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AGENDA

COUNCIL MEETING

THURSDAY, 22ND FEBRUARY, 2024 – 5.30 PM

Members of the Council are summoned to a meeting of the Mid Suffolk District Council at King Edmund Chamber, Endeavour House, 8 Russell Road, Ipswich on Thursday, 22nd February, 2024 at 5.30 pm.

Arthur Charvonia
Chief Executive

	MSDC COUNCIL	
DATE:	**THURSDAY, 22 FEBRUARY 2024 5.30 PM**	
VENUE:	**KING EDMUND CHAMBER, ENDEAVOUR HOUSE, 8 RUSSELL ROAD, IPSWICH**	

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

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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 **MC/23/38 TO CONFIRM THE MINUTES OF THE MEETING HELD ON 25 JANUARY 2024** 7 - 22

4 **LEADER'S ANNOUNCEMENTS**

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

In accordance with Council Procedure Rule No. 11, the Chief Executive will report the receipt of any petitions.

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

The Chair of the Council to answer any questions from 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 12.

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

The Chair of the Council, Chairs 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 13.

8 **MC/23/39 EMPTY HOMES AND SECOND HOMES POLICY** 23 - 42

Cabinet Member for Housing and Property

9 **MC/23/40 GENERAL FUND BUDGET 2024-2025 AND FOUR-YEAR OUTLOOK** 43 - 84

Cabinet Member for Finance and Resources

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 7th February 2024, Cabinet considered Paper MCa/23/42, the General Fund Budget for 2024/25 and four-year outlook. Paper MC/23/40 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.

10 **MC/23/41 HOUSING REVENUE ACCOUNT (HRA) 2024/25 BUDGET** 85 - 100

Cabinet Member for Finance and Resources

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 7th February 2024, Cabinet considered Paper MCa/23/43, the Housing Revenue Account Budget for 2024/25. Paper MC/23/41 now includes all relevant updated information and the necessary recommendations.

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11 **MC/23/42 JOINT CAPITAL, INVESTMENT AND TREASURY MANAGEMENT STRATEGIES 2024-2025** 101 - 176

Joint Chair of Joint Audit and Standards Committee

At its meeting on 29th January 2024, Joint Audit and Standards Committee considered Paper JAC/23/19, the Joint Capital, Investment and Treasury Management Strategies. Paper MC/23/42 now includes all the relevant updated information, together with the necessary recommendations.

12 **COUNCILLOR APPOINTMENTS**

To agree the following appointments:

Named substitutes for Planning Committee
Colin Lay
David Penny
Anders Linder
Adrienne Marriott

13 **MOTIONS ON NOTICE**

Date and Time of next meeting

The next meeting is scheduled for Wednesday, 20 March 2024 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.

MID SUFFOLK DISTRICT COUNCIL

Minutes of the meeting of the **MSDC COUNCIL** held in the King Edmund Chamber, Endeavour House, 8 Russell Road, Ipswich on Thursday, 25 January 2024

PRESENT:

Councillor:	Rowland Warboys (Chairman) Dr Daniel Pratt (Vice-Chair)	
Councillors:	David Bradbury	Terence Carter
	James Caston	Austin Davies
	Teresa Davis	Rachel Eburne
	Lucy Elkin	Nicholas Hardingham
	Matthew Hicks	Terry Lawrence
	Colin Lay	Anders Linder
	Sarah Mansel	Adrienne Marriott
	John Matthissen	Andrew Mellen
	Gilly Morgan	Jen Overett
	James Patchett	David Penny
	Dr Ross Piper	Miles Row
	Andrew Stringer	Ollie Walters
	Tim Weller	John Whitehead
	Nicky Willshere	Richard Winch

In attendance:

Officers:
Director – Planning and Building Control (TB)
Director – Economic Growth and Climate Change (FD)
Director – Customers, Digital Transformation & Improvement (SW)
Corporate Manager - Finance, Commissioning & Procurement (KW)
Corporate Manager - Electoral Services and Land Charges (DC)
Corporate Manager - Strategic Policy (JH)
Assistant Manager - Financial Accountant (MH)
Assistant Manager - Governance (HH)

Apologies:

Lavinia Hadingham
David Napier
Janet Pearson
Keith Scarff

74 DECLARATION OF INTERESTS BY COUNCILLORS

74.1 Councillor Eburne declared an interest as a Director of Freeport East.

74.2 Councillor Pratt declared an interest as an employee of Stowmarket High School.

74.3 Councillor Davies, Councillor Winch, Councillor Matthissen and Councillor Lay declared an interest as Board Members for Mid Suffolk Holdings Ltd.

74.4 Councillor Stringer declared an interest as Director of Gateway 14.

75 MC/23/29 TO CONFIRM THE MINUTES OF THE MEETING HELD ON 20 NOVEMBER 2023

It was RESOLVED:-

That the Minutes of the meeting held on 20 November 2023 be confirmed and signed as a true record.

76 MC/23/30 CHAIR'S ANNOUNCEMENTS

76.1 The Chair referred to Paper MC/23/30 for noting.

77 LEADER'S ANNOUNCEMENTS

77.1 The Chair invited Councillor Mellen to make the following announcements.

1. Update on Government payments after Storm Babet

It is three months since Storm Babet had a devastating impact on our communities. With several storms and heavy rainfall events since, for many residents and businesses the recovery is still ongoing.

Following the storm, the Government announced flooded households could apply for up to £500 to help with costs, and businesses could apply for up to £2,500. I am happy to be able to update councillors today, and I can confirm that all these grants have now been paid out. There are more than 300 households and nearly 40 businesses who have received the recovery funding.

Our officers worked to get these grants to those impacted as quickly as possible, working closely with Suffolk County Council as the lead local flood authority. I would like to thank everyone involved in this process.

Debenham was one of the worst affected communities in Suffolk, so I am very pleased that tomorrow a flood forum will be held in the Debenham Community Centre, where residents will be able to hear from, and speak to, the Environment Agency, Suffolk County Council, our officers and others. I think this will be a very useful event, I am planning to attend to see how it goes, and I am grateful to Councillor Davies as the ward councillor for Debenham for making this event happen.

2. Living Well in Winter grants

I am pleased to report Mid Suffolk has provided grants under the ‘Living Well in Winter’ scheme to 14 projects in the district.

The grant was introduced last year to support VCFSE organisations (Voluntary, Community, Faith and Social Enterprises) in providing new accessible spaces and activities, or to expand upon existing projects, in order to provide warm spaces and help tackle social isolation.

I'd like to thank all of the people who make projects like these happen in our communities. We hope that this extra funding will go a long way to supporting the wellbeing of residents during the colder months and help people to forge new connections within their communities.

3. Tribute to Charlie Flatman

Finally, I was sorry to learn of the death of Charles Flatman, who served as ward councillor for Eye between 1993 and his retirement in 2017, but represented the town at either town, district or county level for a total of 43 years.

He sat on various committees over the years, including environmental health, housing and local economy committees. During his tenure he was also heavily involved in bringing forward Eye Community Centre, working with the town's cricket club, and the reopening of the Queen's Head pub.

Charlie served his community with dedication and distinction, and I am sure all members will join me in sending our condolences to his family and friends.

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

78.1 None received.

79 QUESTIONS BY THE PUBLIC IN ACCORDANCE WITH COUNCIL PROCEDURE RULES

79.1 None received.

80 QUESTIONS BY COUNCILLORS IN ACCORDANCE WITH COUNCIL PROCEDURE RULES

80.1 None received.

81 RECOMMENDATIONS FROM CABINET / COMMITTEES

82 MC/23/31 HALF YEAR REPORT ON TREASURY MANAGEMENT 2023/24

82.1 The Chair invited John Matthissen, Joint Chair of the Joint Audit and Standards Committee to introduce the report.

82.2 Councillor Matthissen proposed recommendations 3.1 and 3.3 as set out in the report. Councillor Patchett seconded this motion.

82.3 Councillor Caston asked for clarification on paragraph 1.6 in appendix C of the report. Councillor Matthissen outlined that as the value of investments go up and down in value over time, any losses on these investments did not need to be declared until they were sold.

82.4 Councillor Whitehead queried the £2 million limit within the Council's bank accounts and whether this should extend to the companies owned by the Council. The Senior Financial Accountant responded that whilst this was not required under current legislation, it was best practice to increase disclosure in relation to Gateway 14.

82.5 Councillor Winch questioned how interest rates were modelled. The Senior Financial Accountant responded that advice was sought from external experts who provide the worst case, best case, and expected scenarios which forecasting is based on.

82.6 During the debate Councillor Caston outlined that the report was useful to see what was going on in the Council and highlighted how successful the CIFCO investment had been.

82.7 Councillor Matthissen stated that points made at the meeting would be taken into consideration when setting the strategy for 2024/25.

By a unanimous vote.

It was RESOLVED: -

1.1 That the Treasury Management activity for the first six months of 2023/24 as set out in this report and Appendices be noted.

1.2 That it be noted that Mid Suffolk District Council's treasury management activity for the first six months of 2023/24 was in accordance with the approved Treasury Management Strategy, and that, except for one occasion when the Council exceeded its daily bank account limit with Lloyds, as mentioned in Appendix C, paragraph 4.1, the Council has complied with all the Treasury Management Indicators for this period.

83 MC/23/32 MID SUFFOLK PLAN

83.1 The Chair invited Councillor Mellen, Leader of the Council, to introduce the report.

83.2 Councillor Mellen proposed the recommendations as set out in the report. Councillor Stringer seconded this motion.

83.3 During the debate Councillor Mansel welcomed the plan and the thread of sustainability throughout, and she praised the process for including communities.

83.4 Councillor Whitehead welcomed the plan and the extensive consultation, but raised concern about putting environmental sustainability and social justice at the centre of everything and outlined that this should have limits.

83.5 Councillor Hicks supported the plan and highlighted that cross-party working would be required for the benefit of residents.

83.6 Councillor Eburne outlined that the word corporate had been removed from the plan as the Council's purpose was to serve residents. She added that the plan was straightforward in what the Council wanted to achieve and would ensure that communities thrived.

83.7 Councillor Walters stated that environmental policies were crucial for the undertaking of the plan.

83.8 Councillor Willshere praised the amount of consultation work that had gone into the plan and commented that she would like to see the impact going forward.

83.9 Councillor Stringer outlined that the plan was an entirely new document and not a refresh of the previous corporate plan.

83.10 Councillor Mellen thanked Members for their comments and support for the plan.

By a unanimous vote.

It was RESOLVED:

To accept the recommendation from Cabinet to adopt the Mid Suffolk Plan, setting out the vision, approach and strategic priorities for Mid Suffolk District Council for 2023-2031 (Appendix A).

84 MC/23/33 POLLING DISTRICT REVIEW

84.1 The Chair invited the Corporate Manager – Electoral Services to introduce the report.

84.2 Councillor Mellen proposed the recommendations as set out in the report. Councillor Whitehead seconded this motion.

84.3 Councillor Mansel queried why Elmswell had two unequal groups of 25 and 2537 who used the same polling station and why this was spilt. The Corporate Manager – Electoral Services responded that during the administration of an election the Returning Officer can split a polling station into different polling places, and these would be evenly distributed at the time of an election.

84.4 During the debate Councillor Row raised concern about the accessibility of polling stations and how all polling stations may not be accessible by foot which may discourage voters and encourage car use.

84.5 Councillor Carter stated that not having an accessible route to polling stations for some residents was a missed opportunity.

84.6 Councillor Penny thanked the officers for putting environmental considerations as part of the decisions as it would decrease travel to polling stations.

84.7 Councillor Mellen outlined that the Council wanted to remove as many barriers as possible for those who wanted to vote in person, and ensured people had the best opportunity to vote.

By a unanimous vote.

It was RESOLVED:

That the Polling Districts and Polling Places as listed in Appendix A to this report be agreed.

85 MC/23/34 RECOMMENDATION FROM THE INDEPENDENT REMUNERATION PANEL

85.1 The Chair invited Councillor Mellen, Leader of the Council, to introduce the report.

85.2 Councillor Mellen introduced the report and proposed the recommendations. Councillor Stringer seconded this motion.

85.3 During the debate Councillor Hicks stated that he disagreed with the proposal as Councillors were elected to read papers.

85.4 Councillor Mansel welcomed the Special Responsibility Allowance as training was a requirement to sit on the committee and named substitutes provided a consistency of membership and continuity in the committee, especially in cases where applications are deferred.

85.5 Councillor Bradbury stated that he supported the proposal and added that site visits were also part of the role and could be time consuming.

85.6 Councillor Winch outlined that the principle of named substitutes has been established and that the work involved justified the allowance.

85.7 Councillor Caston stated that he was against the proposal as there were few times where there would not be sufficient time ahead of the meeting to read the agenda. Additionally, if there was an allowance it should be per meeting not an annual allowance.

85.8 Councillor Stringer outlined that named substitutes was an outcome of the peer review and would be a valuable insurance policy for the planning committee and set out the expectation that papers would be read.

85.9 Councillor Mellen highlighted that being a named substitute meant being readily available for meetings, and being trained and familiar with cases and the allowance recognised the commitment of this.

By 27 votes for and 3 against.

It was RESOLVED:

1.1 That Council agrees to adopt a special responsibility allowance for the named substitutes for Planning Committee.

a) That the Special Responsibility Allowances (SRA) be set at:-

Named Substitutes	Multiplier	SRA
4	0.025	£ 163

1.2 That the Special Responsibility allowance for the named substitutes take effect from 26th October 2023.

1.3 That the Monitoring Officer be authorised to make any necessary amendments to the Members Allowance scheme following approval of the recommendations.

86 MC/23/35 DECISIONS TAKEN BY THE CHIEF EXECUTIVE UNDER DELEGATED POWERS IN ACCORDANCE WITH PART 2 OF THE CONSTITUTION

86.1 The Chair gave an overview of the report and proposed the recommendation. Councillor Whitehead seconded the motion.

By a unanimous vote.

It was RESOLVED:

That Council noted the decisions taken under delegated powers by the Chief Executive as detailed in Appendix A.

87 MC/23/36 STOWMARKET HEALTH, EDUCATION AND LEISURE FACILITIES (SHELF)

87.1 The Chair invited Councillor Weller, Cabinet Member for Environment, Culture & Wellbeing, to introduce the report.

87.2 Councillor Weller proposed the recommendations as set out in the report. Councillor Davis seconded the motion.

87.3 Councillor Hicks questioned where the project was in relation to commitment from health. Councillor Weller responded that this did not relate to package 1, however the Council was in dialogue with health for upcoming packages.

87.4 Councillor Hardingham questioned whether there were any alternatives to artificial pitches. Councillor Weller responded that the 4g pitch was what the Football Foundation would provide funding for, additionally, 5g pitches were a new science and there was currently little clarity on maintenance costs. Also, the pitch provided the needs of the community without incurring an additional cost to the Council.

87.5 Councillor Mansel questioned what the timescales between package 1 and package 2 would be. Councillor Weller responded that due to the reliance on grant funding availability the timeline was uncertain, however it would happen under the current administration.

87.6 Councillor Mansel further questioned whether there would be improvements to the car park, including EV charging points, under the scheme. Councillor Weller responded that this would not be under package 1, however this would be considered under a future package.

