any potential risk associated with the Councils becoming owners of the land or property. This process would involve investigating the land to identify any encumbrances which may adversely affect the Councils' proposed use for the land including considering the most suitable solution to mitigate any issues which may arise.

9. RISK MANAGEMENT

9.1 Key risks are set out below:

Key Risk Description	Likelihood 1-4	Impact 1-4	Key Mitigation Measures	Risk Register and Reference*
The current depots are not fit for future purpose and do not deliver best value.	3	3	Operational Risk Assessments, Safe working practises Depot project commencement and management of premises in line with SAMP (Strategic Asset Management Plan).	Significant Risk SRR006 Operational Risk register R002
Finding a suitable site with planning consent or capable of obtaining planning consent	3	4	Early engagement with the local surveying firms.	Depot Project Risk register R2002

Legally securing the site once found	1	4	Appointing agents to act between the parties, and then to quickly obtain Council Approval.	Depot Project Risk register R2006
Ground Conditions preclude the development taking place	3	4	Ground surveys to be undertaken before purchase/ time of the purchase if the information is not available.	Depot Project Risk registerR2003
Costs of funding increase	3	4	Monitor rates closely and consider longer term fixed rates as appropriate. Seek capital receipts, additional funding, and grants to minimise borrowing costs.	Significant Risk SRR013 R2004
Capital receipts from existing sites are lower than anticipated	3	4	Monitor market, seek to de-risk sites and maximise value.	Depot Project Risk Register R2007
Delays to programme	2	4	To be managed	Depot Project Risk Register R2002
New depot is not fit for purpose	1	1	Careful consideration of requirements and consultation with working group. Engage technical delivery team.	Depot Project Risk Register R3004

**Name of risk register where risk is currently documented and being actively managed and its reference number*

10. CONSULTATIONS

10.1 An internal working group has been established with representatives from all the operational service areas and key contract personnel. These proposals have also been discussed with Cabinet members and Political Group Leaders. Further consultation with staff and stakeholders will be undertaken if the budget is secured to enable the project to progress.

11. EQUALITY ANALYSIS

Equality Impact Assessment (EIA) not required. At this stage, the report is requesting a capital investment in land and buildings with no direct impact on our communities directly, this will be reviewed if the project progresses to the next stage.

12. ENVIRONMENTAL IMPLICATIONS

There are no direct environmental implications of the decision to add funding to the capital programme however the subsequent acquisition or development of land and property and the occupation of buildings may have environmental implications. This would be considered in further detail once the preferred option has been identified, it would also be considered as part of any planning application. The Councils would seek to achieve BREEAM Excellent for a new build depot and would seek to minimise impact on climate change.

13. APPENDICES

Title	Location
(a) Location Plans & Photographs of Existing Depots	Attached
(b) Outline Business Case (Commercially Confidential)	Attached in Part 2

APPENDIX A

Depot Locations

Points of Interest

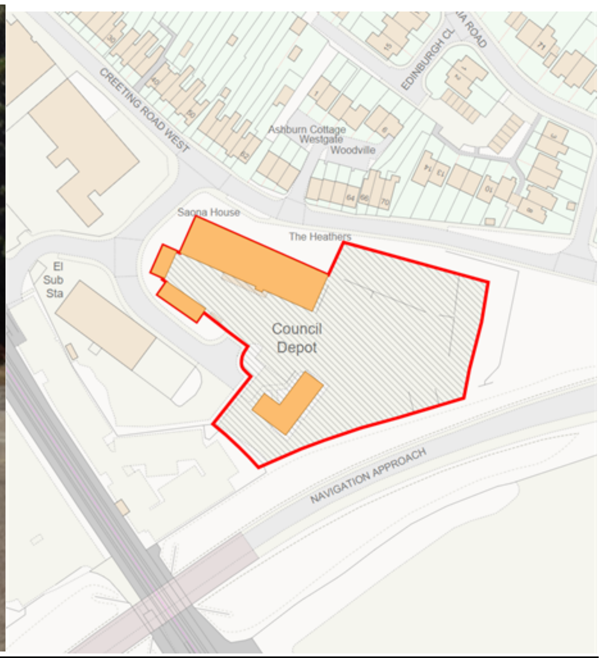
N SCALE 1:300000

Date Printed : 30/01/2020

Depot Creeting Road West, Stowmarket IP14 5AT

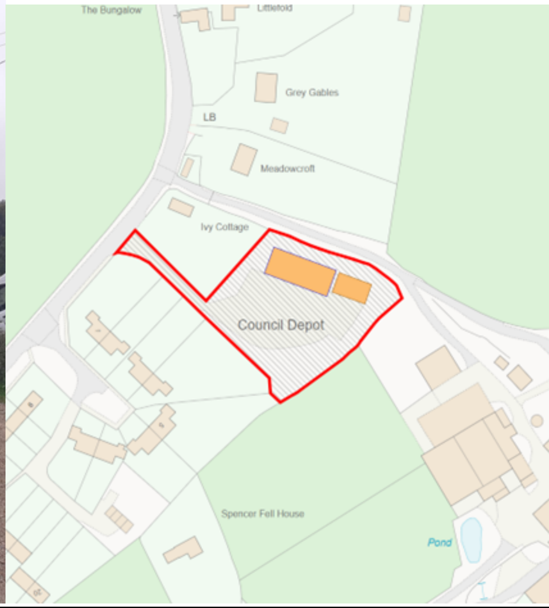
The Creeting Road Depot is an operational depot which serves waste collection to the Mid Suffolk area, it consists of offices, workshops, stores, and hard standing land for waste collection vehicle parking.

The site is accessed through Creeting Road West. The site is occupied by BMSDC and Serco.



Wenham Depot, Wenham Road, Great Wenham, Colchester, CO7 6PS

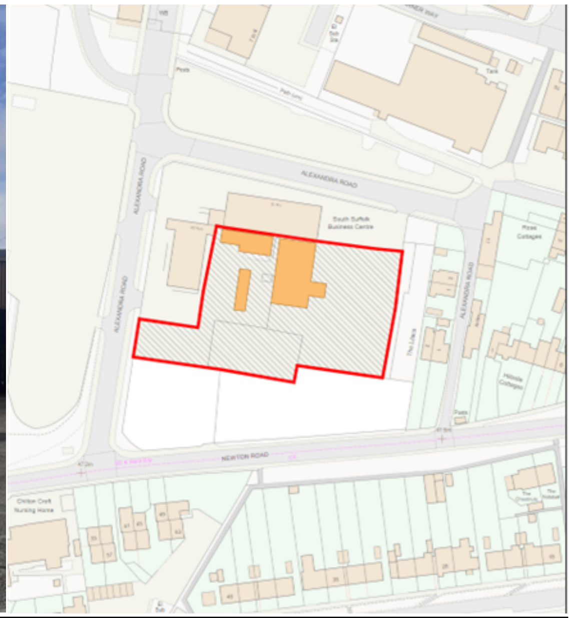
The Wenham depot is an operational depot based in Great Wenham. It is located just off the A12 in semi-rural and residential area.



Chilton Depot, Alexandria Road, Sudbury CO10 2XH

The Chilton Road depot is a large operational depot that serves Babergh district. The site is located just of Alexandria Road in Sudbury. The site has a number of commercial operators close by in addition to residential housing.

The site serves for waste collection for the Babergh area. Serco occupies part of the site.



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Agenda Item 12

By virtue of paragraph(s) 1 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

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BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

TO: Council	**REPORT NUMBER: BC/22/44**
FROM: Melissa Evans, Director, Corporate Resources	**DATE OF MEETING: 20 February 2023 23 February 2023**
OFFICER: Rebecca Hewitt, Corporate Manager – Finance, Commissioning & Procurement Sue Palmer, Senior Finance Business Partner	**KEY DECISION REF NO. Item No. N/A**

JOINT CAPITAL, INVESTMENT AND TREASURY MANAGEMENT STRATEGIES 2023/24

1. PURPOSE OF REPORT

1.1 This report presents the Joint Capital, Investment and Treasury Management Strategies for the financial year 2023/24.

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 2021, 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 2023.

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 2023/24, including the Prudential Indicators, as set out in Appendix A.

3.2 The Joint Investment Strategy for 2023/24, as set out in Appendix B.

3.3 The Joint Treasury Management Strategy for 2023/24, 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 2023/24 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 2023/24 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 issued a new edition of the Prudential Code 2021 which applied with immediate effect but allowed 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, applied 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 Global economic growth is slowing as inflation and tighter monetary policy depress activity. The UK economy is already experiencing recessionary conditions, with business activity and household spending falling. Tighter monetary and fiscal policy, alongside high inflation will bear down on household disposable income. The short- to medium-term outlook for the UK economy is bleak, with the Bank of England projecting a protracted recession.

4.11 This has had an impact on the Councils' capital programmes and borrowing requirements as a result of projects falling behind schedule due to staffing shortages and supply difficulties. The Councils cash flow has been impacted by the repayment of grants from Central Government that was not required for COVID19 support to local buisnesess. Interest rates on investments and borrowing have increased because of increasing bank rates. There has been an increase in the value of the Councils' long-term investments in a property fund, but reductions in the funds containing equities and bonds as a result of the volatility in stock markets.

4.12 The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, are 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 diligence 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
- at Full Council set the strategies and prudential indicators, and approve any material changes or revisions required during the year.

<u>Joint Capital Strategy Appendix A</u>

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 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.

<u>Joint Investment Strategy Appendix B</u>

4.16 The Councils invest their money for three 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).

4.17 This Joint Investment Strategy is for 2023/24, meets the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories.

<u>Joint Treasury Management Strategy Appendix C</u>

4.18 The Joint Treasury Management Strategy (TMS) (Appendix C) covers the first point in 4.16 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 Risks as follows:

No.1 – The Councils Investment Fund may be unable to meet the income projections

No.2 – Income and Capital projections and economic outcomes projected for Gateway 14 Ltd may not be delivered

No.4 – The Councils may be unable to react in a timely and effective way to financial demands

No.8 – If Strategies are not in place with a balanced position over the medium term the Councils may not be financially sustainable and will be unable to deliver the core objectives and service delivery may be at risk of not being delivered.

No.13 – Additional cost pressures may result in a significant overspend that needs to be funded from reserves

No.15 & 16 - Income and Capital projections or economic/housing outcomes projected for Babergh Growth Ltd and Mid Suffolk Growth Ltd may not be delivered

8.2 Other key risks are set out in the following table:

Risk Description	**Likelihood (1-4)**	**Impact (1-4)**	**Key Mitigation Measures**	**Risk Register and Reference**
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.	Finance, Risk Register – 006 & 007
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.	Finance, Risk Register – 006 & 007
If the Councils have liquidity problems, then they will be unable to meet their short-term liabilities.	Unlikely (2)	Noticeable (2)	As above.	Finance, Risk Register – 006 & 007

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.	Finance, Risk Register – 006 & 007

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 2023/24	Attached
(b) Joint Investment Strategy 2023/24	Attached
(c) Joint Treasury Management Strategy 2023/24	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

2021 CIPFA Treasury Management in the Public Services

2021 The Prudential Code for Capital Finance in Local Authorities

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

APPENDIX A: JOINT CAPITAL STRATEGY 2023/24

1. Introduction

1.1 This Joint Capital Strategy for 2023/24 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 strategic and service priorities against financing costs (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 2023 and will go onto Cabinet and the Full Council meetings in February 2023.