87.7 Councillor Carter questioned whether the pitch could be delayed until a more environmentally friendly pitch had undergone testing. Councillor Weller responded that the cost for the 4g pitch had already been budgeted. The Director – Economic Growth and Climate Change added that whilst there were pilots for 5g pitches undergoing tests there were not any more being accepted whilst this was under review in relation to health and safety and maintenance.

87.8 Councillor Walters questioned what infrastructure for connectivity would be put in place. The Regenerations Project Manager responded that there would be improvements to the route 51 cycle route through Stowmarket, additionally discussions around parking at peak times and with local bus providers were ongoing.

87.9 Councillor Marriott questioned why an artificial pitch had been chosen. Councillor Weller responded that as the pitch would be needed for extended periods throughout the year it needed to be durable, and an artificial pitch was in line with the offerings of other local authorities.

87.10 During the debate Councillor Pratt stated that he was in full support of the project as the current facilities were in poor condition and this was a good investment in the community which would encourage young people to engage in sports.

87.11 Councillor Lawrence outlined that he was in support of the project, however in future when working with third parties’ sustainability should be greater considered.

87.12 Councillor Mansel highlighted that this was a step in the right direction, however the rest of the community such as young adults and young families needed to be considered, and collaborative working with sports providers on inclusion of all abilities was a necessity.

87.13 Councillor Willshere stated that the scheme was a long time coming but raised concern that the cost of activities and need for advance payments could be an accessibility barrier.

87.14 Councillor Whitehead stated that he was pleased to see the scheme come forward, however he was disappointed that the pavilion for the rugby and cricket club was not coming forward in package one.

87.15 Councillor Caston outlined that he supported the scheme and he hoped that the wellbeing hub would be delivered and highlighted that parking for the scheme needed great consideration so that it would not cause issues for residents.

87.16 Councillor Eburne outlined that there had been due diligence in the figures and consultation on the project, and she thanked other Members and officers for their work on the project.

87.17 Councillor Walters supported the project and commented that whilst there were issues with sustainability issues with the pitch it had been debated by the working group and engagement had been done with partners.

87.18 Councillor Carter stated that he was in favour of the scheme overall, however he still had sustainability concerns with the artificial pitch.

87.19 Councillor Weller thanked Members for their contributions and highlighted that the pitch needed to be available for use and would provide a greater access for residents to services.

By 29 votes for and 1 abstention.

It was RESOLVED:

1.1 That Council approve the addition of this project to the Capital Programme as outlined in the recommended funding strategy, specifically the Councils commitment of £450,000 from the Council's Strategic Reserve towards the total cost of delivery of Work Package 1.

1.2 That Council note the Full Business Case (FBC) for Work Package 1, approved by Cabinet, in respect of the Stowmarket, Health, Education and Leisure Facilities as attached as Appendix A (confidential).

1.3 That Council note the full delivery of this element of the project as outlined in the FBC which will include pitch and land-based elements of the overall masterplan.

1.4 That Council note Cabinet's approval of the recommended funding strategy detailed in Appendix B (confidential) as the preferred method of

delivering the project, SUBJECT TO the securing all internal and external funding outlined in the recommended funding strategy.

1.5 That Council note work carried out to date on a sustainable management model for the wider Stowmarket, Health, Education and Leisure Facilities (as outlined in Appendix A – Business case confidential) and that a further recommendation on the preferred model will be brought back to Cabinet for consideration early in 2024.

A short break was taken between 19:25pm and 19:35pm.

88 MC/23/37 SKILLS & INNOVATION CENTRE ON GATEWAY 14

88.1 The Chair invited Councillor Winch, Cabinet Member for Housing and Property to introduce the report.

88.2 Councillor Mellen proposed the recommendations as set out in the report. Councillor Davis seconded this motion.

88.3 Councillor Lawrence questioned how an operator would be decided. Councillor Winch responded that an operator would be sought as soon as possible and would have references checked ahead of being decided.

88.4 Councillor Hicks queried what research had been done on similar centres to gage what demand would be. Councillor Winch outlined that officers had visited other innovation centres in the area and had found that office space had been utilised more than training facilities. The Director – Economic Growth and Climate Change added that officers had a dialogue with operators of innovation centres in the East and had a Head of Innovation as a critical friend. Additionally, there would be a small void within the centre in order to allow for movement and flexibility for operators.

88.5 Councillor Linder referred to the green roof and questioned how durable this would be. Councillor Winch outlined that whilst the green roof had not been decided on, research on maintenance would be undertaken before this went ahead.

88.6 During the debate Councillor Matthissen outlined that the centre would help generate a pool of people within the district with desirable skills.

88.7 Councillor Caston stated that he supported the scheme but raised concerns about the use of reserves to fund the project.

88.8 Councillor Carter outlined the need for the skills centre to be accessible.

88.9 Councillor Eburne highlighted that this was an investment in Mid Suffolk and would benefit young people and adults retraining in areas where there are gaps in skills.

88.10 Councillor Patchett was in support of the centre and suggested that ESG principles be used in the design of the building.

88.11 The Chairman advised Members that in accordance with the Council Constitution, Rule 9, the meeting was approaching the Guillotine rule deadline. Councillor Mellen proposed that the meeting be extended until the business of the meeting had been completed. Councillor Caston seconded this motion.

By a majority vote for.

It was RESOLVED: -

That the meeting continue beyond the guillotine deadline, until all business was concluded.

88.12 Councillor Pratt outlined that the building would meet green standards of excellence and would both create a bridge in the skills gap and would create jobs and could attract other businesses to Gateway 14.

88.13 Councillor Whitehead raised concern on paragraph 6.9 of the report stating that the scheme was not financially viable.

88.14 Councillor Winch highlighted that that whilst the centre would be funded by reserves, this would be paid back once companies joined the Gateway 14 site.

88.15 Councillor Hicks stated that he had confidence in the Freeport East board and the technical skills they had to scrutinise potential skills providers.

88.16 Councillor Mellen outlined that he had visited other sites in rural locations that were successful, and the opportunity for the skills and innovation centre was good with a lot of work and due diligence being undertaken.

By 29 votes for and 1 abstention.

It was RESOLVED:

1.1 That Council approve the addition of this project to the Capital Programme as outlined in the recommended funding strategy including the virement of the Gateway 14 Capital budget of £10.75m and the use of earmarked reserves or Pot B retained business rates to finance this.

1.2 To note that Cabinet endorsed the Full Business Case (FBC) attached as Appendix A (confidential).

1.3 To note that Cabinet approved the full delivery of the project as outlined in the FBC for an approximate 35,690 sq ft. Skills and Innovation Centre on Gateway 14 at Stowmarket up to a maximum total cost envelope of £18.75m.

1.4 To note that Cabinet approved the recommended funding strategy detailed in Appendix D (confidential) as the Cabinet's preferred method of delivering the project, SUBJECT TO the satisfactory completion of all related legal, financial, cost and valuation advice and contractual agreements, full access to Freeport seed fund capital payment and full access to the required level of Pot B retained business rates generated on the Gateway 14 site as part of Freeport agreements (as forecast in the recommended funding strategy attached as Appendix D - confidential).

1.5 To note that Cabinet agreed delegated authority for completion of all necessary matters and agreements pursuant to the approval of recommendation 3.3 to the Council's Director for Economic Growth and Climate Change and Section 151 Officer/Director for Corporate Resources in consultation with the Leader of the Council. This requires that all 'subject to' elements within 3.3 are met.

1.6 To note that Cabinet authorised the forward funding of next stage technical design, planning and related preparatory works, up to a total value of £150k, from the Gateway 14 capital budget.

89 EXCLUSION OF THE PUBLIC (WHICH TERM INCLUDES THE PRESS)

The meeting was not required to go into closed session.

90 RESTRICTED APPENDICES - STOWMARKET HEALTH, EDUCATION AND LEISURE FACILITIES (SHELF)

The meeting was not required to go into closed session.

91 RESTRICTED APPENDICES - SKILLS & INNOVATION CENTRE ON GATEWAY 14

The meeting was not required to go into closed session.

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

The meeting was not required to go into closed session.

93 COUNCILLOR APPOINTMENTS

93.1 Councillor Hicks left the meeting at 20:18pm

93.2 Councillor Mellen proposed the appointments as set out in the agenda. Councillor Eburne seconded this motion.

By a unanimous vote.

It was RESOLVED: -

That Councillor Teresa Davis and Councillor Rowland Warboys be appointed to Suffolk Enhanced Bus Partnership

94 MOTIONS ON NOTICE

95 TO CONSIDER THE MOTION ON NOTICE RECEIVED FROM COUNCILLOR OVERETT

95.1 Councillor Overett **PROPOSED** the Motion which asked the Council to set up a Mid Anglia Community Rail Partnership encompassing the rail stations of Thurston, Elmswell, Stowmarket and Needham Market. And that The Council agreed to contact Greater Anglia to progress this Partnership as soon as possible.

95.2 Councillor Bradbury **SECONDED** the Motion.

95.3 Councillor Mansel praised the motion and outlined that whilst the service had improved, the timing of services was not ideal.

95.4 Councillor Row supported the motion and highlighted that the train line was used by a diverse group of people and welcomed engagement with these groups.

95.5 Councillor Eburne thanked Suffolk County Council for their support on Community Rail Partnerships and praised the engagement across the district to optimise the service for residents.

95.6 Councillor Carter highlighted that the partnership could increase accessibility and could improve the interconnectivity to health and socialisation services for residents.

95.7 Councillor Willshere stated that she hoped that the partnership could help improve safety within stations.

95.8 Councillor Overett concluded that whilst the Community Rail Partnership was not a quick fix for issues, it would increase the Council's voice and the voice of local communities.

By a unanimous vote.

It was RESOLVED: -

This Council resolves to work to set up a Mid Anglia Community Rail Partnership encompassing the rail stations of Thurston, Elmswell, Stowmarket and Needham Market.

This Council agrees to contact Greater Anglia to progress this Partnership as soon as possible.

96 TO CONSIDER THE MOTION ON NOTICE RECEIVED FROM COUNCILLOR WELLER

96.1 The Chair invited Councillor Weller to introduce and **PROPOSE** his Motion as detailed in the tabled papers.

96.2 Councillor Mellen **SECONDED** the Motion.

96.3 Councillor Patchett supported the motion but outlined that it could go further in holding agencies to account.

96.4 Councillor Mansel questioned whether the motion went far enough in encouraging the flood authority to consider the impact of storms in the future, especially in relation to planning applications.

96.5 Councillor Linder raised concern that the phrasing of the motion was coercive to parish councils and could put a strain on their resources.

96.6 Councillor Matthissen proposed the following amendment to the motion: This Council calls on parish and town councils to actively participate in assessing flood risk in their communities and to work collaboratively with officers to develop or enhance all of their local community emergency response plans (not just in response to flooding). Councillor Carter seconded this proposal.

96.7 Councillor Weller and Councillor Mellen accepted the amendment.

96.8 Councillor Lawrence outlined that he did not support the motion as the production of local flood resilience plans had not been costed for parish councils.

96.9 Councillor Pratt outlined that whilst there would be a cost in developing plans, they were worth doing as they could improve safety for residents and reduce the impact of flooding.

96.10 Councillor Stringer outlined that due to resource issues in the County Council and the Environment Agency plans would be beneficial in order to identify areas where there are issues and identify solutions.

96.11 Councillor Whitehead raised concern that parish councils may not be receptive to developing plans.

96.12 Councillor Weller highlighted that grassroot and community solutions in relation to flooding could be undertaken by communities without great expenses, and that collaborative working with the County Council and Environment Agency was a necessity to solve flooding issues.

96.13 Councillor Mansel left the meeting at 21:05 pm.

96.14 Councillor Lawrence left the meeting at 21:07 pm.

By a unanimous vote.

It was RESOLVED: -

1) **This Council recognises the excellent response to floods associated with Storms Babet, Ciaran and Henk within our communities. Only collaborative efforts of communities and statutory agencies provide immediate interventions to critical and widespread incidents such as those experienced in recent months. Rectifying longer term disruption to residents and businesses must be a shared responsibility of this Council and partner agencies.**

2) **This Council calls on parish and town councils to actively participate in assessing flood risk in their communities and to work collaboratively with officers to develop or enhance all of their local community emergency response plans (not just in response to flooding), and that;**

3) **The Council calls on Suffolk County Council and the Environment Agency to accelerate the recovery phase of repairs and urgently addressing the infrastructure maintenance backlog.**

4) **Concurrent with the above, the Council calls on Suffolk County Council, DEFRA, the Environment Agency and Natural England to focus attention on both natural flood alleviation measures and structural remedial activity to mitigate future risk of flooding to property and essential infrastructure. These approaches should be managed and a balance struck to ensure maximisation of environmental benefit and limitation of carbon intensive solutions (e.g. mechanical flood defences) to only those areas where the former is impractical or ineffective.**

5) **It will be vital to bring together technical expertise (hydrology and ecology) along with local knowledge of landowners and their representative bodies (e.g. National Farmers Union, Country Landowners Association and Nature Friendly Farming Network) and third sector partners (e.g. The Pickerel Project and River Waveney Trust).**

The business of the meeting was concluded at 9:13pm.

……………………………………..
Chair

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MID SUFFOLK DISTRICT COUNCIL

TO:	**Council**	**REPORT NUMBER: MC/23/39**
FROM:	**Cllr Richard Winch, Cabinet Member for Housing & Property**	**DATE OF MEETING: 22 February 2024**
OFFICER:	**Director of Housing - Deborah Fenton / Corporate Manager Housing Solutions – Amma Antwi-Yeboah**	**KEY DECISION REF NO. N/A**

EMPTY HOMES AND SECOND HOMES POLICY

1. PURPOSE OF REPORT

1.1 This report provides an overview of the current Council Tax charges levied on long term empty properties and second homes within Mid Suffolk and proposes changes to the policy in respect of premiums from 1st April 2024 in line with recent changes in legislation.

2. OPTIONS CONSIDERED

Option 1 – Introduce the 2018 and 2023 changes to the empty homes premium and introduce a premium for dwellings periodically occupied (second homes).

2.1 In line with the draft policy in appendix A, implement the proposed changes to introduce a premium of 100% for second homes from 1st April 2025, reduce the time period for empty premiums to 12 months and increase the premiums as below from 1st April 2024.

- Dwellings left unoccupied and substantially unfurnished for 12 months or more, a premium levied of 100%
- Dwellings left unoccupied and substantially unfurnished for 5 years or more, a premium levied of 200%; and
- Dwellings left unoccupied and substantially unfurnished for 10 years or more a premium levied of 300%.

Implementing the changes will generate additional income and incentivise bringing unoccupied properties back into use.

Implement only one of the proposed changes.

2.2 Implement only one of the proposed changes. This could be either implementing a premium of up to 100% for second homes and leaving the current long term empty qualifying time period for the premium at 2 years at a rate of 50%. Alternatively, it could just be reducing the long-term empty premium qualification time from two years to one, not linking the percentage charge to the length of time the dwelling has been unoccupied and unfurnished and not implementing any change for second homes.

This would have the same benefits as option 1 but to a lesser scale.

Do Nothing

2.3 Do nothing, leave existing premiums in place for long term empty properties, namely that they would be applied after the two-year period at 50%. Do not introduce a premium for second homes.

3. RECOMMENDATIONS

3.1 That Council approve the empty homes and second homes premiums policy for 2024-25 attached in appendix A

3.2 That Council delegate authority to the Director of Housing in consultation with the Cabinet Member for Housing and Property to make technical amendments to the policy to ensure it meets the criteria set by Government and the Council

REASON FOR DECISION

To maximise revenue, but more importantly to incentivise owners to bring empty and under-utilised properties back into use.

To ensure the policy is kept in line with Government regulations.

4. KEY INFORMATION

4.1 Prior to April 2013 billing authorities could charge up to a maximum of 100% Council Tax on dwellings that had been unoccupied and substantially unfurnished for more than two years (long-term empty dwellings). From April 2013 billing authorities were given powers to charge a premium of up to 50% of the Council Tax payable in these circumstances. The intention of the premium was to encourage homeowners to occupy homes and not leave them vacant in the long term.

4.2 Mid Suffolk used these powers and implemented a 50% premium on long-term empty dwellings that have been empty and unfurnished for more than two years from the 1st April 2013 in order to provide an incentive to bring long term empty properties back into use. Council taxpayers would be paying 150% Council Tax. The table below shows the number of premiums on the first Monday in October from 2019 to 2023.

	2019	2020	2021	2022	2023
Mid Suffolk	68	93	113	112	116

4.3 In 2018 the Rating of Property in Common Occupation and Council Tax (Empty Dwellings) Act allowed billing authorities to increase the levels of premiums on long-term empty dwellings with effect from 1 April 2019 as follows;

- Dwellings left unoccupied and substantially unfurnished for 2 years or more, - from 1April 2019 a premium can be levied up to 100%
- Dwellings left unoccupied and substantially unfurnished for 5 years or more, - from 1April 2020 a premium can be levied up to 200%; and
- Dwellings left unoccupied and substantially unfurnished for 10 years or more, - from 1April 2021 a premium can be levied up to 300%.

4.4 Mid Suffolk did not implement the changes introduced by the 2018 regulations.

4.5 The Levelling Up and Regeneration Act 2023 provides for further changes whereby it permits the Council to impose an empty homes premium on long-term empty dwellings after one year instead of two years from the 1st April 2024.

4.6 Alongside changes to the empty home premium, the Levelling Up and Regeneration Act 2023 also introduces the ability to charge a Council Tax premium of up to 100% on dwellings which are occupied periodically (properties that are substantially furnished but no one's sole or main residence, second homes).

4.7 Unlike the changes to the long-term empty home's premium, which can be implemented from the 1st April 2024, a decision to implement a premium on second homes must be taken at least 12 months before the financial year to which it would apply. In other words, the earliest it could take effect would be 1st April 2025.

4.8 The Government have indicated that there will be some exceptions to both the long-term empty premium and second home premium being charged. Regulations are expected that cover these exceptions in the new year. As a guide, listed below are the exceptions listed in a previous Government consultation.

- Properties undergoing probate.
- Properties that are being actively marketed for sale or rent.
- Empty properties undergoing major repairs.
- Annexes forming part of, or being treated as, part of the main dwelling.
- Job related dwellings.
- Occupied caravan pitches and houseboat moorings.
- Seasonal homes where year-round or permanent occupation is prohibited or has been specified for use as holiday accommodation or prevents occupancy as a person's sole or main residence.

4.9 An analysis has been undertaken to look at the current situation and what that might look like if the 2018 and 2023 changes are implemented. The table below shows the number of second homes and long-term empty properties as of 14th November 2023 by Council Tax band:

	A	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total**
Second Homes	111	109	99	76	63	32	44	8	542
Empty/Unfurnished > 4wks	86	186	117	64	69	40	12	1	575
Empty/ Unfurnished 2years and over (50% Premium)	32	16	20	17	7	7	7	2	108

4.10 The table below shows a breakdown of the long-empty properties on 14th November 2023 but forecasting the situation as of 1 April 2024, split by premium and Council Tax band:

Long-term empty Period	A	B	C	D	E	F	G	H	Total
12 months to 2 years	27	57	44	15	21	11	8	0	183
2-5 years	20	21	17	18	9	7	7	0	99
5 – 10 years	12	4	7	2	1	3	1	2	32
>10 years	5	5	2	1	1	0	0	0	14

4.11 You can see from the table in 4.10, that even though a 50% premium has been in place since 2013, there are still several properties that have been unoccupied and substantially unfurnished for some time.

4.12 Considering the recent changes introduced by the Government and the number of empty and second homes, it would be an ideal time to review and update the current scheme for premiums.

5. LINKS TO CORPORATE PLAN

5.1 The policy supports the Council's objectives in respect of housing, wellbeing and communities and the economy.

6. FINANCIAL IMPLICATIONS

6.1 Initial high-level analysis suggests that the adoption to commence a 100% premium on long-term empty homes after 12 months and the additional 200%, and 300% premiums (based upon length of time the dwelling is empty and unfurnished) could generate an additional £591,000 in Council Tax revenues (based upon the 23/24 Council Tax rate). Income generated would be shared across the preceptors, this would be £53,910 for Mid Suffolk

6.2 Introducing a 100% premium for periodically occupied dwellings (second homes) could generate around £1m in additional Council Tax revenue (based upon the 23/24 Council Tax rate). Like the long-term empty premium, the income generated would be shared across the preceptors. this would be £90,000 for Mid Suffolk.

6.3 However, it needs to be recognised that this estimate could be reduced once the Government legislates for the exceptions.

6.4 It also should be noted that these changes will also impact on the Housing Revenue Account if there are Council owned properties that meet the qualifying criteria.

6.5 The introduction of the premiums is to support bringing properties back in to use. If successful, the income generated from premiums should reduce over time.

7. LEGAL IMPLICATIONS

7.1 The legislation that covers this report and the recommendations made is as follows:

- S11A & S11B of the Local Government finance Act 1992
- S11C of the Local Government Finance Act 1192 (as introduced by the Levelling Up and Regeneration Act 2023)
- The Levelling Up and Regeneration Act 2023
- S13A(1)(c) Local Government Finance Act 1992

8. RISK MANAGEMENT

8.1 This report is most closely linked with the Council's Significant Risk No. SRR004MSDC – We may be unable to respond in a timely and effective way to financial demands.

Key Risk Description	Likelihood 1-4	Impact 1-4	Key Mitigation Measures	Risk Register and Reference*
Mid Suffolk District Council may be unable to react in a timely and effective way to financial demands	3	4	Monitoring and reporting of financial forecast Capital reserves. SLT position review workshops Cabinet briefings to review position and budget options. Budget approval Internal and external audits	SRR004MSDC
The additional premiums are difficult to collect	3	3	Regular review of cases All enforcement remedies will be used.	
The long-term empty premium is levied against a Council Taxpayer who is unable to bring the property back into use	2	3	The provision of Empty Homes and renovation Loan to help homeowners to bring the property back into occupation. Empty Homes Officers to provide support and guidance.	Operation Risk Register Housing Solutions and 050
The implementation of these premiums may cause exceptional hardship to a taxpayer	2	2	Consider such cases under the Council's Council Tax discretionary hardship scheme.	

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

9. CONSULTATIONS

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

9.2 There is no statutory requirement to consult on these proposals. However, contact will be made with those Council taxpayers likely to be subject to the changes prior to annual bills being issued in March 2024.

10. EQUALITY ANALYSIS

10.1 EQIA screening please the attached Appendix (b).

11. ENVIRONMENTAL IMPLICATIONS

There are no negative Environmental impacts directly associated with this report and policy.

12. APPENDICES

Title	Location
(a) Empty Homes and Second Homes Premium Policy 2024-25	Attached
(b) EIQA-Empty Homes and Second Homes Premium Policy 2024	Attached

13. REPORT AUTHORS

- *Amma Antwi-Yeboah Corporate Manager – Housing Solutions*
- *Andrew Wilcock – Joint Head of SRP*

Appendix A

Empty Homes and Second Homes Premium Policy 2024-25

Contents

1. Introduction and background

1.1. The following policy outlines the Council's approach to the levying of empty homes premium and second homes premiums.

1.2. Premiums were also introduced by Government from 1 April 2013 with a view to encouraging homeowners to occupy homes and not leave them vacant in the long term.

1.3. The legislation introducing premiums is S11B of the Local Government Finance Act 1992 was inserted by the Local Government Finance Act 2012.

1.4. Initially premiums could only be charged on long-term empty dwellings. An empty dwelling is one which is 'unoccupied' and 'substantially unfurnished'. The definition of long-term is where the dwelling has been empty for a continuous period of at least 2 years.

1.5. Initially the maximum level of premium was set by Government at 50% of the amount of Council Tax chargeable. Each Council could determine the level of premium up to a maximum and this is charged in addition to the amount determined by the Council as payable for an empty dwelling.

1.6. Certain classes of dwellings cannot be charged a premium, namely:

- A dwelling which would be the sole or main residence of a person, but which is empty while that person resides in accommodation provided by the Ministry of Defence by reason of their employment i.e., service personnel posted away from home; and

- Dwellings which form annexes in a property which are being used as part of the main residence or dwelling in that property.

1.7. In 2018 the Rating of Property in Common Occupation and Council Tax (Empty Dwellings) Act allowed authorities to increase the level of premiums on empty dwellings with effect from 1 April 2019 as follows;

- Dwellings left unoccupied and substantially unfurnished for 2 years or more, - from 1 April 2019 a premium can be levied up to 100%

- Dwellings left unoccupied and substantially unfurnished for 5 years or more, - from 1 April 2020 a premium can be levied up to 200%; and

- Dwellings left unoccupied and substantially unfurnished for 10 years or more, - from 1 April 2021 a premium can be levied up to 300%.

1.8. It should be noted that premiums are charged in addition to the 100% Council Tax payable on empty premises.

1.9. Government, together with local authorities (including the Council) has unfortunately seen a rise in the number of empty homes together with a growth in second homes.

1.10. Inconsistencies in the legislation have also been identified whereby a premium can be avoided by the taxpayer merely by furnishing an empty premises, when it would become a ‘second home’ which currently has a maximum charge of 100% with no premium.

1.11. In order to address these inconsistencies, and also to bring more dwellings into use, Government has introduced sections within the Levelling Up and Regeneration Act 2023 (the Act).

1.12. This policy details the Council’s approach in the charging of premiums as allowed within the new legislation.

1.13. The continued pressure on local authority finances (both the Council and the Major Preceptors) together with the need to encourage all owners of domestic premises to bring them back into use, makes it essential that the Council changes its approach to empty homes. The new legislation for second home premiums will encourage the use of dwellings as primary residences.

2. Empty homes premiums (From 1 April 2024)

2.1. Section 79 (1)(b) of the Levelling Up and Regeneration Act 2023 permits the Council to impose an empty homes premium after one year instead of two years. Section 80 of the Act provides that from 1 April 2024, a property can be charged an empty homes premium at 100% after one year, even if it became empty before 1 April 2024.

2.2. The Council has resolved to implement these changes and the changes introduced by 2018 the Rating or Property in Common Occupation and Council Tax (Empty Dwellings) Act with effect from 1 April 2024.

2.3. This means that the empty homes premiums will be:

- Dwellings left unoccupied and substantially unfurnished for 1 year or more, - a premium can be levied up to 100%

- Dwellings left unoccupied and substantially unfurnished for 5 years or more, - a premium can be levied up to 200%; and

- Dwellings left unoccupied and substantially unfurnished for 10 years or more, - a premium can be levied up to 300%.

2.4. The legislation requires the Council to be mindful of any guidance or further regulation in relation to the implementation of the premiums and this is detailed in Section 4 of this policy.

3. Introduction of premiums for second homes (From 1 April 2025)

3.1 The definition of a second home for Council Tax purpose is a dwelling which has ‘no one resident’ but is ‘substantially furnished’.

3.2 Section 80 (2) of the Act inserts a new section 11C into the Local Government Finance Act 1992. This permits the Council to apply a premium on second homes. The maximum Council Tax charge in these cases would be a standard 100% charge plus a premium of 100% making a total Council Tax charge of 200%.

3.3 Unlike empty dwellings, there is no requirement for a property to have been used as a second home for a fixed period of time before the premium can apply.

3.4 As with other changes introduced by the Act, section 11C (3) requires that the first decision to impose this class of premium must be taken at least 12 months before the financial year to which it would apply. In effect this means that premiums for second homes will not take effect until the 2025-26 financial year at the earliest.

3.5 The Council has resolved to charge second home premiums and has given the required notice.

3.6 The Act provides that a dwelling cannot be subject to both a second homes premium and an empty homes premium imposed under section 11B of the 1992 Act, and that an existing empty homes premium would cease to apply to a property which became subject to a second homes premium.

4. Exceptions from the premiums (empty homes premiums and second homes premium)

4.1 At the time of writing this policy, Government has issued a consultation (which has now ended), seeking views on possible categories of dwellings which should be dealt with as exceptions to the Council Tax premiums. Regulations are expected to cover the exceptions for both empty homes premium, and also the second homes premiums.

4.2 **The Council has included the proposed exceptions below however, it should be noted that these MAY CHANGE when the new regulations are commenced.**

4.3 The consultation proposes that there will be circumstances where either premium will either not apply or be deferred for a defined period of time. These are as follows:

- **Properties undergoing probate –** the Government proposes that these properties should be exceptions to both the second homes and empty homes premiums for a **maximum of 12 months.** The exceptions would start once probate or letters of administration is granted. This will not affect the Class F Council Tax exemption or the ability for the Council to charge its determined rate of Council Tax following the expiry of the Class F exemption;

- **Properties that are being actively marketed for sale or rent -** the Government proposes that this exception will apply for up to a **maximum of 6 months** from the date that active marketing commenced, or until the property has been sold or rented, whichever is the sooner. The Council, in determining whether this exemption applies will require the following evidence:

    a) Evidence that the dwelling is being **actively** marketed for sale or rent through a recognised agent (evidence can include contracts with agents, advertisements in recognised newspapers or marketing websites);

    b) Where the premises are being self-marketed by the owner or landlord, evidence that the premises is being **actively** marketed (evidence can includes advertisements in recognised newspapers or letting websites);

    c) Where for sale, evidence that the premises are being sold at a true market level for the size and type of dwelling within the area in which it is situated. Where the dwelling is for let, that the rent requested is at a true market level for the size and type of dwelling withing the area which it is situated.