Estimated Capital Expenditure

2.5 The actual capital spend for 2021/22, the forecast outturn for 2022/23, the budget for 2023/24 and forecast from 2024/25 to 2026/27, for the General Fund and the Housing Revenue Account (HRA) as per the 2023/24 budget report is summarised as follows:

Table 1: Prudential Indicator: Estimated Capital Expenditure

Capital Expenditure						
Babergh District Council	**2021/22 Actual £m**	**2022/23 Forecast Outturn £m**	**2023/24 Budget ** £m**	**2024/25 Forecast £m**	**2025/26 Forecast £m**	**2026/27 Forecast £m**
General Fund	4.39	6.08	8.72	4.60	4.15	1.75
Capital Investments	0.32	3.67	5.79	3.81	0.06	0.06
Total General Fund	4.71	9.75	14.51	8.41	4.21	1.81
Council Housing (HRA)	16.80	16.04	8.49	8.02	9.28	6.26
Total Capital Expenditure	**21.51**	**25.80**	**23.00**	**16.43**	**13.49**	**8.07**

Capital Expenditure						
Mid Suffolk District Council	**2021/22 Actual £m**	**2022/23 Forecast Outturn £m**	**2023/24 Budget ** £m**	**2024/25 Forecast £m**	**2025/26 Forecast £m**	**2026/27 Forecast £m**
General Fund	7.87	6.14	9.92	4.47	4.06	1.58
Capital Investments	5.44	7.25	17.40	3.50	1.75	0.00
Total General Fund	13.32	13.39	27.32	7.97	5.81	1.58
Council Housing (HRA)	13.92	27.11	27.71	26.13	8.93	5.12
Total Capital Expenditure	**27.24**	**40.50**	**55.03**	**34.10**	**14.74**	**6.70**

** Including forecast carry-forward from 2022/23

General Fund Capital Expenditure

2.6 The main General Fund projects included in the Capital Programme for Babergh over the period 2023/24 to 2026/27 are a new shared depot (£6m), Belle Vue, Sudbury (£1.9m), Housing grants (£3.8m), ICT hardware/software (£0.75m), Community Grants (£0.5m) and implementing the parking strategy (£0.3m).

2.7 The main General Fund projects included in the Capital Programme for Mid Suffolk over the period 2023/24 to 2026/27 are a new shared depot (£6m), Housing grants (£3.6m), Community Grants (£0.8m), ICT hardware/software (£0.75m) and implementing the parking strategy (£0.27m).

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 investments for yield or commercial investments where income is the main purpose).

2.10 The capital investments (which are service investments) in the capital programme for the period 2023/24 to 2026/27 for Babergh are the development of the former Council Offices in Hadleigh (£7.5m) by the Growth company for housing; Borehamgate (£0.24m), further strategic investments (£1.9m) and a workspace development in Hadleigh (£1.9m) all for regeneration purposes. Included in the forecast outturn for 2022/23 are completion of the former Council Offices in Hadleigh (£3.3m), Borehamgate (£0.2m), and further strategic investments (£1m).

2.11 The capital investments (which are service investments) in the capital programme for the period 2023/24 to 2026/27 for Mid Suffolk include developments by the Growth company (£11.9m), including the former Council Offices at Needham Market, for housing; Gateway 14 (£10.7m) and further strategic investments (£2.7m) all for regeneration purposes. Included in the forecast outturn for 2022/23 are the former Council Offices at Needham Market (£0.25m) and Gateway 14 (£7m).

2.12 The councils have adopted the DLUHC definition of an investment so that property that is held primarily for service purposes, including regeneration, but also partly for income, is classed as a service investment. 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	2021/22 Actual £m	2022/23 Forecast Outturn £m	2023/24 Budget £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m
Capital Receipts	0.00	0.00	1.16	0.00	0.00	0.00
Revenue Reserves	0.98	0.00	0.00	0.00	0.00	0.00
Grants	1.50	0.65	0.87	0.76	0.76	0.76
External Contributions	0.06	0.09	0.00	0.00	0.00	0.00
Borrowing	2.16	9.01	12.48	7.65	3.45	1.05
Total GF Capital Financing	**4.71**	**9.75**	**14.51**	**8.41**	**4.21**	**1.81**

Capital Financing - HRA						
Babergh District Council	**2021/22 Actual £m**	**2022/23 Forecast Outturn £m**	**2023/24 Budget £m**	**2024/25 Forecast £m**	**2025/26 Forecast £m**	**2026/27 Forecast £m**
Capital Receipts	3.79	4.87	0.61	2.48	1.50	0.30
Revenue Contributions	2.59	2.63	1.09	0.00	0.00	0.00
Revenue Reserves	4.60	8.52	4.82	4.81	4.81	4.73
Grants	0.95	0.02	0.19	0.00	0.00	0.00
Borrowing	4.88	0.00	1.77	0.73	2.98	1.24
Total HRA Capital Financing	**16.80**	**16.04**	**8.49**	**8.02**	**9.28**	**6.26**
Total ALL Capital Financing	**21.51**	**25.80**	**23.00**	**16.43**	**13.49**	**8.07**

Capital Financing - General Fund						
Mid Suffolk District Council	**2021/22 Actual £m**	**2022/23 Forecast Outturn £m**	**2023/24 Budget £m**	**2024/25 Forecast £m**	**2025/26 Forecast £m**	**2026/27 Forecast £m**
Revenue Contributions	0.00	0.52	0.01	0.00	0.00	0.00
Revenue Reserves	3.39	0.45	0.66	0.00	0.00	0.00
Grants	2.14	0.46	0.99	0.70	0.70	0.70
Borrowing	7.79	11.97	25.67	7.27	5.11	0.89
Total GF Capital Financing	**13.32**	**13.39**	**27.32**	**7.97**	**5.81**	**1.58**

Capital Financing - HRA						
Mid Suffolk District Council	**2021/22 Actual £m**	**2022/23 Forecast Outturn £m**	**2023/24 Budget £m**	**2024/25 Forecast £m**	**2025/26 Forecast £m**	**2026/27 Forecast £m**
Capital Receipts	2.72	4.81	5.54	3.19	2.67	0.30
Revenue Contributions	1.02	1.06	0.00	0.00	0.00	0.00
Revenue Reserves	4.49	9.00	4.62	4.62	4.62	4.47
Grants	0.22	0.24	0.00	0.00	0.00	0.00
Borrowing	5.48	12.00	17.55	18.32	1.65	0.35
Total HRA Capital Financing	**13.92**	**27.11**	**27.71**	**26.13**	**8.93**	**5.12**
Total ALL Capital Financing	**27.24**	**40.50**	**55.03**	**34.10**	**14.74**	**6.70**

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. The Councils are currently also permitted to spend capital receipts “flexibly” on service transformation projects until 2023/24. Repayments of capital grants, loans and investments 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:

Table 3: Capital receipts used

Capital Receipts Babergh District Council	2021/22 Actual £m	2022/23 Forecast Outturn £m	2023/24 Budget £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m
General Fund	0.00	0.00	1.16	0.00	0.00	0.00
General Fund Capital Loan Repayments	0.23	0.23	0.25	7.35	4.02	0.28
Council Housing (HRA) 1-4-1 Receipts	2.40	2.66	0.32	0.99	1.50	0.30
Council Housing (HRA) Other	1.39	2.21	0.29	1.49	0.00	0.00
Total Capital Receipts	**4.02**	**5.10**	**2.02**	**9.83**	**5.52**	**0.58**

Capital Receipts Mid Suffolk District Council	2021/22 Actual £m	2022/23 Forecast Outturn £m	2023/24 Budget £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m
General Fund	0.00	0.00	0.00	0.00	0.00	0.00
General Fund Capital Loan Repayments	0.23	26.96	0.25	9.20	3.33	3.78
Council Housing (HRA) 1-4-1 Receipts	2.48	2.78	2.13	2.04	1.69	0.30
Council Housing (HRA) Other	0.24	2.03	3.41	1.15	0.98	0.00
Total Capital Receipts	**2.94**	**31.77**	**5.78**	**12.39**	**6.00**	**4.08**

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	2021/22 Actual £m	2022/23 Forecast Outturn £m	2023/24 Budget £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m
Repayment of Borrowing from HRA Revenue	0.15	0.00	0.00	0.00	0.00	0.00
MRP charged to General Fund Revenue	1.22	1.46	1.63	1.79	1.97	2.09
Total Repayment of Debt Finance	**1.37**	**1.46**	**1.63**	**1.79**	**1.97**	**2.09**

Repayment of Debt Finance Mid Suffolk District Council	2021/22 Actual £m	2022/23 Forecast Outturn £m	2023/24 Budget £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m
MRP charged to General Fund Revenue	1.30	1.33	1.49	1.66	1.77	1.90
Total Repayment of Debt Finance	**1.30**	**1.33**	**1.49**	**1.66**	**1.77**	**1.90**

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

Capital Financing Requirement

2.19 The Councils' 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 £7.31m and Mid Suffolk's reduce by £4.32m during 2022/23. 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: Estimated Capital Financing Requirement

Cumulative Capital Financing Requirement (CFR)						
Babergh District Council	2021/22 Actual £m	2022/23 Forecast Outturn £m	2023/24 Budget £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m
General Fund	18.56	22.27	27.34	29.38	30.80	29.70
Capital Investments	54.13	57.73	63.28	59.74	55.78	55.55
Total General Fund	**72.69**	**80.00**	**90.61**	**89.12**	**86.58**	**85.26**
Council Housing (HRA)	**92.89**	**92.89**	**94.67**	**95.40**	**98.38**	**99.61**
Total CFR	**165.58**	**172.90**	**185.28**	**184.52**	**184.95**	**184.87**

Cumulative Capital Financing Requirement (CFR)						
Mid Suffolk District Council	2021/22 Actual £m	2022/23 Forecast Outturn £m	2023/24 Budget £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m
General Fund	23.19	26.83	33.61	35.72	37.31	36.30
Capital Investments	78.09	58.13	75.28	69.59	68.00	64.22
Total General Fund	**101.28**	**84.95**	**108.89**	**105.30**	**105.31**	**100.52**
Council Housing (HRA)	**94.24**	**106.24**	**123.79**	**142.11**	**143.76**	**144.11**
Total CFR	**195.52**	**191.19**	**232.68**	**247.42**	**249.07**	**244.62**

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 On 30 November 2022:

- Babergh has £113.1m total borrowing at an average interest rate of 2.8% and £18.3m of treasury investments at an average rate of 3.2%.

- Mid Suffolk has £135.3m total borrowing at an average interest rate of 2.6% and £16.3m treasury investments at an average interest rate of 3.5%.

Borrowing strategy:

4.3 The Councils' main objectives when borrowing is 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 short-term loans (currently available at around 4%) and long-term fixed rate loans where the future cost is known but higher (currently around 4.4% to 4.7%).