    The above list is not exhaustive, and the Council reserves the right to request further evidence to support any claim or exemption. The exemption will only apply once to any taxpayer or taxpayers if they are jointly and severally liable;

- **Empty properties undergoing major repairs –** this is time limited to 6 months. The Government proposes that empty properties undergoing major repair works or structural alterations should be an exception to the premium for up to 6 months once the exception has been applied or when the works has been completed, whichever is the sooner. The exceptions will be applied at any time after the property has been empty for at least 12 months, so long as the Council is satisfied that the necessary repair work is being undertaken. As with all other exemptions to the premiums, the Council will require the taxpayer to provide such evidence as is required to support their application;

- **Annexes forming part of, or being treated as, part of the main dwelling –** the Government proposes that such annexes should be an exception to the Council Tax premium on second homes;

- **Job related dwellings –** currently, there is a Council Tax discount for up to 50% for properties which are unoccupied because the owner is required to live elsewhere for employment purposes. The discount applies where the dwelling is provided for the better performance of the duties of employment, and it is one of the kinds of employment in the case of which it is customary for employers to provide dwellings for employees. The Government proposes that the dwelling should also be an exception to the second homes premium. **The exception will not apply to cases where someone chooses to have an additional property to be closed to work while having a family home elsewhere or where an individual is posted to a new location but maintained their previous address;**

- **Occupied caravan pitches and houseboat moorings –** the Government proposes that these caravans and boats should be an exception to the Council Tax premium on second homes; and

- **Seasonal homes where year-round or permanent occupation is prohibited or has been specified for use as holiday accommodation or prevents occupancy as a person's sole or main residence –** the Government proposes that properties that have restrictions or conditions preventing occupancy for a continuous period of at least 28 days in any 12 month periods, or specifies its use as a holiday let, or prevents occupancy as a person's sole or main residence, should be an exceptions to the second homes premium.

4.4 It is understood that regulations will be issued late 2023 or early 2024 and the Council will need to ensure that any policy is in line with legislation. Therefore, the Council's Section 151 Officer is granted delegated powers to amend the policy in line with legislative or Government requirements.

5. Outcome expected and 'safety net'.

5.1. The expected outcomes of this policy are as follows:

a) Taxpayers will be encouraged, through the implementation of the premiums, to bring empty properties into use and to revert the use of second homes to primary residences;
b) The reduction of empty homes and second homes with the Council's area in line with the Council's empty property strategy; and
c) Increased Council Tax income from empty homes and second homes.

5.2. There may be circumstances where the implementation of these changes may cause exceptional hardship to a taxpayer. In such cases, the Council will consider applications for a reduction in liability under its Section 13A (1)(C) of the Local Government Finance Act 1992 – Discretionary Financial Assistance policy.

5.3. Where such an application is received, it will be considered on an individual case basis taking into account the circumstances of the taxpayer and the situation regarding the level of Council Tax charges. Should the taxpayer be aggrieved by any decision of the Council a further right of appeal will be with the independent Valuation Tribunal.

6. Legislation

5.1. The legislation that covers this report and the recommendations made is as follows:

- S11A & S11B of the Local Government Finance Act 1992;
- S11C of the Local Government Finance Act 1992 (as introduced by the Levelling Up and Regeneration Act 2023);
- The Levelling Up and Regeneration Act 2023; and
- S13A(1)(c) Local Government Finance Act 1992 (reduction in liability).

5.2. Due to changes in the legislation, the Council will be required to amend this policy at any time, in line with statute.

7. Finance

7.1. Amy amount of premium received will be part of the Council's collection fund and will be shared between the Council and Major Precepting authorities in line with their share of the Council Tax.

7.2. Any reduction granted under S13A(1)(C) will be financed through the Council's general fund and do not form part of the collection fund.

8. Notification

8.1. Where a taxpayer is granted an exemption, a revised demand notice will be issued. Where an exemption is applied for but not granted, the Council will provide a notification of its decision.

9. Appeals

9.1. Appeals against the Council's decision may be made in accordance with Section 16 of the Local Government Finance Act 1992.

9.2. **The taxpayer must in the first instance write to the Council outlining the reason for their appeal. Once received the Council will then consider whether any additional information has been received which would justify a change to the original decision and notify the taxpayer accordingly.**

9.3. Where the taxpayer remains aggrieved, a further appeal can then be made to the Valuation Tribunal. This further appeal should be made within 2 months of the decision of the Council not to grant any reductions. Full details can be obtained from the Council’s website or from the Valuation Tribunal Service website.

10. Delegated Powers

10.1. This policy for the Council Tax premiums has been approved by the Council. However, the Director of Housing in consultation with the Cabinet Member for Housing and Property is authorised to make technical amendments to ensure it meets the criteria set by the Government and the Council.

11. Fraud

11.1. The Council is committed to protecting public funds and ensuring that premiums are correctly charged.

11.2. A taxpayer who tries to reduce their Council Tax liability by falsely declaring their circumstances, providing a false statement or evidence in support of their application, may have committed an offence under the Fraud Act 2006.

11.3. Where the Council suspects that such a fraud may have been committed, this matter will be investigated as appropriate and may lead to criminal proceedings being instigated.

12. Complaints

12.1. The Council’s complaints procedure (available on the Council’s website) will be applied in the event of any complaint received about this policy.

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Appendix B - Equality Impact Assessment (EIA)
Initial Screening Form

Screening determines whether the policy has any relevance for equality, ie is there any impact on one or more of the 9 protected characteristics as defined by the Equality Act 2010. These are:

- Age
- Disability
- Gender reassignment
- Marriage and civil partnership*
- Pregnancy and maternity
- Race
- Religion or belief (including lack of belief)
- Sex
- Sexual orientation

1. Policy/service/function title	Empty Homes and Second Homes Premium Policy 2024-25
2. Lead officers (responsible for the policy/service/function)	Amma Antwi-Yeboah
3. Is this a new or existing policy/service/function?	Empty Homes and Second Homes Premium Policy 2024-25 is 1.1. The following policy outlines the Council's approach to the levying of empty homes premium and second homes premiums. Premiums were also introduced by Government from 1 April 2013 with a view to encouraging homeowners to occupy homes and not leave them vacant in the long term. The legislation introducing premiums is S11B of the Local Government Finance Act 1992 was inserted by the Local Government Finance Act 2012.
4. What exactly is proposed? (Describe the policy/service/ function and the changes that are being planned?)	If policy / service or function changes are required as part of the Empty Homes and Second Homes Premium Policy 2024-25, specific Equality Impact Assessment work will be carried out as that programme of work is developed.

5. Why? (Give reasons why these changes are being introduced)	There is a legal requirement for the Councils to carry out a review of Homelessness in its Districts every five years and then formulate a strategy and associated action plan to detail how the Councils will continue to tackle homelessness issues over the next five years.
6. How will it be implemented? (Describe the decision- making process, timescales, process for implementation)	**Empty Homes and Second Homes Premium Policy 2024-25 development process** a. Scoping / ideas / SLT 29th November 2023 b. Political formal decision-making processes: • Portfolio Holders Briefing – 8th December 2023 • Joint Cabinet Briefing- 12th December 2023 • Cabinet: Request adoption of both strategies: Scheduled for January 2024

7. Is there potential for differential impact (negative or positive) on any of the protected characteristics?	Yes, there is a potential, but it is likely to be a positive impact. Any policies to be adopted to support the delivery and implementation of the Homelessness Empty Homes and Second Homes Premium Policy 2024-will complete an EQIA to ensure there are no negative impacts. The aim of the Empty Homes and Second Homes Premium Policy 2024-is to outlines the Council's approach to the levying of empty homes premium and second homes premiums. Premiums were also introduced by Government from 1 April 2013 with a view to encouraging homeowners to occupy homes and not leave them vacant in the long term. .
8. Is there the possibility of **discriminating unlawfully**, directly, or indirectly, against people from any protected characteristics?	No; Empty Homes and Second Homes Premium Policy 2024- is focused on creating a positive impact on residents, housing availability, current housing stock conditions and housing related services in the housing market.
9. Could there be an effect on **relations between certain groups?**	No. Empty Homes and Second Homes Premium Policy 2024- is intended to enhance relations between certain groups by extending and creating greater choice and options in the local housing markets, improving the quality and affordability of housing.
10. Does the policy explicitly involve, or **focus on, a particular equalities group**, i.e., because they have particular needs?	No, but should any policy / service or function changes be required as part of the implementation of the Empty Homes and Second Homes Premium Policy 2024 outcomes, additional specific EQIA work will be carried out as that programme of work is developed to ensure compliance with the Public-Sector Equality Duties.
Proceed to full assessment:	**Equalities Lead sign-off:**
Authors signature: Amma Antwi-Yeboah, Corporate Manager – Housing Solutions **Date of completion**: 15th December 2023	

* Public sector duty does not apply to marriage and civil partnership.

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MID SUFFOLK DISTRICT COUNCIL

TO:	**Council**	**REPORT NUMBER: MC/23/40**
FROM:	**Councillor Rachel Eburne, Cabinet Member for Finance**	**DATE OF MEETING: 22 February 2024**
OFFICERS:	**Karen Watling, Interim Corporate Manager: Finance (Deputy S151 Officer)** **Sean Coulter, Senior Finance Business Partner**	**KEY DECISION REF NO. N/A**

GENERAL FUND BUDGET 2024/25 AND FOUR-YEAR OUTLOOK

1. PURPOSE OF THE REPORT

1.1. The purpose of this report is to present the General Fund Budget for 2024/25 and four-year outlook.

1.2. To enable Council to consider key aspects of the 2024/25 Budgets, including Council Tax proposals, in order to approve the budget recommendations.

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. The Council approves:

a) The General Fund Budget proposals comprising:

- the 2024/25 revenue budget estimates as set out in Table 1.
- The 2024/25 to 2027/28 capital programme and it's funding as set out in Appendix A
- The movement in, and creation of, reserves as set out in Table 6.

b) A 2% increase in the Band D Council Tax for 2024/25 from £171.59 to £175.03, an increase of £3.44 for a Band D property.

c) The new income bands and contribution rates for the 2024/25 100% Local Council Tax Reduction (Working Age) Scheme as set out in Table 5.

d) The 2024/25 Council Tax resolution set out in Appendix B.

3.2. That Council notes:

e) The Medium-Term forecast set out in Table 9.

f) The section 25 report on the robustness of estimates and adequacy of reserves in Appendix C.

REASON FOR DECISION **To bring together all the relevant information to enable Council to review, consider and comment upon the General Fund budget for approval.**

4. KEY INFORMATION

Background

4.1. In February 2023 Mid Suffolk District Council approved the General Fund Budget 2023/24 and Four-Year Outlook. The budget setting approach for 2023/24 recognised that the Council has tended to underspend the budget that has been set in recent years.

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 2023/24 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 the council overspending against budget as detailed in 4.7 below, whilst still maintaining a net surplus overall position.

4.4. Following the elections in May 2023, a Green administration has been formed. A new Mid Suffolk Plan has been developed since then that puts environmental sustainability and social justice at the heart of everything that the Council does. A holistic approach to achieving these outcomes will be facilitated by the budget.

National Economic Position

4.5. The OBR (Office for Budget Responsibility) set out its latest national economic forecast in November 2023. The main points are as follows:

- The economy has proved to be more resilient to the shocks of the pandemic and energy crisis than anticipated. By the middle of this year, the level of real GDP stood nearly 2% above its pre-pandemic level. But the OBR now expects the economy to now grow more slowly at 0.6% this year and 0.7% next year. They forecast that growth then picks up to 1.4% in 2025 and an average of 1.9% between 2026 and 2028.
- While inflation (as measured by the Consumer Price Index) has more than halved from its 40-year peak of 11% at the end of last year it is expected to be more persistent than previously thought, falling below 5% by the end of this year but not returning to the Bank of England's 2% target until the first half of 2025.
- Consequently, there are continuing increased cost pressures for both the council and our core stakeholders such as the district's residents, local businesses, and the council's service users. In budgetary terms these pressures are being realised directly through increased unit costs for items such as energy, fuel and utilities, alongside inflation linked contractual cost increases and also the need to agree a fair and affordable pay offer for staff.
- Markets now expect that interest rates have peaked but will need to remain higher for longer to bring inflation under control. The Bank of England's Monetary Policy Committee (MPC) at its meeting on 31 January 2024, voted by a majority of 6 to maintain the Bank Base Rate at 5.25%. The high interest rates have meant that our financing costs, particularly in obtaining short term loans, have increased significantly.
- In terms of the national public finances: higher and more domestically fuelled inflation – and in particular the interplay between higher nominal earnings and frozen tax thresholds – has raised nominal tax receipts and has reduced the underlying borrowing forecast by around £60 billion by 2027/28. But higher inflation and earnings have also pushed up the cost of inflation-linked welfare benefits and the triple-locked state pension by around £20 billion. And higher inflation and interest rates have added £15 billion to the cost of serving the government's debts. But because the Chancellor left departmental and other spending largely unchanged in his Autumn Statement the overall forecast net position is a £27 billion net fiscal windfall in 2027/28.
- The Chancellor announced that he would spend this windfall on cuts in National Insurance Contributions, permanent up-front tax write-offs for business investment, and a package of welfare reforms, which together provide a modest boost to output of 0.3% in 5 years.
- No major changes to departmental spending plans were announced in the Autumn Statement despite significantly higher inflation. Departmental expenditure limits (or DELs) account for around 40% of public spending and are allocated out between departments in periodic Spending Reviews. The current Spending Review period comes to an end in 2024/25, and the next review is not scheduled until 2025.
- Government will announce a Spring Budget on 6th March 2024, and there may also be an Autumn fiscal event depending on the date chosen

for the General Election. However, given the forecast state of the public finances it is not likely that significant increases in funding will be given to local government over the medium term even if there is a change in national government.

2023/24 Budget and Forecast Outturn

4.6. On 24 February 2023, the Council set a balanced budget for 2023/24. The budget comprised of £24.3m gross expenditure and £11.7m income, to give a £12.6m cost excluding housing benefits payments and income. The net cost of services budget, which includes housing benefits payments and income is £12.4m, which is primarily funded from council tax, business rates and government grants. Chart 1 below shows how the £24.3m gross expenditure is allocated across the services and Chart 2 below shows the breakdown of the £11.7m service income.