4.4 Since the change in rules, the Councils no longer borrow to invest for the primary purpose of financial return and therefore retain full access to the Public Works Loans Board.

4.5 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.

4.6 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	31.3.2022 Actual £m	31.3.2023 Forecast Outturn £m	31.3.2024 Budget £m	31.3.2025 Forecast £m	31.3.2026 Forecast £m	31.3.2027 Forecast £m
General Fund						
Outstanding Borrowing (Debt)	(35.65)	(52.15)	(56.85)	(55.60)	(54.01)	(53.75)
Capital Financing Requirement	72.69	80.00	90.61	89.12	86.58	85.26
General Fund Headroom	**37.04**	**27.85**	**33.76**	**33.52**	**32.56**	**31.51**
HRA						
Outstanding Borrowing (Debt)	(84.75)	(84.75)	(86.52)	(87.25)	(90.23)	(91.47)
Capital Financing Requirement	92.89	92.89	94.67	95.40	98.38	99.61
HRA Headroom	**8.15**	**8.15**	**8.15**	**8.15**	**8.15**	**8.15**

Gross Debt and Capital Financing Requirement						
Mid Suffolk District Council	31.3.2022 Actual £m	31.3.2023 Forecast Outturn £m	31.3.2024 Budget £m	31.3.2025 Forecast £m	31.3.2026 Forecast £m	31.3.2027 Forecast £m
General Fund						
Outstanding Borrowing (Debt)	(61.85)	(59.05)	(65.23)	(61.85)	(62.69)	(58.90)
Capital Financing Requirement	101.28	84.95	108.89	105.30	105.31	100.52
General Fund Headroom	**39.43**	**25.90**	**43.66**	**43.45**	**42.63**	**41.62**
HRA						
Outstanding Borrowing (Debt)	(73.49)	(84.41)	(101.97)	(120.28)	(121.93)	(122.28)
Capital Financing Requirement	94.24	106.24	123.79	142.11	143.76	144.11
HRA Headroom	**20.75**	**21.83**	**21.83**	**21.83**	**21.83**	**21.83**

4.7 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 (shown as Headroom).

Liability benchmark:

4.8 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.

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

4.10 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).

4.11 This benchmark is currently £126.59m for Babergh and £122.74m for Mid Suffolk for 2022/23 and is forecast to increase to £145.69m and £178.39m respectively over the next four years.

Table 7: Borrowing and the Liability Benchmark

Borrowing and Liability Benchmark						
Babergh District Council	2021/22 Actual £m	2022/23 Forecast Outturn £m	2023/24 Budget £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m
Liability Benchmark	113.53	126.59	140.61	142.81	145.18	145.69
Outstanding Borrowing (Debt)	(120.40)	(103.84)	(93.28)	(86.71)	(80.12)	(79.53)
	(6.86)	**22.75**	**47.33**	**56.10**	**65.06**	**66.16**

Borrowing and Liability Benchmark						
Mid Suffolk District Council	2021/22 Actual £m	2022/23 Forecast Outturn £m	2023/24 Budget £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m
Liability Benchmark	125.08	122.74	166.07	182.76	184.91	178.39
Outstanding Borrowing (Debt)	(135.34)	(122.73)	(90.10)	(88.95)	(87.79)	(71.60)
	(10.26)	**0.01**	**75.96**	**93.81**	**97.12**	**106.79**

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

Authorised limit for external debt:

4.12 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.

4.13 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.

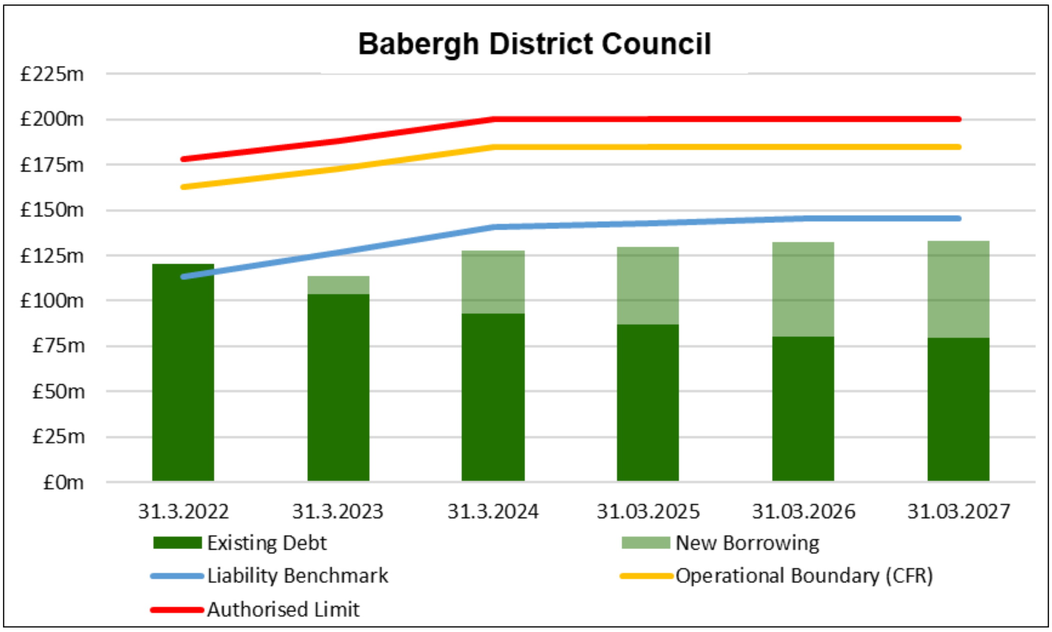
Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt

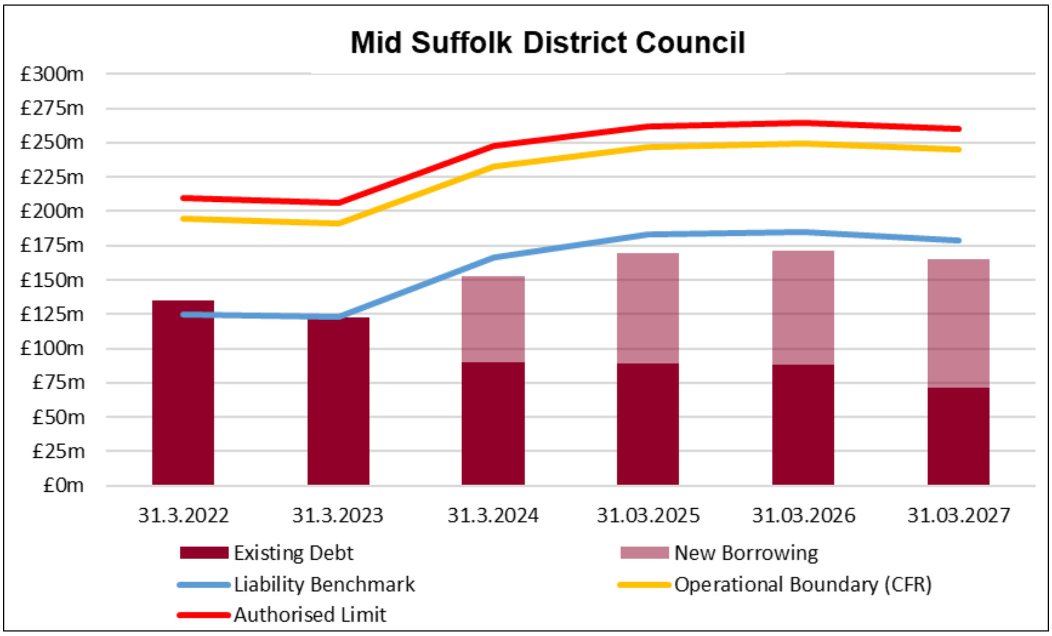
Operational Boundary & Authorised Limit					
Babergh District Council	2022/23 Limit £m	2023/24 Limit £m	2024/25 Limit £m	2025/26 Limit £m	2026/27 Limit £m
Operational Boundary	173	185	185	185	185
Authorised Limit	188	200	200	200	200
Ratio of Debt to Authorised Limit	64.0%	68.4%	71.7%	71.4%	72.1%

Operational Boundary & Authorised Limit					
Mid Suffolk District Council	2022/23 Limit £m	2023/24 Limit £m	2024/25 Limit £m	2025/26 Limit £m	2026/27 Limit £m
Operational Boundary	191	233	247	249	245
Authorised Limit	206	248	262	264	260
Ratio of Debt to Authorised Limit	65.7%	57.8%	63.8%	69.0%	71.0%

4.14 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





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

Joint Treasury Investment Strategy:

4.16 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 this results in the Councils need to borrow.

4.17 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.

4.18 **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**.**

4.19 **Governance:**

Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director, Corporate Resources (the S151 Officer) and staff, who must act in line with the treasury management strategy approved by full Council. Half yearly and annual reports on treasury management activity have been 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 invest in the Growth companies for the purpose of the development of housing schemes and regeneration.

6. Liabilities:

6.1 In addition to debt of £143.37m for Babergh and £167.19m for Mid Suffolk, as detailed in Table 6 above for 2023/24, the Councils are committed to making future payments to cover their pension fund deficits. On 31 March 2022 Babergh's deficit was valued at £17.63m and Mid Suffolk's was £27.706m, with contributions of £0.487m for Babergh and £0.785m for Mid Suffolk due in 2022/23.

Governance:

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

7. <u>Revenue Budget Implications</u>

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

7.2 For Babergh the maximum cost is 25.87% and for Mid Suffolk it is 19.39% in 2026/27 for the General Fund, as shown in Table 9 below. For the HRA the levels (gross costs) are lower due to the link to the debt associated with the Councils' housing stock.

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

Proportion of Gross Financing Costs to Net Revenue Stream					
Babergh District Council	**2022/23 Forecast Outturn**	**2023/24 Budget**	**2024/25 Forecast**	**2025/26 Forecast**	**2026/27 Forecast**
General Fund -					
Gross Financing costs £m	1.90	3.11	3.50	3.68	3.79
Proportion of net revenue stream %	13.63%	20.40%	22.13%	25.10%	25.87%
Council Housing (HRA) -					
Financing costs £m	3.16	3.11	3.18	3.35	3.47
Proportion of net revenue stream %	18.06%	16.31%	16.19%	16.57%	16.66%

Proportion of Gross Financing Costs to Net Revenue Stream					
Mid Suffolk District Council	**2022/23 Forecast Outturn**	**2023/24 Budget**	**2024/25 Forecast**	**2025/26 Forecast**	**2026/27 Forecast**
General Fund -					
Gross Financing costs £m	2.18	3.00	3.18	3.29	3.41
Proportion of net revenue stream %	12.31%	16.26%	16.40%	19.03%	19.39%
Council Housing (HRA) -					
Financing costs £m	3.21	3.31	4.20	4.60	4.65
Proportion of net revenue stream %	20.92%	19.82%	24.36%	25.91%	25.38%

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	**2022/23 Forecast Outturn £**	**2023/24 Budget £**	**2024/25 Forecast £**	**2025/26 Forecast £**	**2026/27 Forecast £**
Increase in average weekly rents	14.51	14.45	6.31	0.57	1.22

Mid Suffolk District Council	**2022/23 Forecast Outturn £**	**2023/24 Budget £**	**2024/25 Forecast £**	**2025/26 Forecast £**	**2026/27 Forecast £**
Increase in average weekly rents	7.34	10.14	7.75	11.45	11.64

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 2023.