Chart 1: Gross Expenditure by service area 2023/24 (£24.3m – excl. housing benefits)

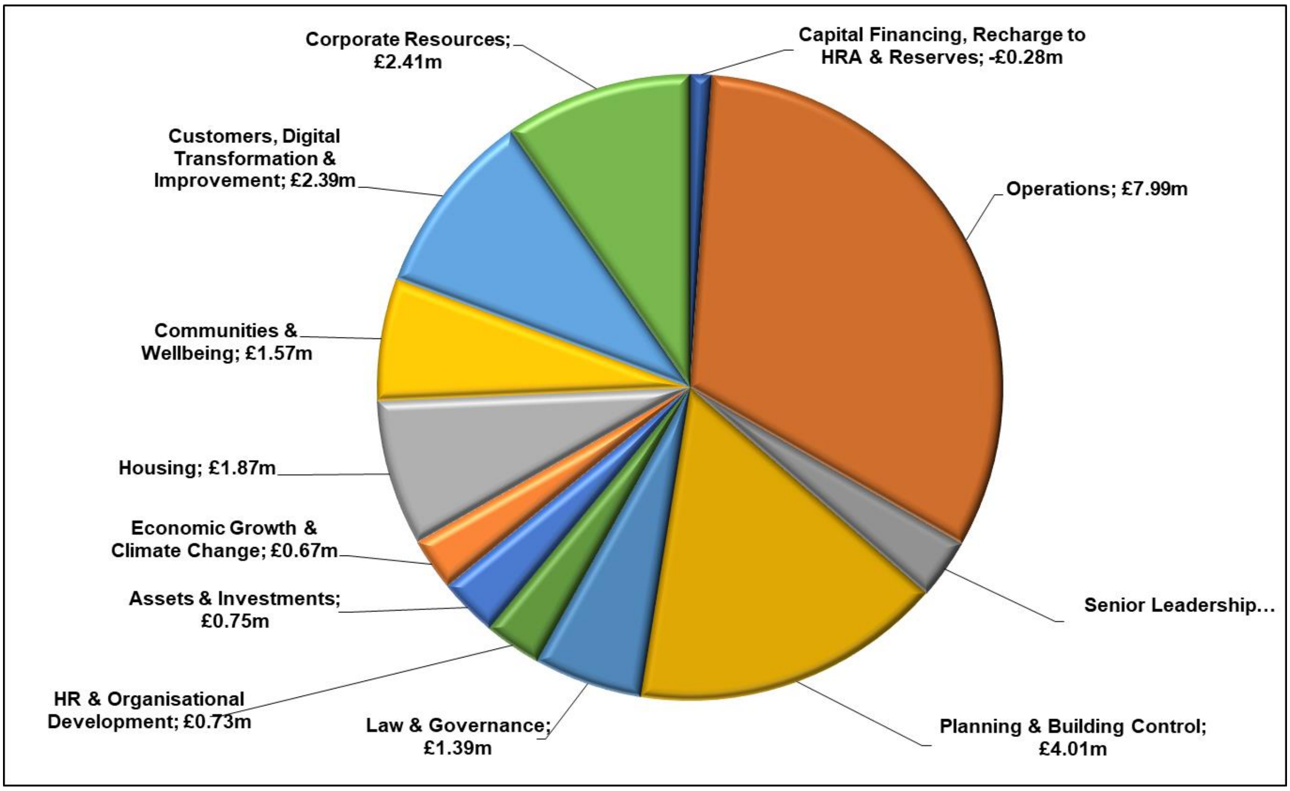
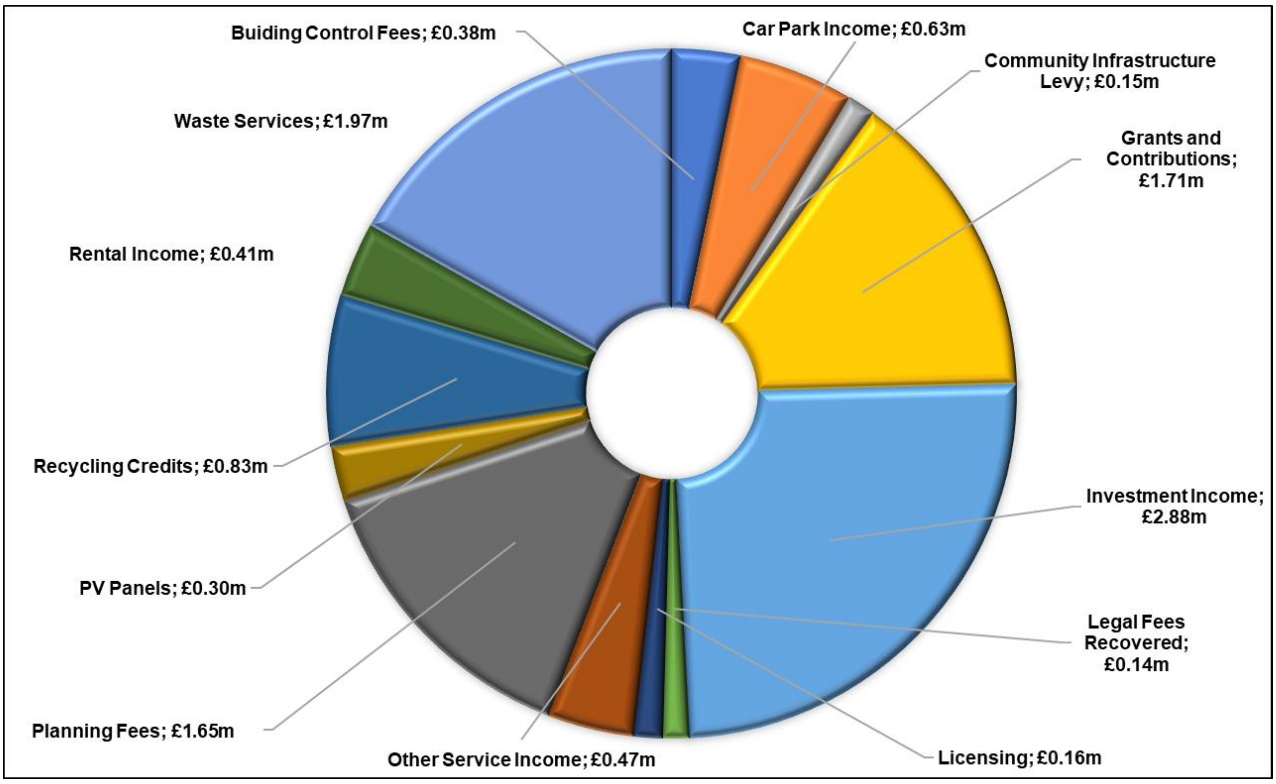


Chart 2: Income by service area (excl. housing subsidy) 2023/24 - £11.7m



4.7. The second quarter 2023/24 budget monitoring report was presented to Cabinet on 5 December 2023 and showed a forecast a surplus of £2.878m, £700k less than budgeted.

4.8. The largest single variance is planning income which is £689k below budget. It is proposed that this shortfall will be part-funded from earmarked reserves. However, statutory increases to planning fees will take effect in-year which will go some way in reducing the deficit and this will be reported in quarter three.

4.9. The third quarter position will be presented to Cabinet on 5 March 2024.

5. 2024/25 PROPOSED BUDGET

5.1. The approach to budget setting for 2024/25 has been to take the 2023/24 forecast outturn position as a starting point as the most up to date position of the Council's financial requirements going forward. A number of budget items have also been forecast for the new financial year from a zero-base, including the employees' budget, grant income from central government, financing costs, interest income, and Business Rates/ Council Tax income.

5.2. Officers have also sought to reflect the change of focus for the Council so that the budget reinforces and enables the emphasis on social and environmental responsibility, supporting citizens and helping communities to thrive.

5.3. The Finance Team have worked closely with budget managers and the Senior Leadership Team to update the Council's budget requirements for 2024/25; taking into account known pressures and political priorities and identifying efficiencies and savings to help offset these without negatively impacting on service delivery.

5.4. The summary in Table 1 below shows the breakdown of the Council's net cost of services budget for 2024/25 (£14.2m) compared to 2023/24 (£12.4m) This gives an increase of £1.8m (14%). For clarity, the £12.6m in paragraph 4.6 excludes Housing Benefits which are included in the council's Net Cost of Service but are not included in the Income & Expenditure.

5.5. The Council's 2024/25 gross expenditure is £25.5m and service income is £11.2m giving a net cost of service before Housing Benefits/Subsidy (£127k) of £14.2m. Funding equates to £19.4m resulting in a net surplus of £5.2m for the 2024/25 budget, which will be transferred to earmarked reserves as set out in section 6 of this report.

Table 1: General Fund Budget Summary 2024/25

Service Area		Budget 2023/24	Budget 2024/25	Movement 2023/24 to 2024/25
		£'000	£'000	£'000
Service Expenditure	Employees	13,128	13,698	570
	Premises Expenses	1,255	1,337	82
	Supplies & Services	5,181	6,717	1,536
	Transport Expenses	409	504	95
	Third Party Payments	4,573	4,827	254
Grants & Income	Grants and Contributions	(1,715)	(1,705)	10
	Sales, Fees & Charges	(5,407)	(4,827)	580
	Rental & Other Income (incl. PV panels)	(1,698)	(1,894)	(195)
Housing Benefits	HB Transfer Payments	9,239	9,239	-
	HB Grants and Contributions	(9,366)	(9,366)	-
Net expenditure on services as above		**15,599**	**18,532**	**2,933**
Recharges	Charge to HRA/Capital	(1,761)	(1,792)	(32)
Capital Financing Costs	Interest Payable - CIFCO	416	396	(21)
	Interest Payable - Other	1,090	951	(139)
	Minimum Revenue Provision (MRP)	1,475	1,324	(151)
Investment Income	Pooled Funds Net Income	(566)	(566)	-
	Interest Receivable - CIFCO	(2,187)	(2,172)	14
	Interest Receivable - Gateway 14	(97)	-	97
	Interest Receivable - Other	(31)	(31)	-
	Dividend from Gateway 14 Ltd		(20,000)	(20,000)
Reserves	Transfers to / (from) Reserves	(1,499)	(2,411)	(912)
	Transfer of Gateway 14 Dividend into reserves		20,000	20,000
Total Net Cost of Services		**12,441**	**14,230**	**1,789**
Government Grants	New Homes Bonus	(1,427)	(1,683)	(256)
	Revenue Support Grant (RSG)	(132)	(121)	12
	Services Grant	(92)	(14)	78
	Rural Services Delivery Grant	(508)	(588)	(80)
	Funding Guarantee	(450)	(346)	105
Business Rates	Baseline Business Rates	(2,316)	(2,935)	(619)
	S31 Business Rates Grant	(3,416)	(3,841)	(425)
	Business Rates - Renewable Energy	(767)	(647)	119
	Income from Freeport		(240)	(240)
	Business Rates Pool share of Growth Benefit	(678)	(700)	(22)
	Business Rates Pool - Removal of Top Slicing		(600)	(600)
	B/R Prior Year Deficit/(Surplus)	790	(396)	(1,186)
Council Tax	Council Tax	(6,846)	(7,222)	(376)
	Council Tax Prior Year Deficit/(Surplus)	(177)	(98)	79
Total Funding		**(16,019)**	**(19,431)**	**(3,412)**
Net Position Before Reserves		**(3,578)**	**(5,201)**	**(1,623)**

5.6. The charts below show the breakdown of expenditure and income excluding Housing Benefit payments and compensating income. Chart 3 below shows how the £25.5m gross service expenditure is allocated across the services and Chart 4 shows the breakdown by expenditure type. Chart 5 shows the breakdown of total service income of £11.2m (this excludes housing benefit, general government grants, Council Tax and Business Rates).

5.7. **Chart 3: Gross Expenditure by service area (excl. housing benefits) 2024/25 (£25.5m)**

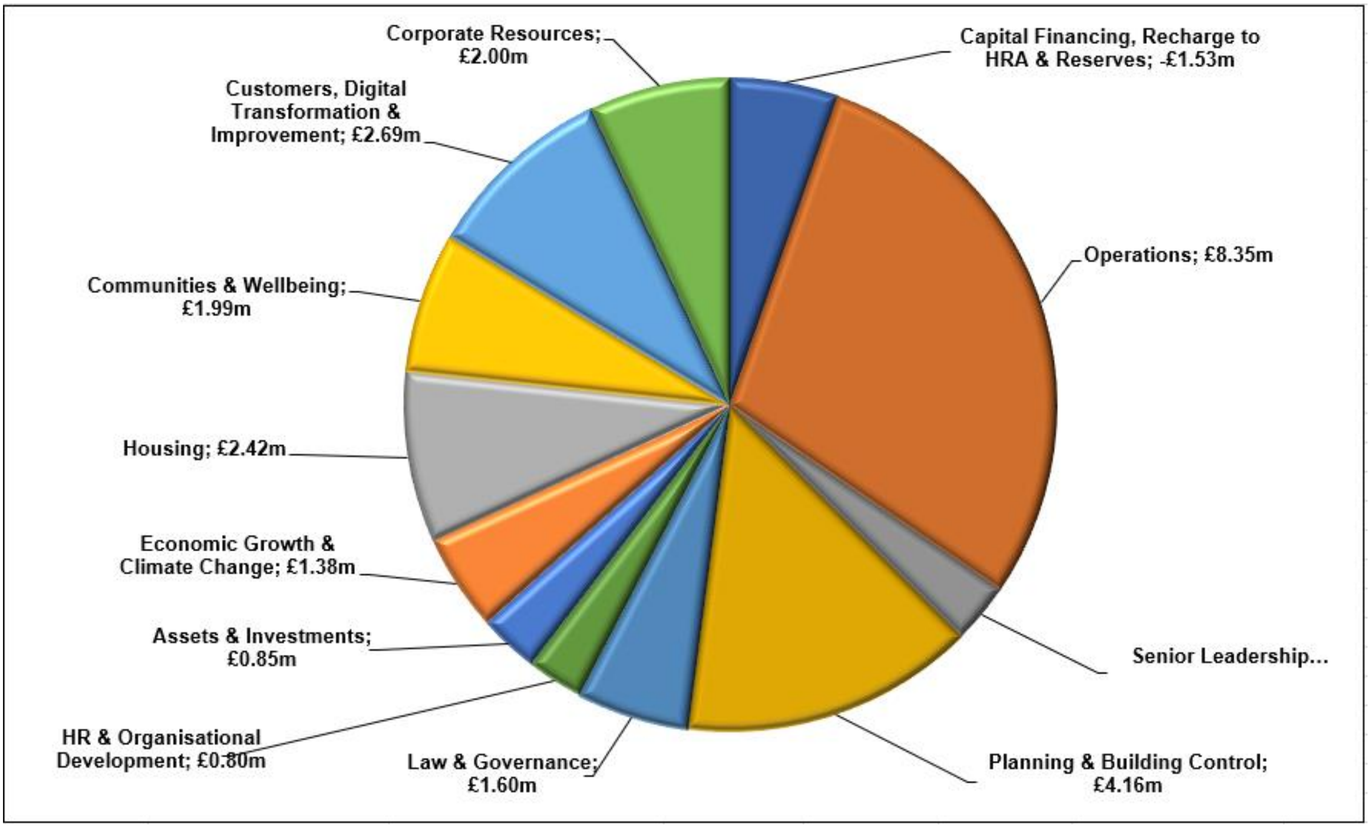


Chart 4: Gross Expenditure by type (excl. housing benefits) 2024/25 (£25.5m)