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 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 Director - Corporate Resources is an ACCA qualified accountant with over 20 years' experience and the Corporate Manager – Finance, Commissioning and Procurement is a CIPFA qualified accountant with over 15 years' experience. The Council employs the Director – Assets and Investments, who is a qualified chartered surveyor (MRICS) with over of 20 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 the Growth Companies were appointed and Hamson Barron Smith are used for all technical support. 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 2023/24

1. Introduction

1.1 The Councils invest their money for three 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 and stimulate local economic growth 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).

1.2 This Joint Investment Strategy is for 2023/24, meets the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories.

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 Full details of the Councils' policies and its plan for 2023/24 for treasury management investments are covered in a separate document, the treasury management strategy, available 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 purpose of regeneration and economic development, whilst also generating income that will be spent on local public services.

3.3 The current and future property 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 and planned maintenance 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 £7m is included in the capital programme. The scheme commenced in August 2022..

- **Hadleigh A1071 Roadside Commercial Workspace Development**

  - 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 multiple units with leases agreed with PureGym and Papa Johns for two of the units. Further improvements are currently being undertaken to the other unit with a view to having occupants in during 2023/24.

- **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 £2.8m 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. Phase 1 was completed in 2021/22 with all market and affordable homes now let and sold. Phase 2 will commence in the Spring 2023. 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	2021/22 Cumulative Actual £m	2022/23 Forecast Outturn £m	2023/24 Budget £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m
Borehamgate, Sudbury	3.65	3.89	3.95	4.01	4.07	4.13
Former Council Offices, Hadleigh	0.60	3.44	3.44	3.44	3.44	3.44
A1071 Economic Development, Hadleigh	0.00	0.10	2.08	2.08	2.08	2.08
Total	**4.26**	**7.43**	**9.47**	**9.53**	**9.59**	**9.65**

Cumulative Expenditure on Property Investments						
Mid Suffolk District Council	2021/22 Cumulative Actual £m	2022/23 Forecast Outturn £m	2023/24 Budget £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m
Former Council Offices, Needham Market	1.44	1.69	1.69	1.69	1.69	1.69
Former Retail Site, Stowmarket	1.88	2.05	2.05	2.05	2.05	2.05
11 Market Place, Stowmarket	0.36	0.36	0.36	0.36	0.36	0.36
Total	**3.68**	**4.11**	**4.11**	**4.11**	**4.11**	**4.11**

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.

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 2022/23 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:

- For the development of the council offices the Growth Companies were appointed and Hamson Barron Smith used for all technical support.
- 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 multiple units with leases agreed with PureGym and Papa Johns for two of the units. Further improvements are currently being undertaken to the other unit with a view to having occupants in during 2023/24.

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: 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 generating a rate of return or improving the local economy.

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 complied with subsidy control 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

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. There will be no further purchases from this tranche.

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. Although CIFCO Ltd may sell assets and reinvest to make changes to the portfolio, there is not expected to be further investment by the Councils for property purchases beyond 2020/21.

Gateway 14 Ltd

4.7 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. 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.

4.8 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, £4.5m in 2021/22 and £7m as at end of November 2022. In December 2022 Gateway 14 repaid £24.4m of the principal debt to the Council.

4.9 Further details on this project can be found in 4.21 and 4.22 below.

Babergh Growth Ltd

4.10 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 purpose of delivering the housing development at the former council offices at Hadleigh and other residential and mixed used schemes in the future. The Council has invested in £5k of shares in the company.

Mid Suffolk Growth Ltd

4.11 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 purpose of delivering the housing development at the former council offices at Needham Market and other residential and mixed used schemes in the future. The Council has invested in £5k of shares in the company.

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

Cumulative Investments through Shares and Loans							
Babergh District Council	2021/22 Total Invested £m	2021/22 Cumulative Actual £m	2022/23 Forecast Outturn £m	2023/24 Budget £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m
CIFCO Ltd (1)	27.50	25.66	25.53	25.40	25.25	25.10	24.95
CIFCO Ltd (2)	23.49	23.38	23.27	23.17	23.05	22.93	22.80
Babergh Growth Company	0.00	0.00	0.50	4.25	3.75	0.00	0.00
Total	**50.99**	**49.04**	**49.31**	**52.81**	**52.05**	**48.03**	**47.75**
Investment in Shares	4.96	4.96	4.96	4.96	4.96	4.96	4.96
Investment through Loans	46.03	44.08	44.35	47.85	47.10	43.07	42.79
Total	**50.99**	**49.04**	**49.31**	**52.81**	**52.05**	**48.03**	**47.75**

Cumulative Investments through Shares and Loans							
Mid Suffolk District Council	2021/22 Total Invested £m	2021/22 Cumulative Actual £m	2022/23 Forecast Outturn £m	2023/24 Budget £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m
CIFCO Ltd (1)	27.50	25.66	25.53	25.40	25.25	25.10	24.95
CIFCO Ltd (2)	23.49	23.38	23.27	23.17	23.05	22.93	22.80
Gateway 14 Ltd	25.76	24.56	7.18	7.18	2.18	2.18	2.18
Mid Suffolk Growth Company	0.00	0.00	0.00	5.25	4.81	3.50	0.00
Total	**76.75**	**73.60**	**55.98**	**60.99**	**55.29**	**53.71**	**49.93**
Investment in Shares	6.58	6.58	6.58	6.58	6.58	6.58	6.58
Investment through Loans	70.17	67.02	49.40	54.41	48.71	47.13	43.35
Total	**76.75**	**73.60**	**55.98**	**60.99**	**55.29**	**53.71**	**49.93**

Risk Assessment:

4.13 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 does not generate the income expected.

4.14 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.

4.15 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.

CIFCO Ltd

4.16 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.

4.17 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.

4.18 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.

4.19 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.

4.20 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

4.21 Gateway 14 Ltd was established by Mid Suffolk DC in 2017 to deliver the development of land known as Gateway 14 in Stowmarket, for the purpose of regenerating the area and economic development. Jaynic was appointed as Development manager in 2020.

4.22 Gateway 14 is now in the delivery phase of the development with infrastructure works due to complete Spring 2023. Contracts have been exchanged for the sale of a large distribution unit, due to be completed in December 2023.

Liquidity:

4.23 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 Profit generating investment activity has enabled Babergh to achieve a balanced revenue budget. In the medium term both Councils will have some dependency on profit generating activity. 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	2021/22 Actual £m	2022/23 Forecast Outturn £m	2023/24 Budget £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m
Gross service expenditure	31.96	33.03	34.33	34.26	34.84	35.45
Gross Investment income	2.65	2.75	2.77	2.77	2.77	2.77
Proportion	**8.30%**	**8.33%**	**8.07%**	**8.09%**	**7.95%**	**7.82%**

Proportionality of Investments						
Mid Suffolk District Council	2021/22 Actual £m	2022/23 Forecast Outturn £m	2023/24 Budget £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m
Gross service expenditure	34.22	31.42	33.91	33.65	34.27	34.93
Gross Investment income	3.89	4.63	3.14	3.14	3.14	3.14
Proportion	**11.36%**	**14.74%**	**9.27%**	**9.34%**	**9.17%**	**8.99%**

6. Borrowing in Advance of Need

CIPFA Prudential Code

6.1 The 2021 Prudential Code states that “local authorities must not borrow to invest primarily for financial return”.

6.2 The underlying need to borrow is reflected in the CFR adjusted for long term liabilities (see Appendix A Table 4). Neither Council plans to borrow above its CFR which is in accordance with the Prudential Code.

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 Tax payers.
- 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	2021/22 Actual £m	2022/23 Forecast Outturn £m	2023/24 Budget £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m
Treasury Management Investments	12.84	13.03	13.00	13.00	13.00	13.00
Capital Investments	53.30	56.74	62.28	61.58	57.62	57.40
Total Exposure	**66.13**	**69.76**	**75.28**	**74.58**	**70.62**	**70.40**

Cumulative Investment Exposure						
Mid Suffolk District Council	2021/22 Actual £m	2022/23 Forecast Outturn £m	2023/24 Budget £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m
Treasury Management Investments	13.50	13.53	13.50	13.50	13.50	13.50
Capital Investments	77.28	60.09	65.10	59.40	57.82	54.03
Total Exposure	**90.78**	**73.62**	**78.60**	**72.90**	**71.32**	**67.53**

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 2023/24 is forecast to be £56.6m for Babergh and £59.9m for Mid Suffolk as shown in Table 5 that follows.

9.5 Table 5: Investments funded by borrowing

Cumulative investments funded by borrowings						
Babergh District Council	**2021/22 Actual £m**	**2022/23 Forecast Outturn £m**	**2023/24 Budget £m**	**2024/25 Forecast £m**	**2025/26 Forecast £m**	**2026/27 Forecast £m**
Capital Investments	53.30	56.74	62.28	61.58	57.62	57.40
Total Funded by borrowing	**53.30**	**56.74**	**62.28**	**61.58**	**57.62**	**57.40**

Cumulative investments funded by borrowings						
Mid Suffolk District Council	**2021/22 Actual £m**	**2022/23 Forecast Outturn £m**	**2023/24 Budget £m**	**2024/25 Forecast £m**	**2025/26 Forecast £m**	**2026/27 Forecast £m**
Capital Investments	77.28	60.09	65.10	59.40	57.82	54.03
Total Funded by borrowing	**77.28**	**60.09**	**65.10**	**59.40**	**57.82**	**54.03**

Rate of return received:

9.6 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	**2021/22 Actual %**	**2022/23 Forecast Outturn %**	**2023/24 Budget %**	**2024/25 Forecast %**	**2025/26 Forecast %**	**2026/27 Forecast %**
Treasury Management Investments	2.40	2.50	2.91	2.91	2.91	2.91
Other Capital Investments	3.89	3.69	3.69	3.69	3.69	3.69
CIFCO Ltd	3.97	3.77	2.17	2.18	2.19	2.21
Babergh Growth Company	0.00	0.37	0.50	0.84	2.68	2.77
All investments (Average)	**3.87**	**3.77**	**2.24**	**2.38**	**2.50**	**2.41**

Investments net rate of return						
Mid Suffolk District Council	**2021/22 Actual %**	**2022/23 Forecast Outturn %**	**2023/24 Budget %**	**2024/25 Forecast %**	**2025/26 Forecast %**	**2026/27 Forecast %**
Treasury Management Investments	2.62	3.03	3.03	3.03	3.03	3.03
CIFCO Ltd	3.47	3.30	2.64	2.66	2.67	2.69
Gateway 14 Ltd	5.53	7.21	4.24	4.55	4.24	4.24
Mid Suffolk Growth Company	1.13	1.13	3.95	5.89	5.82	2.38
All investments (Average)	**4.08**	**4.50**	**3.09**	**3.34**	**3.58**	**3.36**

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 part or in full.