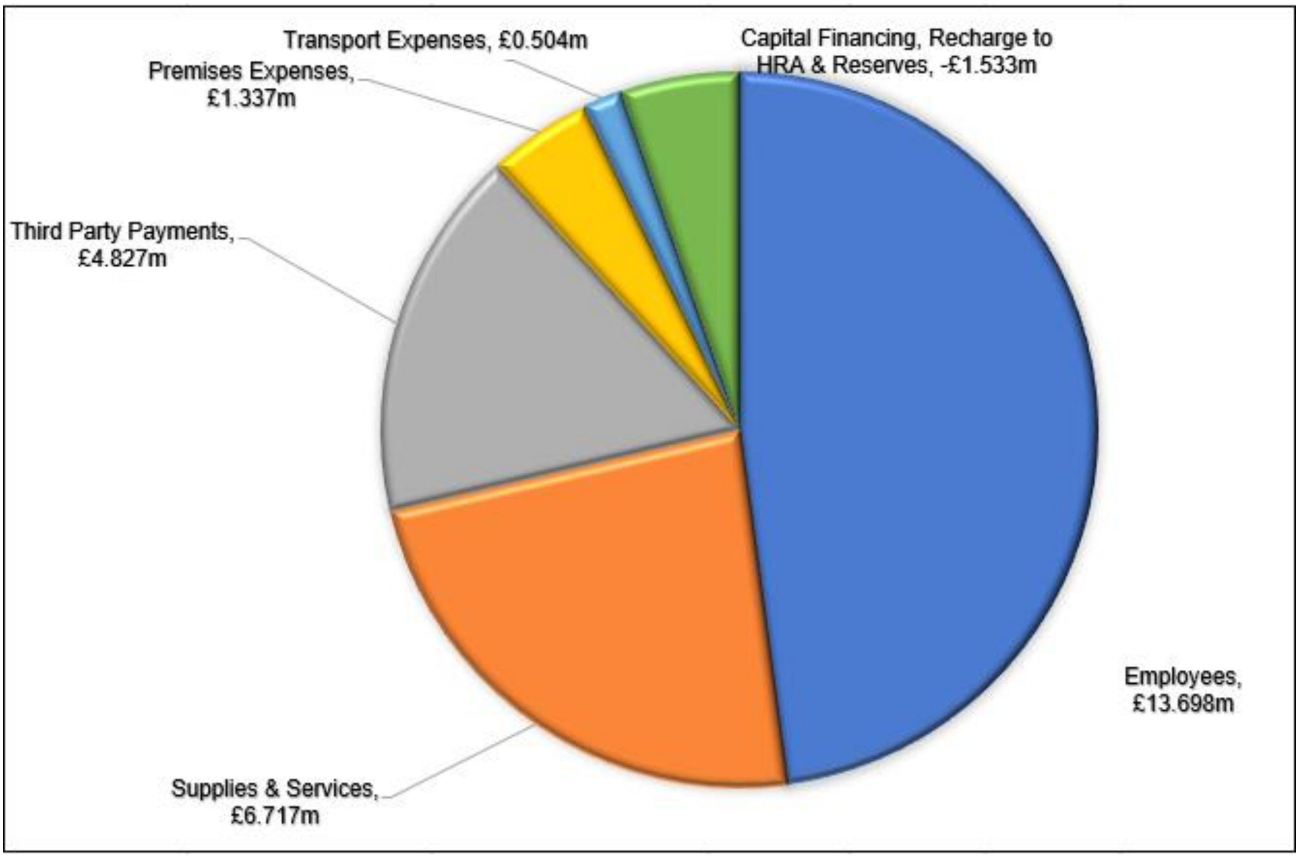
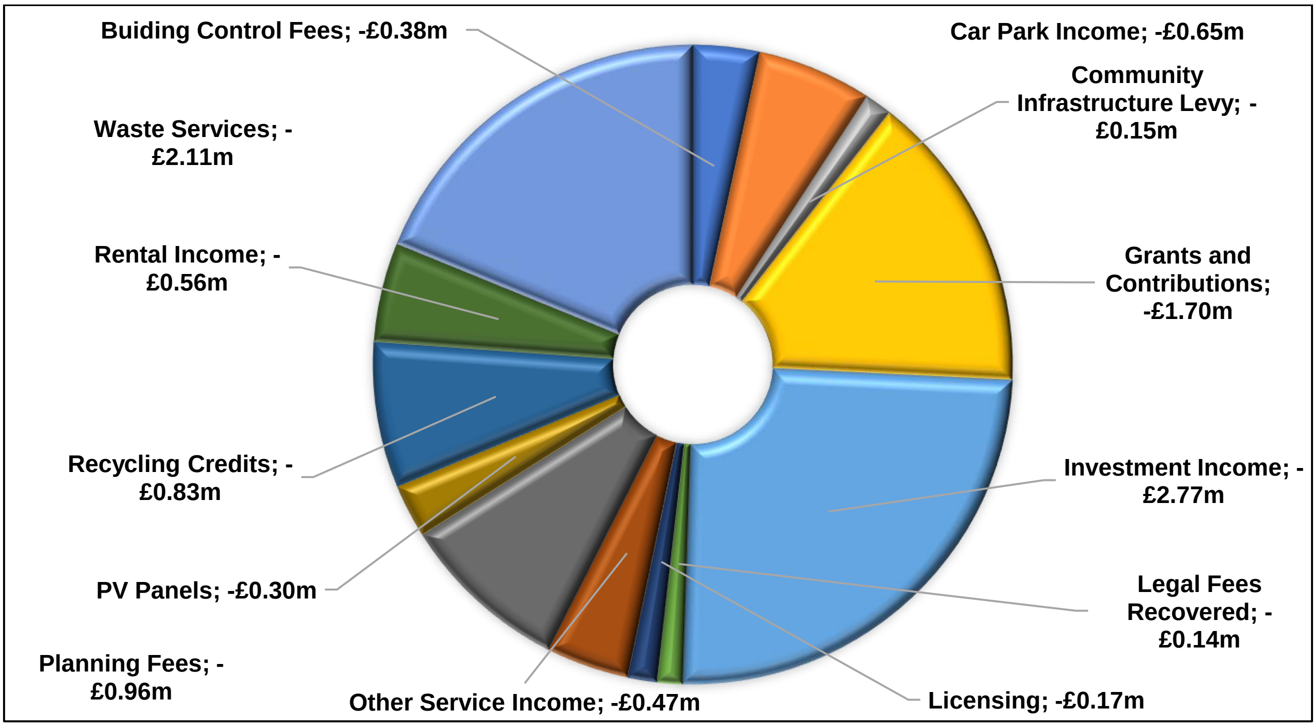


Chart 5: Total Service Income (excl. housing benefits) 2024/25 (£11.2m)



5.8. Table 2 below shows the key changes proposed from the approved budget for 2023/24 (£3.578m surplus) to the proposed budget for 2024/25 (£5.201m) in terms of additional budget costs and additional income and/or savings. The overall change is that the surplus position has increased by £1.623m.

5.9. The overall position has changed since that reported at Overview and Scrutiny in January 2024 (report reference MOS/23/05) and an increase in the surplus position then reported is now forecast. The explanations for the key variations are given in paragraphs:

- 5.14 for reduction in the interest cost forecast.
- 5.16 for increased interest income from CIFCO Ltd.
- 5.20 for the increase in grants from national government.
- 5.32 for an increase in the Business Rates income forecast.

Table 2: General Fund Overall budget changes from 2023/24 to 2024/25

	£000's	£000's
2023/24 Surplus		**(3,578)**
Drop in Planning Income	692	
Employee Cost Pressures	570	
Strategic Priorities projects in housing, matched by reserves	294	
Serco Contract Increase	145	
Interest Receivable Gateway 14	97	
Planning Posts funded by reserves	79	
IT Service Contract	79	
Strategic Policy costs removed from Core Budget, funded by reserves	65	
Uplift in External Audit fees	61	
Communities Roles outside of core budget funded by Reserves	61	
Increased Tools and Equipment Costs	58	
Increased Fuel Costs	57	
Reduction in Land Charges Income	53	
Increase in Member Allowances	52	
Higher cost of Neighbourhood Plan Delivery	52	
Reduced Neighbourhood Plan Income	50	
Climate Change post funded by reserve and not core budget	39	
Interim extension costs in Commissioning & Procurement	36	
Increase in charges for Guaranteed Rent Scheme	36	
Shared Revenue Partnership contract uplift	33	
HR & OD Costs connected to benefits review	31	
Additional Premises costs in Housing Solutions	31	
Drawdown of Waste reserve to mitigate contract cost increases	30	
Additional transfer to reserves for Neighbourhood Plans	29	
Vehicle & Repair Costs	28	
Health & Safety posts no longer funded by Covid Grants	25	
Tree Works Costs	25	
Stowmarket Customer Access Point	23	
Utility costs at Wingfield Barns	20	
Increase of Election reserve transfer following review	20	
Increase in EVCP electricity cost from new Charge Points.	20	
Other Cost Pressures	209	
Total Pressures		**3,095**
Savings/ Additional Income:		
Reduction in required transfer from reserves in Housing	(193)	
Minimum Revenue Provision (MRP)	(151)	
Reduction in Interest Payable	(139)	
Increase in Garden Waste subscription Income	(133)	
New rental income unbudgeted from sites at Hurstlea Road.	(120)	
Transfer from Reserves for Housing Roles	(66)	
External Homelessness funding	(66)	
Lower Reserve funding in Customer Operations	(55)	
Communities Roles matched by external funding	(41)	
Charge to HRA/Capital	(32)	
Savings on Car Parks Non-Domestic Rates	(30)	
Increase of Commuted Maintenance Reserve drawdown to support service delivery.	(29)	
Increase in Income budget for EVCP Income.	(26)	
Economic Development Role funded by Reserve	(21)	
Other Transfers from Reserves	(21)	
Interest Payable - CIFCO	(21)	
Other Savings	(164)	
Total Income/Use of Reserves		**(1,307)**
Funding Changes		**(3,411)**
Total Net Surplus 2024/25		**(5,201)**
Total Movement from 2023/24 to 2024/25		**(1,623)**

Key Assumptions made in the Net Cost of Services Budget

5.10. Constructing a budget that runs to 13 months beyond when it was approved means that several assumptions must be made about the conditions that are likely to exist over an extended period. Assumptions made when constructing the budget for 2024/25 were reviewed and assessed by the Overview and Scrutiny Committee in November 2023 (report reference MOS/23/01), and in January 2024 (report reference MOS/23/05). The key assumptions are summarised below.

5.11. **Employees' Budget:** The Council's pay structure is primarily based on national negotiating body pay spines and nationally negotiated settlements. An award for 2023/24 (£1,925 per pay point) was agreed in November 2023, being a rise of up to 9.42% for the lowest paid through to 3.88% for those on the highest bands. For 2024/25 a 4% Pay Award increase has been assumed. It should be noted every 1% increase in the pay-award creates a permanent and additional budget pressure of approximately £119k. Given that pay costs form a significant proportion of the Council's budget and the uncertainty over future pay awards, this is a key budget risk. As in recent years we have assumed that, due to retirements, resignations, creation of new posts and turnover, a 5% vacancy management factor will be achieved (which equates to a £700k saving).

5.12. **Inflation on supplies & services and contractual costs:** Many of the Council's contracts have inflationary increases incorporated within them and therefore the significant increases in CPI and RPI measures have created a clear pressure on the budget position. Inflationary increases have been applied across the council's main contracts. The major increases due to inflation are in insurance (6%), the refuse contract (5%), the Shared Legal Service contract (4%) and Shared Revenues Partnership (3%) contract.

5.13. **Financing Costs:** These comprise of interest charges and MRP (Minimum Revenue Provision) costs and arise when the council borrows money for funding capital expenditure, for refinancing existing external loans at the end of their term, and for financing short term cash needed to keep the council liquid.

5.14. The Finance Team has done a preliminary review of the existing model for estimating the financing costs. The team recommends that the model can be enhanced to give more accurate estimates by incorporating additional detailed cash flow forecasts into the model. These improvements will however take some time to undertake and cannot be done in time for setting the 2024/25 budget, and therefore this work will progress in-year.

5.15. However, the preliminary review has established that whilst the HRA (Housing Revenue Account) has been charged its share of interest costs arising from the estimated short-term borrowing needed to keep the council liquid, the General Fund estimates currently do not contain the corresponding credit amount. Therefore, forecast interest costs in the General Fund 2024/25 budget have decreased by £1,306,410.

5.16. **Fees and Charges Income:** The total income from the proposed fees and charges for 2024/25 is £4.827m compared to £5.407m in 2023/24, a decrease of £580k or 11%. The decrease in income from the current year's approved budget is driven by the reduction in the volume of Planning fees following the marked decline in activity, mitigated by a statutory 25% increase in those fees. Other Fees & Charges have been increased to move incrementally toward full cost recovery of the services to reduce their subsidisation from other areas of the budget. Fees & Charges were approved by Cabinet on 9th January 2024. (Ref: MCa/22/35)

5.17. **Investment Income**: More detailed information on this income will be found in the annual Treasury Management, Investment, and Capital Strategy report that will be presented to Council on 22 February 2024 which will also give information regarding the Council's subsidiary companies. The key points to highlight in this report are as follows:

a) **Pooled Investment Income**: No potential impact has yet been assumed in the pooled investment income budget arising from the Council's emerging and developing proposals to incorporate ESG (Environmental, Social and Governance) criteria into its investment decisions.

b) **Gateway 14 Ltd Loan**: The Council will no longer receive interest income from the lending it has made to Gateway 14 Ltd as the last tranche of loan repayment was received by the Council in December 2023. That income budget line has therefore decreased to zero for 2024/25.

c) **Gateway 14 Ltd Dividend**: the Council is anticipating a dividend receipt of approximately £20m in 2024/25 from Gateway 14 Ltd. It is proposed that this is taken to reserves and used to invest in key strategic projects within the district. £5m of the amount will be used to part fund the construction of the Skills and Innovation Centre at Gateway 14. Whilst further dividends from Gateway 14 Ltd are probable in future years they are not anticipated to be of the same size as the 2024/25 dividend. Given that the amounts from 2025/26 onwards are not certain they have not been incorporated into the medium-term forecast.

d) **Interest income from CIFCO Ltd**: A reduction of £232k in the interest income budget received by the council from its lending to CIFCO Ltd was shown in the January 2024 Overview & Scrutiny Committee report. This reduction has been reversed in the figures included in this report following the completion of budget forecasting work by CIFCO Ltd and their advisers. CIFCO Ltd are now in a position to pay rather than defer the interest from 2024/25 onwards.

e) **Accounting for Loan Impairments**:

- Where local authorities finance capital expenditure from borrowing, including any borrowing undertaken to finance capital loans to third parties, they must set aside an amount of money each year to ensure that the loan amount can be repaid in the future. This amount of money is called the

Minimum Revenue Provision (MRP). In practice, the application is more complex, but the 2003 Local Authority (Capital Finance & Accounting) regulations were introduced with the aim of ensuring that councils do not borrow more than they can afford. This is because MRP is a cost that must be met from a council's revenue budget which has to be balanced each year. Therefore, in deciding whether any new capital expenditure is to be funded by borrowing a council must consider whether it can afford the cost of the associated MRP (and interest charged on the borrowing) from its revenue budget.

- In recent years, central government has been concerned that many councils employ practices which result, in its view, in the underpayment of MRP. They are therefore currently consulting on changes to the regulations governing MRP. Given that this is the third consultation undertaken over the last couple of years on this issue – it is highly likely that their final proposals will be introduced in April 2024.

- The changes likely to be introduced include regulations relating to the treatment of a loan impairment, more properly called an Expected Credit Loss (ECL). The word "expected" in this term comes from probability theory: it is the arithmetic mean of the possible values a random variable can take, weighted by the probability of those outcomes. It doesn't mean that the expected value will definitely happen.

- Councils already account for expected or actual losses of loans not being repaid in their annual Statement of Accounts. If these are not capital loans that have been funded by council borrowing, then under existing rules these are "reversed out" of the accounts so that they do not impact on the revenue budget.

- If the loan is a capital loan funded by the council undertaking borrowing, then under the existing regulations councils are required to make an MRP charge of at least equal to the expected credit loss or actual loss and charge this to the revenue budget over the estimated useful life of the asset starting in the year after the asset/s become operable.

- Under the government's revised proposals any expected credit loss or actual loss arising from a loan lent to a third party must be charged to the revenue budget in the year the loss is recognised, with no option to spread the cost over future years. The amount charged however only needs to be equal to any increase from the previous year's calculated loss and not the total cumulative loss. If the calculated ECL has decreased from the previous year, then the credit can be applied to the Capital Funding Requirement (the amount of indebtedness the council holds) to reduce future MRP payments to the revenue budget.

- The proposed changes from government in accounting for ECLs have implications for the council in terms of the lending it has undertaken to CIFCO Ltd. Arlingclose has undertaken ECL calculations and advise that, given current assumptions regarding the agreed deferment of interest income owing to the council in 2022/23 and 2023/24 from CIFCO Ltd, a sum of £538k needs to be set aside to fund the ECL if the proposed regulations come into effect in 2024/25.

- They further advise that the council could minimise its risks if it sets aside this amount in the current, i.e. 2023/24, financial year with the objective of making a voluntary overpayment of MRP at year-end as part of the annual Statement of Accounts preparation. It may be known then whether government has introduced the regulatory changes and whether there are any transitional arrangements to dampen the impact of the changes. In order to do this the council will be asked to change its MRP Policy Statement for both this financial year and for next. This Statement is part of the annual Treasury Management, Investment and Capital Strategy report which is a separate report on this Council's meeting agenda.

Local Government Funding

5.18. The provisional local government finance settlement for 2024/25 was announced on 18 December 2023. The key headlines for District Councils are as follows:

- For the sixth time, the settlement is for one-year only.

- The small business rates multiplier will be frozen at 49.9p. The standard business multiplier will rise by CPI to 54.6p. The Government will compensate local authorities for the loss of income for this decision up to the level of the September 2023 Consumer Prices Index (CPI), meaning that, taken together, the increase in the Baseline Funding Level (BFL) and the multiplier under-indexation grant for 2024/25 provide an increase of 6.7%.

- For District Councils' council tax can be increased by the higher of 2.99% or £5.

- The current approach to the New Homes Bonus (NHB) is being applied to 2024/25 with a further one-year allocation for housing growth between October 2022 and October 2023. There will be no legacy payments as was the case in 2023/24.

- Revenue Support Grant (RSG) to be increased by CPI (6.7%).

- Rural Services Delivery Grant is being maintained at the same level as 2023/24 (however see paragraph 5.20 below).

- The Services Grant will decrease from its 2023/24 level of £483.3 million to £76.9 million for 2024/25. This will be distributed through the Settlement Funding Assessment, in the same way as in 2023/24

- The Government announced in the provisional settlement that, as in 2023/24, it will pay a Funding Guarantee to ensure that all councils will see at least a 3% increase in their Core Spending Power before any local choices are made on council tax, efficiencies, or reserves. This has now been increased (see paragraph 5.20 below).

- All current enhanced business rates retention areas. e.g., Suffolk Business Rates Pool will continue for 2024/25.

- The Government has asked authorities to continue to consider how they can use their reserves to maintain services over this and the next financial year, recognising that not all reserves can be reallocated, and that the ability to meet spending pressures from reserves will vary between authorities.

- The Government also states that it is their view that now is not the time for fundamental reform of the local government finance system, for instance implementing the Review of Relative Needs and Resources or a reset of accumulated business rates growth.

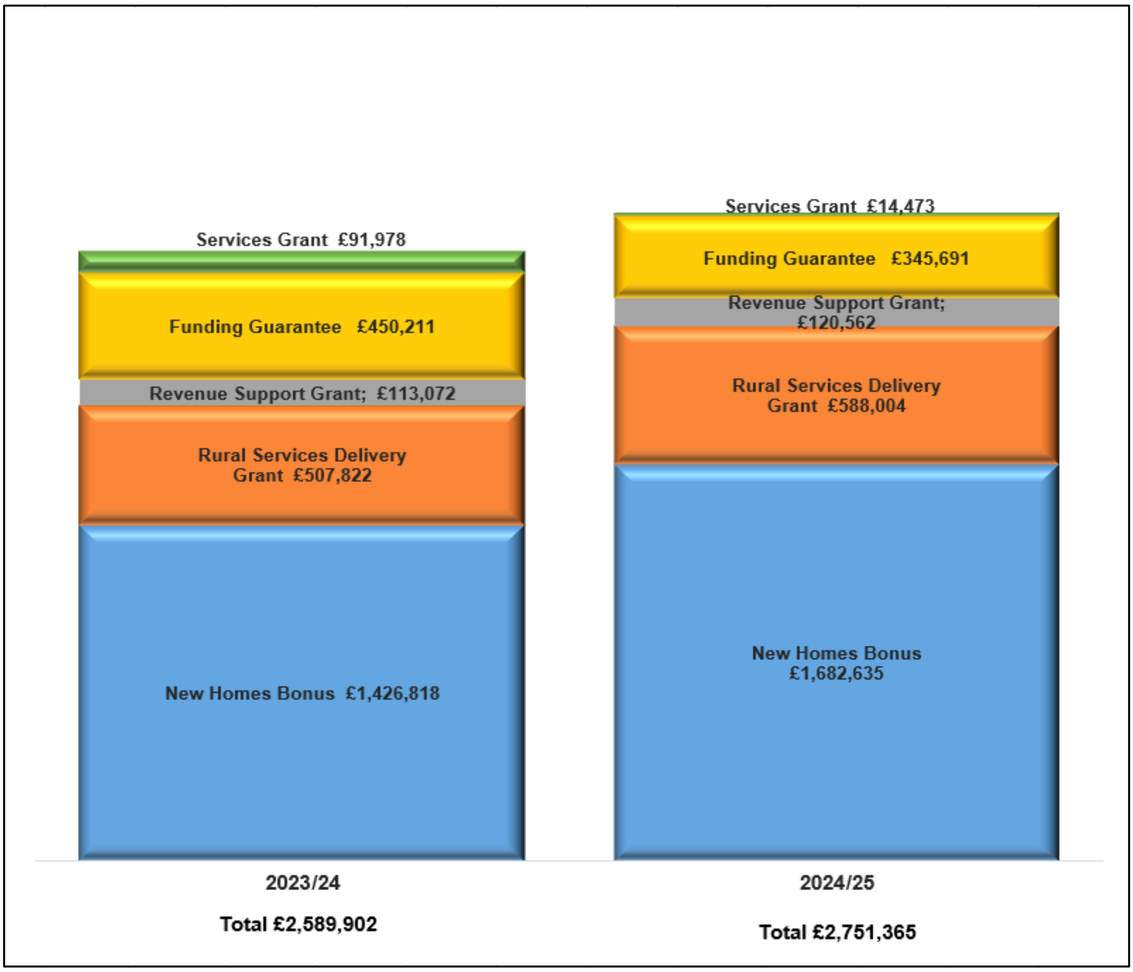
5.19. On 24 January 2024 the Department of Levelling Up, Communities and Housing (DLUCH) announced that Councils across England will receive a £600m support package, in addition to funding outlined at the provisional settlement, to help them deliver key services.

5.20. The majority of the money (£500m) will go into the Social Care Grant. All councils will see an increase in Core Spending Power of at least 4% through the Funding Guarantee - an increase from the 3% announced at the provisional settlement. An additional £15m Rural Services Delivery Grant will also be given.

5.21. The final financial settlement was received on 5 February 2024. This confirmed the increases announced by DLUCH on 24 January for the Funding Guarantee Grant and the Rural Services Delivery Grant. The total increase for this council from the provisional settlement is £121k.

5.22. The Council’s overall 2024/25 final grant allocations have increased by £161.5k (6%) compared to 2023/24.

Chart 6: Government grant allocations 2023/24 and 2024/25



New Homes Bonus (NHB)

5.23. Since NHB was introduced in 2011/12 the Council will have received £21.47m in total by the end of 2024/25. As shown in Table 3 below, the use of NHB to balance the budget increased from 13% in 2017/18 to 24% in 2018/19. Since 2019/20 the Council has been in the position of being able to balance the budget without any use of NHB transferring the full allocation to earmarked reserves. From 2011/12 to 2023/24 £14.2m NHB has been transferred to earmarked reserves.

Table 3: New Homes Bonus used from 2017/18 to 2024/25

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Amount of NHB received	2,641	2,028	1,463	1,380	1,612	1,061	1,778	1,427	1,683
NHB used to balance the budget	110	267	354	0	0	0	0	0	0
% NHB used to balance the budget	**4%**	**13%**	**24%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**

* *In both 2017/18 and 2018/19, the surplus outturn position meant that there was no use of NHB required*.

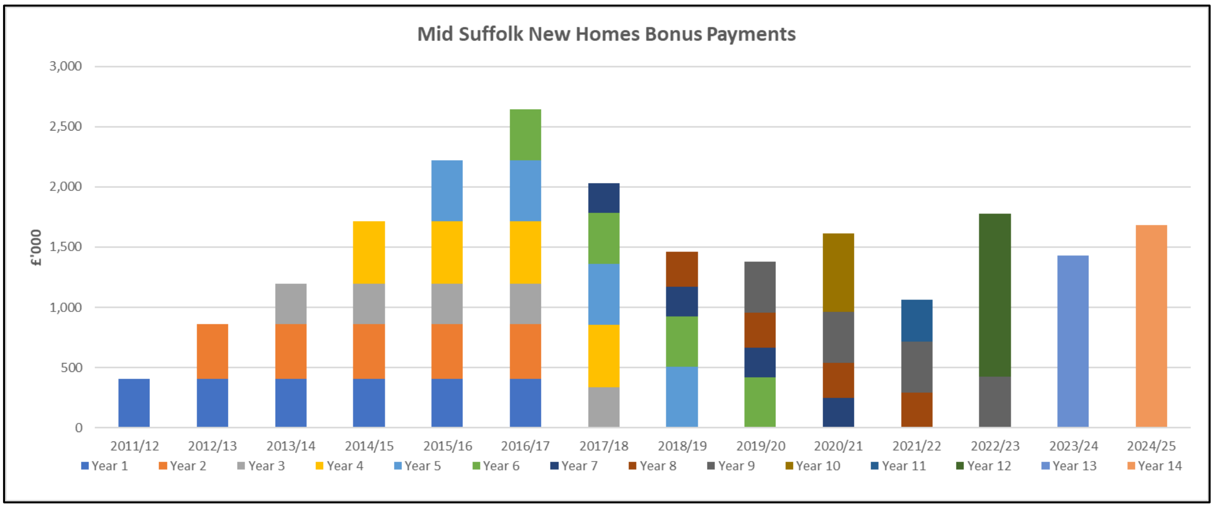
5.24. Table 4 and Graph 1 below shows the NHB over the last twelve years. This shows how NHB has declined from a peak of £2.6m in 2016/17 to £1.68m in 2024/25, after the Government announced it would reduce the allocation from 6 years to 5 years in 2017/18 and to 4 years in 2018/19 and continued to phase out the legacy payments, as well as introducing a 0.4% growth baseline in 2017/18.

5.25. For 2024/25 the 0.4% growth baseline for Mid Suffolk means that the first 182 new homes built received no payment.

Table 4: New Homes Bonus sums per year

														Provisional
Payments	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
Year 1	409	409	409	409	409	409								
Year 2		452	452	452	452	452								
Year 3			334	334	334	334	334							
Year 4				521	521	521	521							
Year 5					506	506	506	506						
Year 6						420	420	420	420					
Year 7							247	247	247	247				
Year 8								290	290	290	290			
Year 9									422	422	422	422		
Year 10										653				
Year 11											349			
Year 12												1,356		
Year 13													1,427	
Year 14														1,683
Total	**409**	**860**	**1,194**	**1,714**	**2,221**	**2,641**	**2,028**	**1,463**	**1,380**	**1,612**	**1,061**	**1,778**	**1,427**	**1,683**

Graph 1: New Homes Bonus Payments



Council Tax

5.26. The taxbase for 2024/25 has increased from 40,126.96 to 41,264.65 (or 2.84%): this is growth between October 2022 and October 2023 reduced for the impact of discounts and reductions (the single person discount and the council tax reduction scheme). This growth in taxbase generates £195k for 2024/25 based on a band D equivalent.

5.27. A 2% increase in the Band D Council Tax for 2024/25 is proposed and 2.99% increases for following years. The 2023/24 Band D is £171.59. A 2.00% increase to the band D equivalent to £ 175.03 would mean an additional £3.44 per annum or 7p per week and would generate an additional £142k.

5.28. The decision to raise council tax influences not just the 2024/25 budget but future years and should be considered alongside the forecast reductions in the budget surplus over the next 4 years (shown in Table 9), as there are long term consequences in setting a council tax increase lower than the maximum permitted. This is particularly significant given the uncertainties faced by local government in terms of future funding reforms and the level of financial support that may be received from central government.

5.29. A surplus of £98k is currently projected for the Collection Fund in 2023/24, which is £79k less than the previous year. The way that the Collection Fund operates means that this will be recognised in the Council's budget in 2024/25.

5.30. In line with recent changes in legislation, it is being proposed in a separate report at this council meeting that from 1st April 2025 a 100% premium will be applied to Second Homes, and that from 1st April 2024, a levy will be applied on dwellings that are long term or periodically unoccupied as below:

- Dwellings left unoccupied and substantially unfurnished for 12 months or more, a premium levied of 100%

- Dwellings left unoccupied and substantially unfurnished for 5 years or more, a premium levied of 200%; and

- Dwellings left unoccupied and substantially unfurnished for 10 years or more a premium levied of 300%.

5.31. This has not been included in the 2024/25 budget.

Local Council Tax Reduction Scheme

5.32. The Council introduced an ongoing 100% Local Council Tax Reduction Scheme last year. It is proposed to update the Income Bands by the Consumer Price Index (6.7%) as for other welfare benefits to ensure the scheme continues to support the most vulnerable households. The contribution rates will be increased by indicative council tax increases to control the cost of the LCTR Scheme. This ensures that the scheme remains affordable and sustainable. The proposed criteria for 2024/25 are summarised in the table below.

Table 5: 2024/25 Proposed Income Bands

Income Bands (Monthly)	monthly contribution	Income Bands (Weekly up to)	Weekly contribution
Not in work or less than £309	£0	Not in work or less than £71.30	£0
£309 - £649.99	£41	£150.00	£9.46
£650 - £1236.99	£87	£285.46	£20.08
£1237 to £1967.99	£128	£454.15	£29.54
£1968 - £2527.99	£195	£583.38	£45.00
£2528 - £2999.99	£254	£692.30	£58.62
Over £3000	No entitlement to LCTR	over £692.31	No entitlement to LCTR

Business Rates

5.33. The headlines for Business Rates are as follows:

- Forecast baseline business rates along with section 31 are forecast to be £3.776m in 2024/25 and this is an increase of £1m from 2023/24.