APPENDIX C: JOINT TREASURY MANAGEMENT STRATEGY 2023/24

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 2021 (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 2021 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 2023/24 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 treasury investments will be made at an average rate of between 1.08% and 1.16%, and that new long-term loans will be borrowed at an average rate between 4.4% and 4.7%

Capital Financing Requirement

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

3.3 On 30 November 2022, Babergh held £113.12m of borrowing and £18.34m of investments, Mid Suffolk held £135.28m of borrowing and £16.32m 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	**2021/22 Actual £m**	**2022/23 Forecast Outturn £m**	**2023/24 Budget £m**	**2024/25 Forecast £m**	**2025/26 Forecast £m**	**2026/27 Forecast £m**
Capital Financing Requirement	165.58	172.90	185.28	184.52	184.95	184.87
Less: Other Debt Liabilities *	0.00	0.00	0.00	(0.06)	(0.02)	0.00
Loans CFR	**165.58**	**172.90**	**185.28**	**184.46**	**184.93**	**184.87**
Less: External Borrowing**	(120.40)	(103.84)	(93.28)	(86.71)	(80.12)	(79.53)
Internal (Over) Borrowing (Cumulative)	**45.19**	**69.05**	**92.00**	**97.75**	**104.81**	**105.34**
Less: Balances Sheet Resources	(64.88)	(59.33)	(57.67)	(54.65)	(52.76)	(52.18)
(Treasury Investments) / New Borrowing Requirement	**(19.70)**	**9.73**	**34.33**	**43.10**	**52.06**	**53.16**

Cumulative Capital Financing Requirement						
Mid Suffolk	**2021/22 Actual £m**	**2022/23 Forecast Outturn £m**	**2023/24 Budget £m**	**2024/25 Forecast £m**	**2025/26 Forecast £m**	**2026/27 Forecast £m**
Capital Financing Requirement	195.52	191.19	232.68	247.42	249.07	244.62
Less: Other Debt Liabilities *	0.00	0.00	0.00	(0.06)	(0.02)	0.00
Loans CFR	**195.52**	**191.19**	**232.68**	**247.36**	**249.05**	**244.62**
Less: External Borrowing**	(135.34)	(122.73)	(90.10)	(88.95)	(87.79)	(71.60)
Internal (Over) Borrowing (Cumulative)	**60.18**	**68.47**	**142.58**	**158.40**	**161.26**	**173.03**
Less: Balances Sheet Resources	(83.94)	(81.98)	(80.12)	(78.10)	(77.64)	(79.74)
(Treasury Investments) / New Borrowing Requirement	**(23.76)**	**(13.52)**	**62.46**	**80.31**	**83.62**	**93.29**

* 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 over the medium term due to the requirements of the capital programme and reduction in balances. Babergh will therefore need to borrow up to £53.1m and Mid Suffolk up to £93.3m 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.

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

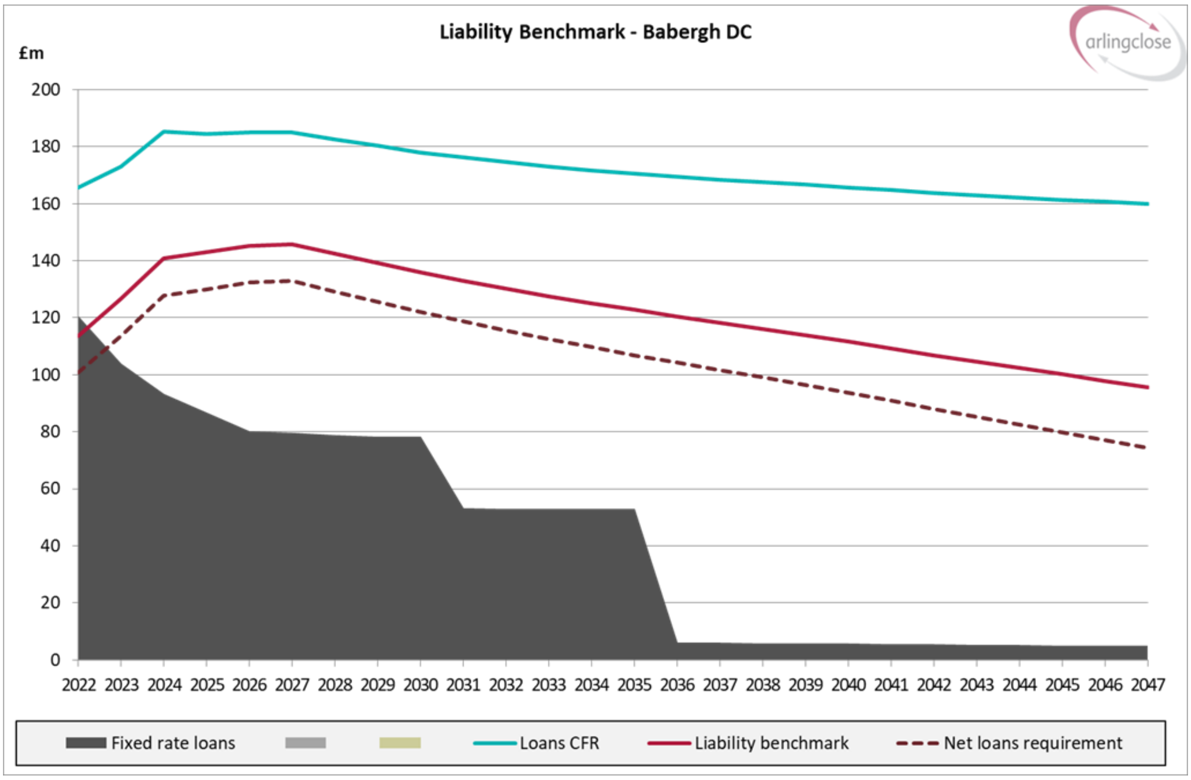
Table 2: Prudential Indicator: Liability Benchmark

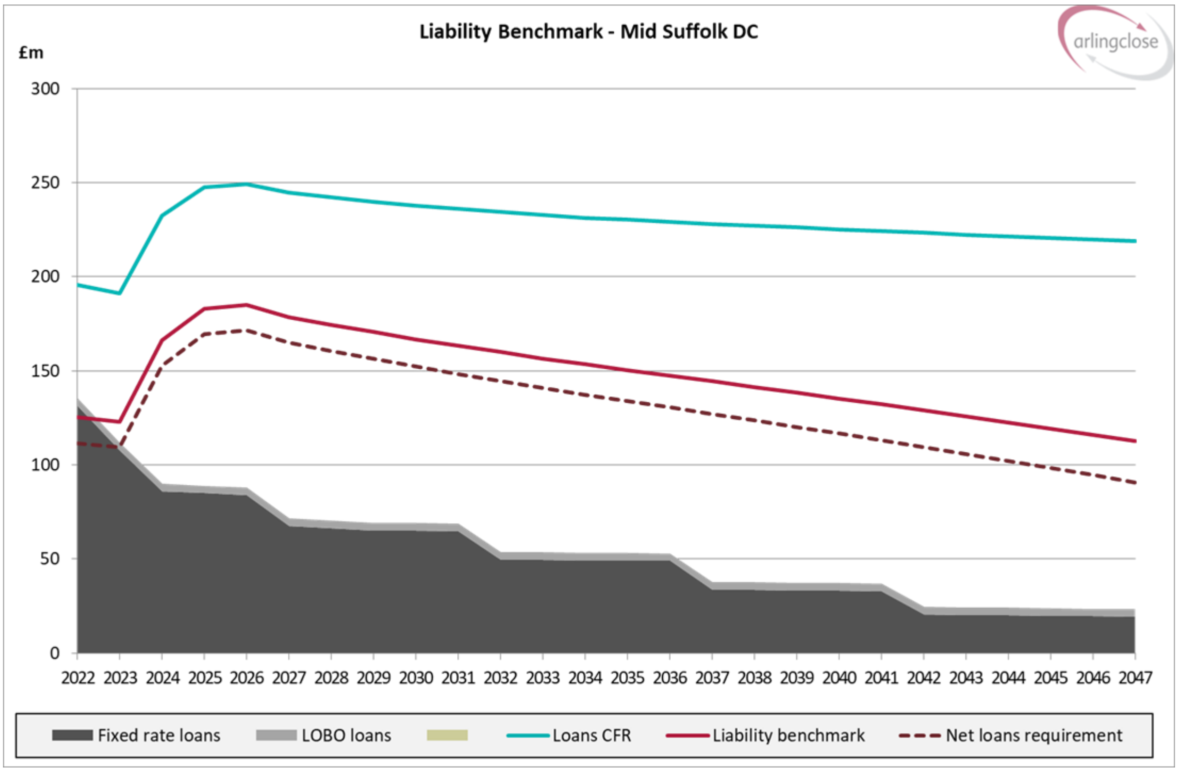
Liability Benchmark						
Babergh	2021/22 Actual £m	2022/23 Forecast Outturn £m	2023/24 Budget £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m
External Borrowing	120.40	103.84	93.28	86.71	80.12	79.53
(Investments) / New Borrowing	(19.70)	9.73	34.33	43.10	52.06	53.16
Net Loans Requirement	**100.70**	**113.57**	**127.61**	**129.81**	**132.18**	**132.69**
Minimum Investments/Liquidity Allowance	12.84	13.03	13.00	13.00	13.00	13.00
Liability Benchmark	**113.53**	**126.59**	**140.61**	**142.81**	**145.18**	**145.69**

Liability Benchmark						
Mid Suffolk District Council	2021/22 Actual £m	2022/23 Forecast Outturn £m	2023/24 Budget £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m
External Borrowing	135.34	122.73	90.10	88.95	87.79	71.60
(Investments) / New Borrowing	(23.76)	(13.52)	62.46	80.31	83.62	93.29
Net Loans Requirement	**111.58**	**109.21**	**152.57**	**169.26**	**171.41**	**164.89**
Minimum Investments/Liquidity Allowance	13.50	13.53	13.50	13.50	13.50	13.50
Liability Benchmark	**125.08**	**122.74**	**166.07**	**182.76**	**184.91**	**178.39**

3.9 Following on from the medium-term forecasts in Table 2 above, the long-term liability benchmark assumes no additional capital expenditure funded by borrowing, and income, expenditure and reserves all increasing by inflation of 2.5% a year. This is shown in the chart below together with the maturity profile of the Councils' existing borrowing:

3.10 **Table 2: Chart: Liability Benchmark**





4. Borrowing Strategy

Overview

4.1 As at 30 November 2022 Babergh held loans of £113.12m and Mid Suffolk £135.28m. These have increased by £5.55m for Babergh and £2.4m 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 could need to borrow up to £34.3m and Mid Suffolk could borrow up to £62.46m in 2023/24. The Councils may borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £200m for Babergh and £248m 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 2023/24 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 2023/24 and beyond in order to retain its access to PWLB loans.

4.9 Alternatively, the Councils may arrange forward starting loans during 2023/24, 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

Other sources of debt finance

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

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

Municipal Bonds Agency

4.13 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

4.14 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.

The Council has two loans and they both have options during 2023/24. Interest rates are currently 4.2% on £2m and 4.22% on £2m and with interest rates having risen recently, there is now a reasonable chance that lenders will exercise their options. If they do, the Council will take the option to repay LOBO loans to reduce refinancing risk in later years, by taking out equivalent loans from PWLB. Total borrowing via LOBO loans will be limited to £4m.

Short-term and variable rate loans

4.15 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.

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 2023/24 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. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

5. 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 £14.3m and £26.1m. Mid Suffolk's treasury investment balances ranged between £12.3m and £27.3m

5.2 Balances fluctuated more than in previous years due to timing differences between funding to support Covid19 and Council Tax energy rebate 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 notice or up to six months' notice for the property fund.

5.5 Where balances are expected to be invested for more than one year, the Councils will aim to achieve a total return that is equal to or higher than the prevailing rate of inflation (in order to maintain the spending power of the sum invested). The Councils aim to be responsible investors and will consider environmental, social and governance (ESG) issues when investing.

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	31.03.2022 Actual £m	31.03.2023 Forecast Outturn £m	31.03.2024 Budget £m	31.03.2025 Forecast £m	31.03.2026 Forecast £m	31.03.2027 Forecast £m
Long Term Investments	11.11	11.03	11.00	11.00	11.00	11.00
Cash and Cash Equivalents	1.73	2.00	2.00	2.00	2.00	2.00
Total TM Investments	**12.84**	**13.03**	**13.00**	**13.00**	**13.00**	**13.00**

Treasury Management Investments Mid Suffolk District Council	31.03.2022 Actual £m	31.03.2023 Forecast Outturn £m	31.03.2024 Budget £m	31.03.2025 Forecast £m	31.03.2026 Forecast £m	31.03.2027 Forecast £m
Short Term Investments	0.50	0.50	0.50	0.50	0.50	0.50
Long Term Investments	11.10	11.03	11.00	11.00	11.00	11.00
Cash and Cash Equivalents	1.90	2.00	2.00	2.00	2.00	2.00
Total TM Investments	**13.50**	**13.53**	**13.50**	**13.50**	**13.50**	**13.50**

Governance – Treasury Management:

5.7 Decisions on treasury management investment and borrowing are made daily and are delegated to the 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 will be Joint half Yearly and Joint Annual Outturn Reports on treasury management activity presented to Council and treasury management indicators reports to Cabinet on a quarterly basis. The Joint Audit and Standards Committee is responsible for scrutinising treasury management decisions.

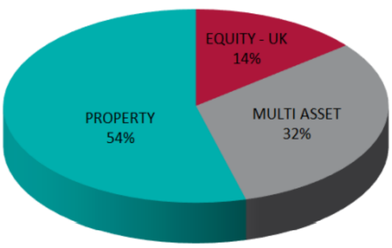
Strategy

5.9 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.

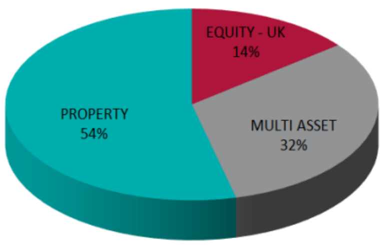
5.10 The value of these funds can fluctuate and they are therefore considered to be long term investments. The Councils have invested in a number of strategic pooled funds, across a variety of asset classes to minimise risk, as shown below.

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

Babergh



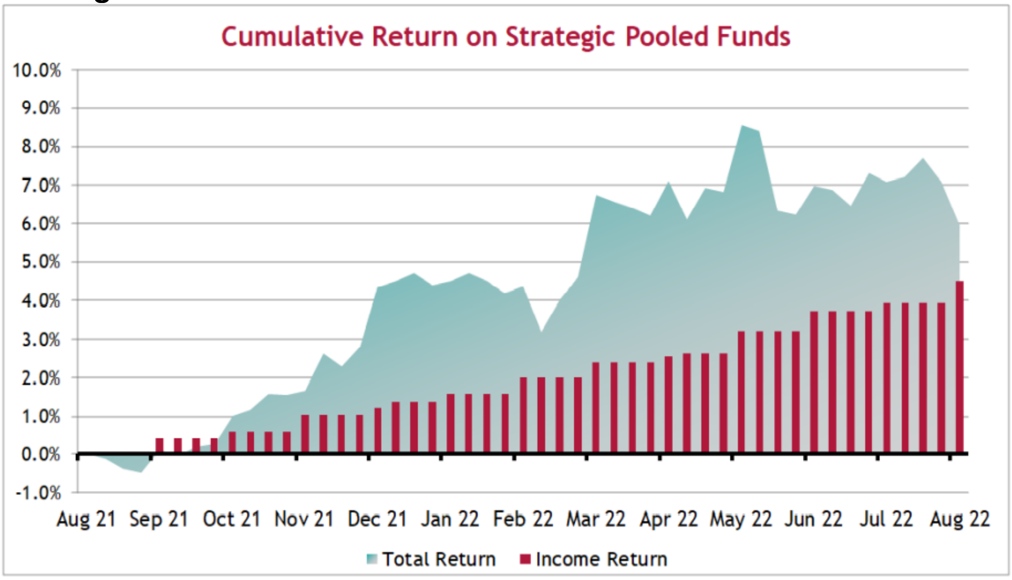
Mid Suffolk



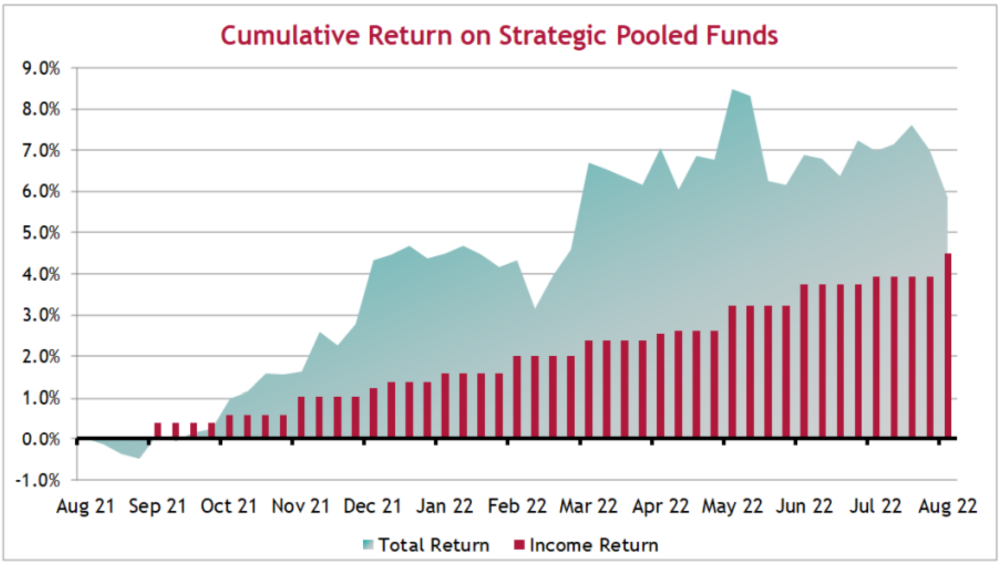
5.11 Although these funds have incurred unrealised capital losses, the overall total return for each has been positive with a total return of 5.94% for Babergh and 5.86% for Mid Suffolk in 2021/22 as illustrated in the following charts:

Chart 2: Cumulative return on strategic pooled funds

Babergh



Mid Suffolk



Environment, social and governance (ESG) policy

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

5.13 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.

5.14 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

5.15 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.

5.16 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.

5.17 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. An update on monitoring of ESG and information about funds will be provided at the next meeting.

Business Models

5.18 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

5.19 The minimum proposed investment criteria for UK counterparties in the 2023/24 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).

5.20 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	3 years	Unlimited	n/a
Babergh & Mid Suffolk District Councils	3 years	£5m	100%
Local authorities & other government entities	3 years	£2m	100%
Secured investments *	3 years	£2m	100%
Banks (unsecured) *	13 months	£2m	100%
Building societies (unsecured) *	13 months	£2m	25%
Registered providers (unsecured) *	3 years	£1m	25%
Money market funds *	n/a	£2m	100%
Strategic pooled funds	n/a	£5m	100%
Other investments *	3 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 3 years.

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

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

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

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

5.21 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

5.22 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.

5.23 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.

5.24 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

5.25 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 they invest, 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.

5.26 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.

5.27 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

5.28 The Councils' total General Fund reserves available to cover investment losses are forecast to be £13.8m for Babergh and £24.2m for Mid Suffolk on 31 March 2023. 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.

5.29 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.

5.30 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

5.31 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 their financial commitments. Limits on long-term investments are set by reference to the Councils medium-term budget planning and cash flow forecasts.

5.32 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 internally managed investment portfolios (i.e. excluding external pooled funds). 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 2022 were Babergh 5.20 and Mid Suffolk 5.35 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	**2023/24 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:

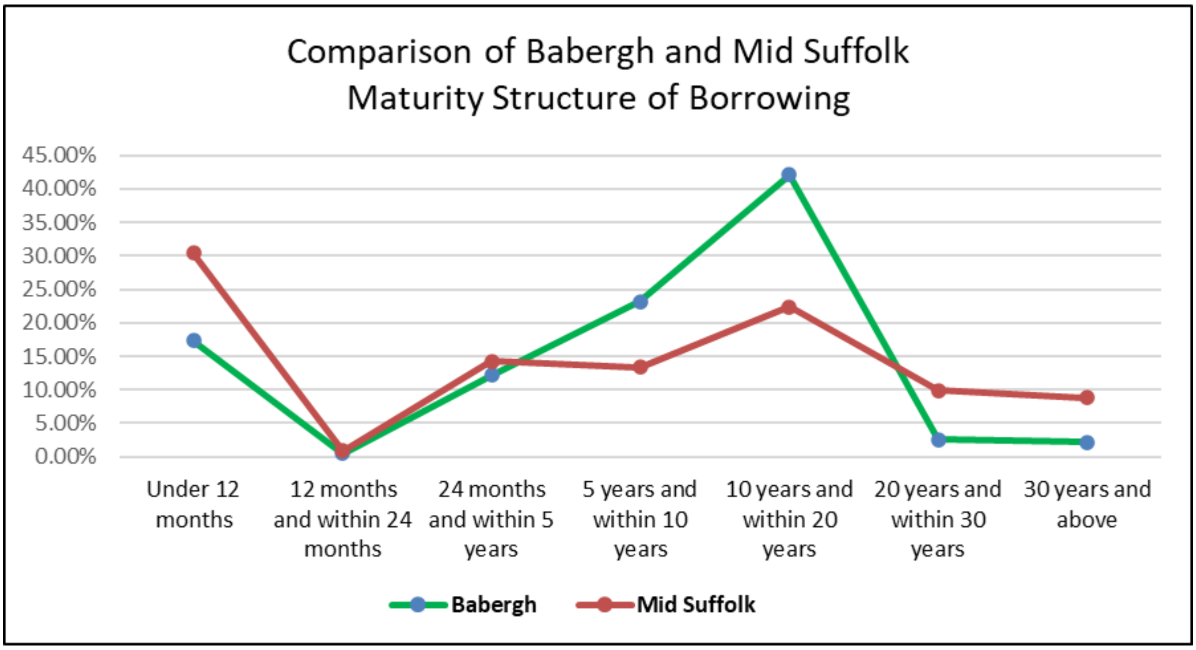
Interest rate risk indicator	
Upper impact on Revenue of a 1% increase in rates	**2023/24 Limit £m**
Babergh District Council	0.038
Mid Suffolk District Council	0.039

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 30.11.2022 Proportion	Mid Suffolk 30.11.2022 Proportion	Lower Limit %	Upper Limit %
Under 12 months	17.29%	30.41%	0.00	50.00
12 months and within 24 months	0.50%	0.87%	0.00	50.00
24 months and within 5 years	12.17%	14.23%	0.00	50.00
5 years and within 10 years	23.17%	13.37%	0.00	100.00
10 years and within 20 years	42.11%	22.40%	0.00	100.00
20 years and within 30 years	2.60%	9.89%	0.00	100.00
30 years and above	2.16%	8.83%	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. <u>Long Term treasury management investments</u>

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

Price risk indicator				
Limit on principal invested beyond year end	2022/23	2023/24	2024/25	No fixed maturity date
	Limit	Limit	Limit	Limit
	£m	£m	£m	£m
Babergh District Council	£2m	£2m	£2m	£11.1m
Mid Suffolk District Council	£2m	£2m	£2m	£11.1m

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

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 2023/24 is £2.78m for Babergh and £3.15m for Mid Suffolk, based on an average investment portfolio of £73.4m for Babergh and £104.9m Mid Suffolk. The average return is 3.79% for Babergh and 3% for Mid Suffolk.

6.10 The budget for debt interest payable in 2023/24 is £4.5m for Babergh and £4.8m for Mid Suffolk, based on an average debt portfolio of £143.4m for Babergh and £167.2m for Mid Suffolk. The average cost is 3.17% for Babergh and 2.88% 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

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 (JANUARY 2023)

1 Economic background

1.1 The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Councils treasury management strategy for 2023/24.

1.2 The Bank of England (BoE) increased Bank Rate by 0.5% to 3.5% in December 2022. This followed a 0.75% rise in November, which was the largest single rate hike since 1989 and the ninth successive rise since December 2021. The December decision was voted for by a 6 to 3 majority of the Monetary Policy Committee (MPC), with two dissenters voting for a no-change at 3% and one for a larger rise of 0.75%.

1.3 The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected to remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

1.4 The UK economy grew by 0.3% between July and September 2022, according to the Office for National Statistics, and the BoE forecasts Gross Domestic Product (GDP) will decline by 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.

1.5 Consumer Price Inflation (CPI) is expected to have peaked at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets at the time of the November MPR (a peak of 5.25%). However, the BoE has stated it considered this path to be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target. Market rates have fallen since the time of the November MPR.

1.6 The labour market remains tight for now, with the most recent statistics showing the unemployment rate was 3.7%, Earnings were up strongly in nominal terms by 6.1% for both total pay and for regular pay but factoring in inflation means real pay for both measures was -2.7%. Looking forward, the November MPR shows the labour market weakening in response to the deteriorating outlook for growth, leading to the unemployment rate rising to around 6.5% in 2025.

1.7 Interest rates have also been rising sharply in the US, with the Federal Reserve increasing the range on its key interest rate by 0.5% in December 2022 to 4.25% - 4.5%. This rise follows four successive 0.75% rises in a pace of tightening that has seen rates increase from 0.25% - 0.50% in March 2022. Annual inflation has been slowing in the US but remains above 7%. GDP grew at an annualised rate of 3.2% (revised up from 2.9%) between July and September 2022, but with official interest rates expected to rise even further in the coming months, a recession in the region is widely expected at some point during 2023.

1.8 Inflation rose consistently in the Euro Zone since the start of the year, hitting a peak annual rate of 10.6% in October 2022, before declining to 10.1% in November. Economic growth has been weakening with an upwardly revised expansion of 0.3% (from 0.2%) in the three months to September 2022. As with the UK and US, the European Central Bank has been on an interest rate tightening cycle, pushing up its three key interest rates by 0.5% in December, following two consecutive 0.75% rises, taking its main refinancing rate to 2.5% and deposit facility rate to 2.0%.

2 Credit outlook

2.1 Credit default swap (CDS) prices have generally followed an upward trend throughout 2022, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic.

2.2 CDS price volatility was higher in 2022 compared to 2021 and the divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities has emerged once again.

2.3 The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them to negative from stable.

2.4 There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability.

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

3 Interest Rate Forecast (December 2022)

3.1 The Councils treasury management adviser, Arlingclose, forecasts that Bank Rate will continue to rise in 2022 and 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.

3.2 While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher.

3.3 Yields are expected to remain broadly at current levels over the medium-term, with 5, 10 and 20-year gilt yields expected to average around 3.5%, 3.5%, and 3.85% respectively over the 3-year period to December 2025. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

3.4 Table 1 Interest Rate Forecast

	Current	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25	1.25
Arlingclose Central Case	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.25	3.25	3.25	3.25
Downside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00
3-month money market rate													
Upside risk	0.00	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25	1.25
Arlingclose Central Case	3.00	4.40	4.40	4.40	4.35	4.30	4.25	4.00	3.75	3.50	3.40	3.40	3.40
Downside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00
5yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.43	3.60	3.80	3.80	3.80	3.70	3.60	3.50	3.40	3.30	3.30	3.30	3.30
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
10yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.47	3.50	3.60	3.60	3.60	3.60	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
20yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.86	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
50yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.46	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60	3.60
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

4 Underlying assumptions for the economy and interest rate forecast (at December 2022)

Underlying assumptions:

4.1 The influence of the mini budget on rates and yields continues to wane following the more responsible approach shown by the new incumbents of Downing Street.

4.2 Volatility in global markets continues, however, as investors seek the extent to which central banks are willing to tighten policy, as evidence of recessionary conditions builds. Investors have been more willing to price in the downturn in growth, easing financial conditions, to the displeasure of policymakers. This raises the risk that central banks will incur a policy error by tightening too much.

4.3 The UK economy is already experiencing recessionary conditions and recent GDP and PMI data suggests the economy entered a technical recession in Q3 2022. The resilience shown by the economy has been surprising, despite the downturn in business activity and household spending. Lower demand should bear down on business pricing power – recent data suggests the UK has passed peak inflation.

4.4 The lagged effect of the sharp tightening of monetary policy, and the lingering effects of the mini-budget on the housing market, widespread strike action, alongside high inflation, will continue to put pressure on household disposable income and wealth. The short- to medium-term outlook for the UK economy remains bleak.

4.5 Demand for labour appears to be ebbing, but not quickly enough in the official data for most MPC policymakers. The labour market remains the bright spot in the economy and persisting employment strength may support activity, although there is a feeling of borrowed time. The MPC focus is on nominal wage growth, despite the huge real term pay cuts being experienced by the vast majority. Bank Rate will remain relatively high(er) until both inflation and wage growth declines.

4.6 Global bond yields remain volatile as investors price in recessions even as central bankers push back on expectations for rate cuts in 2023. The US labour market remains tight and the Fed wants to see persistently higher policy rates, but the lagged effects of past hikes will depress activity more significantly to test the Fed's resolve.

4.7 While the BoE appears to be somewhat more dovish given the weak outlook for the UK economy, the ECB seems to harbour (worryingly) few doubts about the short-term direction of policy. Gilt yields will be broadly supported by both significant new bond supply and global rates expectations due to hawkish central bankers, offsetting the effects of declining inflation and growth.

Forecast:

4.8 The Monetary Policy Committee (MPC) MPC raised Bank Rate by 50bps to 3.5% in December as expected, with signs that some members believe that 3% is restrictive enough. However, a majority of members think further increases in Bank Rate might be required. Arlingclose continues to expect Bank Rate to peak at 4.25%, with further 25bps rises February, March and May 2023.

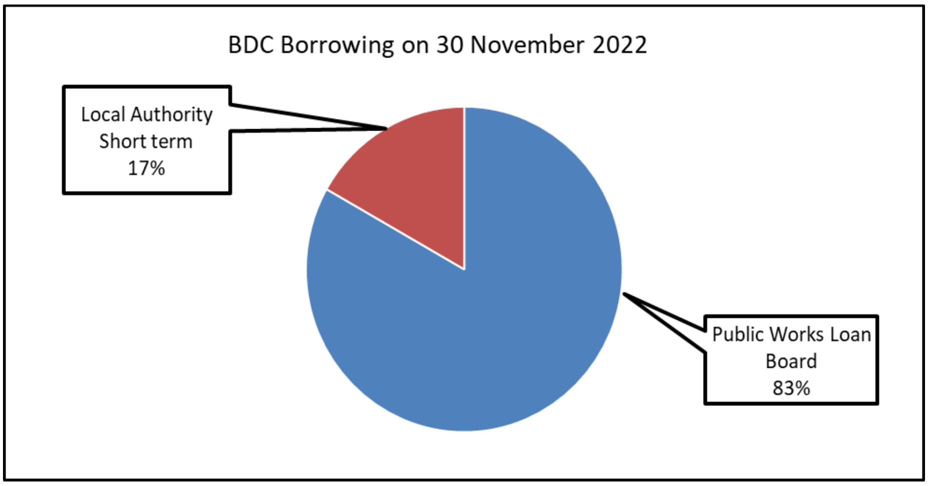
4.9 The MPC will cut rates in the medium term to stimulate a stuttering UK economy but will be reluctant to do so until wage growth eases. Arlingclose sees rate cuts in the first half of 2024.

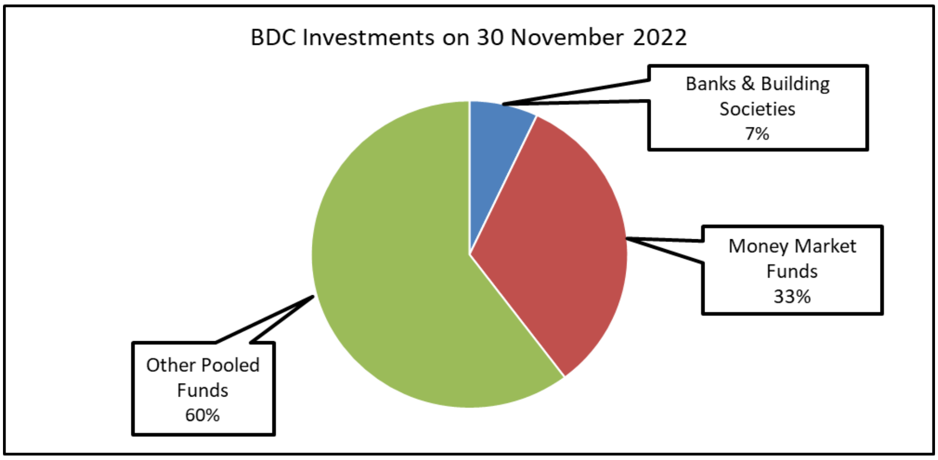
4.10 Arlingclose expects gilt yields to remain broadly steady over the medium term, although with continued volatility across shorter time periods.

4.11 Gilt yields face pressures to both sides from hawkish US/EZ central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales and high government borrowing will provide further underlying support for yields.

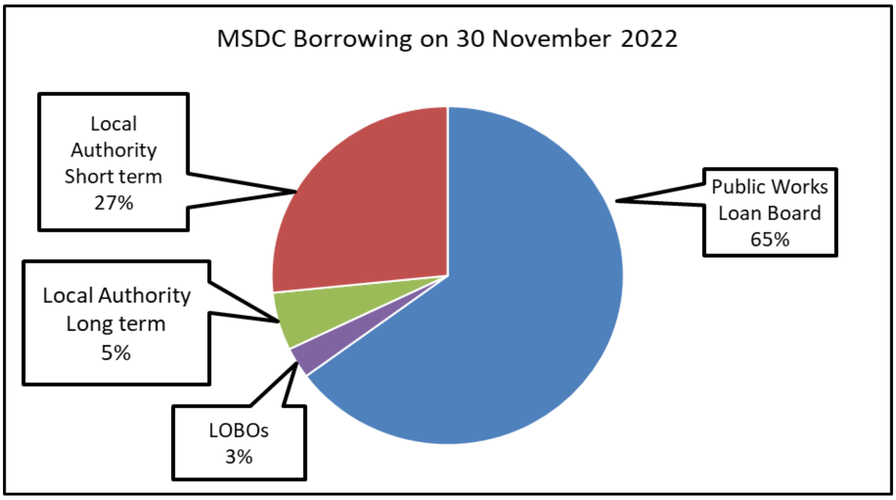
APPENDIX F: EXISTING INVESTMENT & DEBT PORTFOLIO POSITION

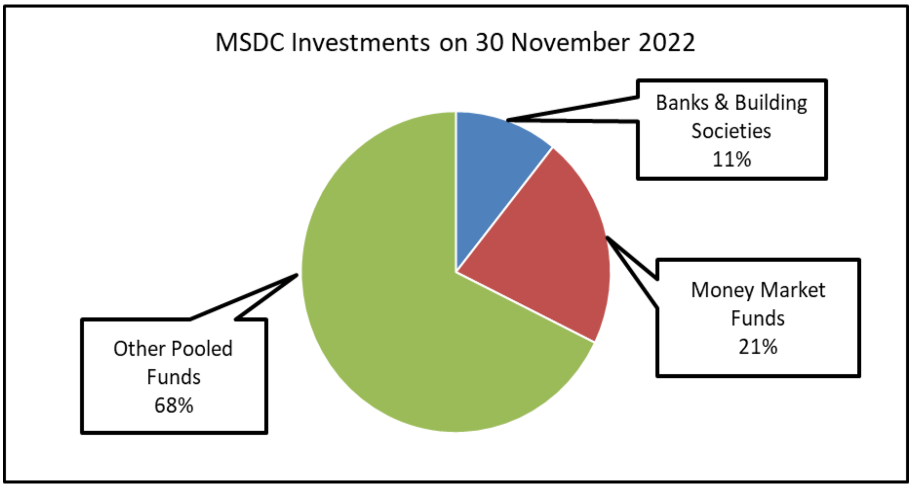
Babergh	30.11.2022 Portfolio £m	Average Rate %
External Borrowing:		
Public Works Loan Board	94.12	3.20%
Local Authority Short term	19.00	1.01%
Total External borrowing	**113.12**	2.83%
Treasury Investments:		
Banks & Building Societies	1.29	1.31%
Money Market Funds	6.00	1.08%
Other Pooled Funds	11.06	4.56%
Total Treasury Investments	**18.34**	3.20%
Net Debt	**94.78**	





Mid Suffolk	30.11.2022 Portfolio £m	Average Rate %
External Borrowing:		
Public Works Loan Board	87.78	3.30%
LOBOs	4.00	4.21%
Local Authority Long term	7.50	0.50%
Local Authority Short term	36.00	1.18%
Total External borrowing	**135.28**	2.61%
Treasury Investments:		
Banks & Building Societies	1.76	1.30%
Money Market Funds	3.50	1.16%
Other Pooled Funds	11.06	4.58%
Total Treasury Investments	**16.32**	3.49%
Net Debt	**118.97**	





1.1 For both Councils the majority of PWLB loans were taken out at the time of self-financing the HRA in 2012. The current repayment profiles of all of the HRA loans are shown in the tables that follow.

Babergh PWLB Loans for HRA as at 30/11/2022				
Start Date	**Amount £m**	**Rate (Fixed)**	**Annual Interest £m**	**Repayment Date**
26/01/2006	£ 1.10	3.70%	£ 0.04	26/01/2056
28/03/2012	£ 6.00	2.92%	£ 0.18	28/03/2026
28/03/2012	£ 46.65	3.42%	£ 1.60	28/03/2036
28/03/2012	£ 6.00	2.82%	£ 0.17	28/03/2025
28/03/2012	£ 25.00	3.26%	£ 0.82	28/03/2031
Total	**£ 84.75**		**£ 2.80**	

Mid Suffolk PWLB Loans for HRA as at 30/11/2022				
Start Date	**Amount £m**	**Rate (Fixed)**	**Annual Interest £m**	**Repayment Date**
21/09/1993	£ 1.00	7.88%	£ 0.08	27/07/2053
26/04/2007	£ 3.50	4.60%	£ 0.16	27/07/2047
26/04/2007	£ 3.50	4.55%	£ 0.16	27/07/2052
01/05/2007	£ 3.83	4.60%	£ 0.18	27/07/2053
28/03/2012	£ 15.00	3.01%	£ 0.45	28/03/2032
28/03/2012	£ 15.00	3.30%	£ 0.50	28/03/2027
28/03/2012	£ 12.21	3.44%	£ 0.42	28/03/2042
28/03/2012	£ 15.00	3.50%	£ 0.53	28/03/2037
Total	**£ 69.04**		**£ 2.47**	

APPENDIX G: TREASURY MANAGEMENT POLICY STATEMENT

1. <u>Introduction and Background</u>

1.1 The Councils adopt the key recommendations of the CIPFA Code of Practice on Treasury Management in Public Services 2021 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.

- Investment management practices (IMPs) for investments that are not for treasury management purposes

1.4 The content of the policy statement, TMPs and IMPs will follow the recommendations contained in Sections 6, 7 and 8 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 - Finance, Commissioning & Procurement, who will act in accordance with the Councils policy statement, the TMPs and IMPs 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 borrowing, investments and cash flows, including 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 comprehensive 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 2023/24

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 DLUHC's guidance 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 A charge to a revenue account for MRP cannot be a negative charge.

1.4 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.

1.5 The four MRP options available are:

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

1.6 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.

1.7 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).

1.8 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 2024 due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.

1.9 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.

1.10 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.

1.11 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.

1.12 Capital expenditure incurred during 2022/23 will not be subject to an MRP charge until 2023/24 and capital expenditure incurred during 2023/24 will not be subject to an MRP charge until 2024/25.

1.13 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.

1.14 Based on the Councils' latest estimates of their Capital Financing Requirements (CFR) on 31 March 2023, the budget for MRP for 2023/24 has been set as follows:

Estimated Capital Financing Requirement		
Babergh District Council	**31.3.2023 Estimated CFR £m**	**2023/24 Estimated MRP £m**
Capital expenditure before 01.04.2008	(0.38)	-
Unsupported capital expenditure after 31.3.2008	36.34	1.63
Transferred debt to HRA	(0.33)	-
Loans to other bodies repaid in instalments	44.36	-
Total General Fund	**80.00**	**1.63**
Assets in the Housing Revenue Account	13.47	-
HRA subsidy reform payment	79.10	-
Transferred debt from GF	0.33	-
Total Housing Revenue Account	**92.89**	**-**
Total CFR	**172.90**	**1.63**

Estimated Capital Financing Requirement		
Mid Suffolk District Council	**31.3.2023 Estimated CFR £m**	**2023/24 Estimated MRP £m**
Capital expenditure before 01.04.2008	7.97	0.09
Unsupported capital expenditure after 31.3.2008	27.73	1.48
Transferred debt to HRA	(1.75)	-
Loans to other bodies repaid in instalments	50.99	-
Total General Fund	**84.95**	**1.56**
Assets in the Housing Revenue Account	47.29	-
HRA subsidy reform payment	57.21	-
Transferred debt from GF	1.75	-
Total Housing Revenue Account	**106.24**	**-**
Total CFR	**191.19**	**1.56**

1.15 The relationship between the Councils CFR and MRP charges over the medium term are shown in the following table.

Comparison of MRP to CFR						
Babergh District Council	2021/22 Actual £m	2022/23 Forecast Outturn £m	2023/24 Budget £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m
MRP charged to General Fund Revenue	1.22	1.46	1.63	1.79	1.97	2.09
General Fund CFR	72.69	80.00	90.61	89.12	86.58	85.26
MRP as a Proportion of CFR	**1.7%**	**1.8%**	**1.8%**	**2.0%**	**2.3%**	**2.4%**

Comparison of MRP to CFR						
Mid Suffolk District Council	2021/22 Actual £m	2022/23 Forecast Outturn £m	2023/24 Budget £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m
MRP charged to General Fund Revenue	1.30	1.33	1.49	1.66	1.77	1.90
General Fund CFR	101.28	84.95	108.89	105.30	105.31	100.52
MRP as a Proportion of CFR	**1.3%**	**1.6%**	**1.4%**	**1.6%**	**1.7%**	**1.9%**

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 2022). 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**
UK BANKS	
Bank of Scotland PLC	A+
Barclays Bank PLC	A+
Barclays Bank UK PLC	A+
Handelsbanken PLC	AA
HSBC Bank PLC	AA-
HSBC UK Bank PLC	AA-
Lloyds Bank PLC	A+
National Westminster Bank	A+
Natwest Markets PLC	A+
Royal Bank of Scotland PLC	A+
Santander UK PLC	A+
Standard Chartered Bank	A+
UK BUILDING SOCIETIES	
Nationwide Building Society	A+
FOREIGN BANKS	
Australia	
Australia and NZ Banking Group	A+
Commonwealth Bank of Australia	A+
National Australia Bank	A+
Westpac Banking Group	A+
Canada	
Bank of Montreal	AA
Bank of Nova Scotia	AA
Canadian Imperial Bank of Commerce	AA
National Bank of Canada	AA-
Royal Bank of Canada	AA
Toronto-Dominion Bank	AAu
Finland	
Nordea Bank ABP	AA
Netherlands	
Cooperative Rabobank	AA-

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

1.3 MMFs – Federated is domiciled in the UK for tax and administration purposes. Goldman Sachs, Insight, Invesco, and BlackRock are domiciled in Ireland, and Aberdeen Standard is domiciled in Luxembourg 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.
SONIA	Sterling Overnight Index Average. The average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.
T Bills	Treasury Bill. A short-term Government Bond.
UBS	UBS Multi Asset Income Fund (UK) - a pooled fund

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