- The finalisation of the government return (NNDR1) that is required to be submitted by 31 January 2023, has resulted in changes to the business rates estimates from those reported at the January 2024 Overview and Scrutiny Committee. The external advisers, Wilks, Head and Eve, have recently updated their advice regarding the level of appeals and the impact of these on the forecast income levels. They advise that at the end of March 2023 agents put through speculative appeals nationwide against the 2017 valuation list, as this list was closing due to the 2023 revaluation. The national process is that if the Valuation Office Agency (VOA) rejects these claims then agents have a 4 month period to appeal against the rejection. Wilks, Head and Eve did not anticipate the level of the March appeals that would come through and the VOA did not reject a lot of these appeals until July 2023 – which is when the 4-month period for agents to appeal against the VOA rejections started. Now that the 4-month period for the majority of the March claims have ended they have been removed from the appeals listing – which means that the provision for the impact of successful appeals can be reduced, and the forecast income levels increases.

- The benefit from being part of the Suffolk business rates pool will increase by £22k to a total of £700k. In addition, it has been agreed that the top slice awarded annually to Suffolk Public Sector Leaders Group (SPSLG) to fund county wide projects would instead be retained by each council in the pool to help fund each council’s budget. Mid Suffolk will benefit from an additional £600k from this in 2024/25.

- The Collection Fund forecast balance at the end of March 2023 is a surplus position of £396k, which is an improved position from the previous year by £1,186k. This will be a benefit to the budget in 2024/25 due to the way the collection fund operates.

6. RESERVES

6.1. 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.

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

6.3. The reserves table (table 6) includes the estimated forecast surplus for 2023/24 and 2024/25 transferred to the Thriving Communities Reserve. In addition, the reserves have been increased in 2024/25 by the £20m dividend the council will receive from Gateway 14 Ltd.

6.4. New reserves have been created namely £1m for a financial resilience reserve to act as a contingency amount for future years adverse changes to the local government finance regime and £0.538m for an expected credit loss reserve (as mentioned in paragraph 5.16 e).

6.5. Table 6 below shows the planned earmarked reserve movements and balances from 31 March 2022, forecast through to 31 March 2024.

6.6. The council also has a General Fund reserve balance of £1.08m on top of the earmarked reserves reported in table 6. This is totally uncommitted and acts as a contingency to fund unforeseen costs. There is no statutory minimum level set such a reserve; it is a matter for each local authority’s own judgement after taking into consideration the strategic, operational, and financial risks it faces. Many councils set a minimum reserve provision of between 6% to 10% of the Net Revenue Budget. This council’s General Fund balance is 7%.

Table 6: Earmarked Reserves

Reserve	Budget Balance as at 31/03/24	Forecast Balance as at 31/03/24	To Reserve 2024/25	From Reserve 2024/25	Estimated Balance at 31/03/25	Committed 2025/26	Committed 2026/27	Committed 2027/28	Balance with known commitments as at 31st March 2028
Business Rates & Council Tax	5,201,905	4,081,920	0	0	4,081,920	0	0	0	4,081,920
Business Rates Retention Pilot (BRRP)	394,335	380,463	0	-48,855	331,608	-40,569	0	0	291,039
Carry Forwards	128,799	128,799	0	0	128,799	0	0	0	128,799
Climate Change and Biodiversity	849,433	629,141	0	0	629,141	0	0	0	629,141
Commercial Development Risk Management	5,364,025	0	0	0	0	0	0	0	0
Community Development Fund	-	500,000	0	0	500,000	0	0	0	500,000
Community Housing Fund	140,827	140,827	0	-28,441	112,387	-29,294	-30,173	-31,078	21,842
Commuted Maintenance Payments	390,323	436,080	0	-113,979	322,101	-74,455	-74,455	-74,455	98,736
COVID 19	841,624	848,616	0	-848,616	0	0	0	0	0
Elections Equipment	35,000	35,000	0	0	35,000	0	0	0	35,000
Elections Fund	158,895	20,000	40,000	0	60,000	41,200	42,436	43,709	187,345
Expected Credit Loss Reserve	-	537,850	0	-537,850	0	0	0	0	0
Financial Resilience Reserve	-	0	1,000,000	0	1,000,000	0	0	0	1,000,000
Government Grants	326,851	326,851	0	0	326,851	0	0	0	326,851
Thriving Communities Fund	8,303,779	14,506,051	5,398,610	-3,632,552	16,272,110	-4,947,386	-570,000	-250,000	10,504,724
Insulation Project Reserve (Cosy Homes)	-	2,000,000	0	-2,000,000	0	0	0	0	0
Homelessness	337,019	378,124	0	-86,934	291,190	-86,934	-86,934	-86,934	30,388
Strategic Planning Reserve	310,715	40,942	0	-10,000	30,942	-10,000	-10,000	0	10,942
Neighbourhood Planning Grants	72,523	72,268	0	0	72,268	-26,523	-26,523	-26,523	-7,301
Planning (Legal)	1,259,913	1,259,913	0	-107,000	1,152,913	-107,000	-107,000	-107,000	831,913
Planning Enforcement	45,000	45,000	0	0	45,000	0	0	0	45,000
Repair & Renewals	292,690	292,690	0	0	292,690	0	0	0	292,690
Rough Sleepers	25,665	25,665	0	0	25,665	0	0	0	25,665
Strategic Priorities	3,923,638	0	0	0	0	0	0	0	0
Strategic Efficiencies	250,000	750,000	0	0	750,000	0	0	0	750,000
Temporary Accommodation	362,585	362,585	77,850	-85,918	354,518	-8,068	-8,068	-9,316	329,066
Waste	186,148	186,148	0	-186,148	0	0	0	0	0
Welfare Benefits Reform	6,573	6,573	0	0	6,573	0	0	0	6,573
Well-being	89,387	18,763	0	0	18,763	0	0	0	18,763
Gateway 14 Dividend Reserve	-	0	20,000,000	-1,594,332	18,405,668	-3,883,639	0	0	14,522,030
Skills & Innovation Reserve	-	0	3,188,664	-3,188,664	0	0	0	0	0
TOTAL	**29,297,652**	**28,010,269**	**29,705,124**	**-12,469,289**	**45,246,104**	**-9,172,667**	**-870,716**	**-541,597**	**34,661,124**

7. MEDIUM TERM PROJECTIONS

7.1. Table 9 below shows the forecast position for the period 2024/25 to 2027/28. Over the forecast period to 2027/28, the net cost of service increases by £1.5m (10.5%) from the 2024/25 proposed budget, mainly due to forecast pay awards, increments, inflationary increases on major contracts and capital financing charges. For a summary of the major cost assumptions used see Table 7 below.

Table 7: Cost assumptions for 2024/25 onwards

Description		2025/26 £'000	2026/27 £'000	2027/28 £'000
Employee Costs	Pay Award- 4% 24/25 then 3%	527	201	331
	Increments - 2%	215	100	220
	Insurance Premiums - 3%	17	9	9
Contracts	Refuse Contract 5% reducing to 2%	107	65	45
	Shared Revenues Partnership - 3%	33	34	35
	ICT Contract -4%	78	20	20

7.2. The estimated tax base growth over the same period along with a 2% increase in council tax for 2024/25, followed by a 2.99% increase every year for the next three years, would generate an additional £1.038m (14%). A £5 increase every year for the next three years would generate an additional £629k or 18% of the increase in the net cost of service. Table 8 below provides a year-on-year comparison.

Table 8: Council Tax scenarios

Scenario	Budget 2023/24 £'000	Forecast 2024/25 £'000	Forecast 2025/26 £'000	Forecast 2026/27 £'000
2.99% increase - 2024/25 onwards	6,886	7,311	7,658	7,965
Cumulative increase to taxbase	-	213	338	414
Cumulative increase to council tax funding	-	212	434	665
£5 increase - 2024/25 onwards	6,886	7,305	7,641	7,928
Cumulative increase to taxbase	-	212	338	413

7.3. There is significant uncertainty however over local government funding in the medium term in the absence of a longer-term Spending Review and the outcome of other significant reforms to Local Government funding, for example the Fair Funding review and reforms to the business rates regime including a base line reset of accumulated business rates growth. As reported above the government has said that “now is not the time” for reform but they have not clarified this any further.

7.4. As a result, our longer-term financial position remains very uncertain which does not allow the council to effectively plan for the future. These future year forecasts should not therefore be seen as robust figures but rather a direction of travel.

7.5. When forecasting the expected level of government funding for the next four years, we have assumed that local government will still receive funding but at a reduced rate given the current state of the public finances and the possible effects of the financial reforms. We have therefore assumed that all the grant income we currently receive from government will continue in 2025/26 but at half the current amount.

7.6. We have not considered however the impact on Business Rates income levels arising from a possible baseline reset and this is possibly the greatest concern and risk for the council. The current baseline was set in 2013, when all councils were given a share of Business Rates equal to their calculated needs. Since then councils have been allowed to keep a share of their growth, For authorities who have had significant business rate growth and are significantly above their current funding baseline, such as Mid Suffolk, this will have a significant impact if the baseline is reset as we will lose this growth, subject perhaps to any damping arrangements on existing funding levels through the business rates retention scheme. However, the actual impact on the council is difficult to calculate with any robustness without any guidance from government on the possible changes that may be implemented.

Table 9: Forecast Position 2024/25 - 2027/28

Service Area		Budget 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/28
		£'000	£'000	£'000	£'000
Service Expenditure	Employees	13,698	13,896	14,414	15,123
	Premises Expenses	1,337	1,320	1,321	1,326
	Supplies & Services	6,717	6,226	5,807	5,710
	Transport Expenses	504	497	500	516
	Third Party Payments	4,827	4,977	5,098	5,189
Grants & Income	Grants and Contributions	(1,705)	(1,741)	(1,714)	(1,725)
	Sales, Fees & Charges	(4,827)	(5,069)	(5,291)	(5,507)
	Rental & Other Income (incl. PV panels)	(1,894)	(1,886)	(1,889)	(1,892)
Housing Benefits	HB Transfer Payments	9,239	9,239	9,239	9,239
	HB Grants and Contributions	(9,366)	(9,366)	(9,366)	(9,366)
Net expenditure on services as above		**18,532**	**18,094**	**18,121**	**18,614**
Recharges	Charge to HRA/Capital	(1,792)	(2,522)	(2,580)	(2,657)
Capital Financing Costs	Interest Payable - CIFCO	396	375	353	309
	Interest Payable - Other	951	2,088	1,128	716
	Minimum Revenue Provision (MRP)	1,324	1,601	1,773	2,006
Investment Income	Pooled Funds Net Income	(566)	(566)	(566)	(566)
	Interest Receivable - CIFCO	(2,172)	(2,160)	(2,146)	(2,132)
	Interest Receivable - Gateway 14	-	-	-	-
	Interest Receivable - Other	(31)	(31)	(31)	(31)
	Dividend from Gateway 14 Ltd	(20,000)			
Reserves	Transfers to / (from) Reserves	(2,411)	(1,405)	(871)	(542)
	Transfer of Gateway 14 Dividend into reserves	20,000			
Total Net Cost of Services		**14,230**	**15,474**	**15,181**	**15,718**
Government Grants	New Homes Bonus	(1,683)	(841)	(841)	(841)
	Revenue Support Grant (RSG)	(121)	(60)	(60)	(60)
	Services Grant	(14)	(7)	(7)	(7)
	Rural Services Delivery Grant	(588)	(508)	(508)	(508)
	Funding Guarantee	(346)	(173)	(173)	(173)
Business Rates	Baseline Business Rates	(2,935)	(2,935)	(2,935)	(2,935)
	S31 Business Rates Grant	(3,841)	(3,841)	(3,841)	(3,841)
	Business Rates - Renewable Energy	(647)	(767)	(767)	(767)
	Income from Freeport	(240)	(420)	(420)	(420)
	Business Rates Pool share of Growth Benefit	(700)	(600)	(600)	(600)
	Business Rates Pool - Removal of Top Slicing	(600)			
	B/R Prior Year Deficit/(Surplus)	(396)	(11)	(11)	(11)
Council Tax	Council Tax	(7,222)	(7,679)	(7,991)	(8,314)
	Council Tax Prior Year Deficit/(Surplus)	(98)	(98)	(98)	(98)
Total Funding		**(19,431)**	**(17,941)**	**(18,253)**	**(18,576)**
Net Position Before Reserves		**(5,201)**	**(2,467)**	**(3,072)**	**(2,858)**

8. MEDIUM TERM FINANCIAL STRATEGY (MTFS) 2025-2028

8.1. To achieve its ambitions, the Council needs to take a medium-term view of budgeting through a robust financial strategy that is focused on delivering the priorities in the new Mid Suffolk Plan.

8.2. The Council's Medium Term Financial Strategy (MTFS) is in part dependent on Government policy and funding. This reduction in funding from Government is expected to continue and the Council has to manage this.

8.3. The Council must ensure it has the funds for core services and additional investment into the district - including working with its partner, Babergh District Council, to deliver these core services.

8.4. Effective management of the Council's budget must take into account:

- Cost management
- Income generation and
- Service levels.

8.5. To achieve the outcomes in the Mid Suffolk Plan we have to address our challenges in a holistic way. The approach over the medium term is to transform the Council into an organisation that doing more than just surviving. For our communities to thrive, the organisation also needs to thrive; to promote environmental sustainability, we have to be environmentally and financially sustainable; to achieve social justice we have to be able to deliver more than just our statutory responsibilities. The budget is a core component of strengthening and enhancing our services and encouraging and empowering individual citizens, communities, and businesses to play their part in creating a resilient district.

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

- Increase social value.
- Reduce our costs (both internally and across the wider system)
- Increase our income.
- Provide better / “best” value.
- Whole system / holistic approach.
- Provide a better service for our citizens and customers.
- Reduce administration costs, without compromising service.
- Work effectively with all stakeholders and partners

8.7. 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.
- demand understood, analysed, and met through new services and business models.
- demand is re-shaped and managed while engaging service users to ascertain priorities.

8.8. The approach to the Budget is in line with the Council’s policy of Review/Remodel/Reinvent, finding efficient processes, using technology to best effect and using that to focus service delivery around the residents.

8.9. The Council will focus on further work across the organisation to create efficiencies and ensuring work is value-added. Opportunities exist in terms of improving digitisation and automation of some processes.

8.10. 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 2024/25 to develop a delivery and implementation plan to support the MTFS and to continue the development of a financially robust, risk-based programme of change.

8.11. It is likely that additional resources and investment will be required up front in order to deliver efficiencies and improvements in the longer term. Reserves have been set aside to enable this. The Council will continue this approach to further transform the way it operates over the next three years.

8.12. 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.

9. CAPITAL PROGRAMME

9.1. The proposed Capital Programme is attached at Appendix A. Revised Estimates for 2023/24 of £7.879m are proposed and new approvals of £17.890m for 2024/25. This means that along with slippage of £6.726m from this year, the 2024/25 capital budget is forecast to be £24.616m in total. This will be financed by using £7.117m of grants, £2.851m of capital receipts and s106/CIL monies, £3.309m of reserves largely for the skills and innovation centre, £0.608m as a revenue contribution to capital outlay (RCCO), and by borrowing £10.676m.

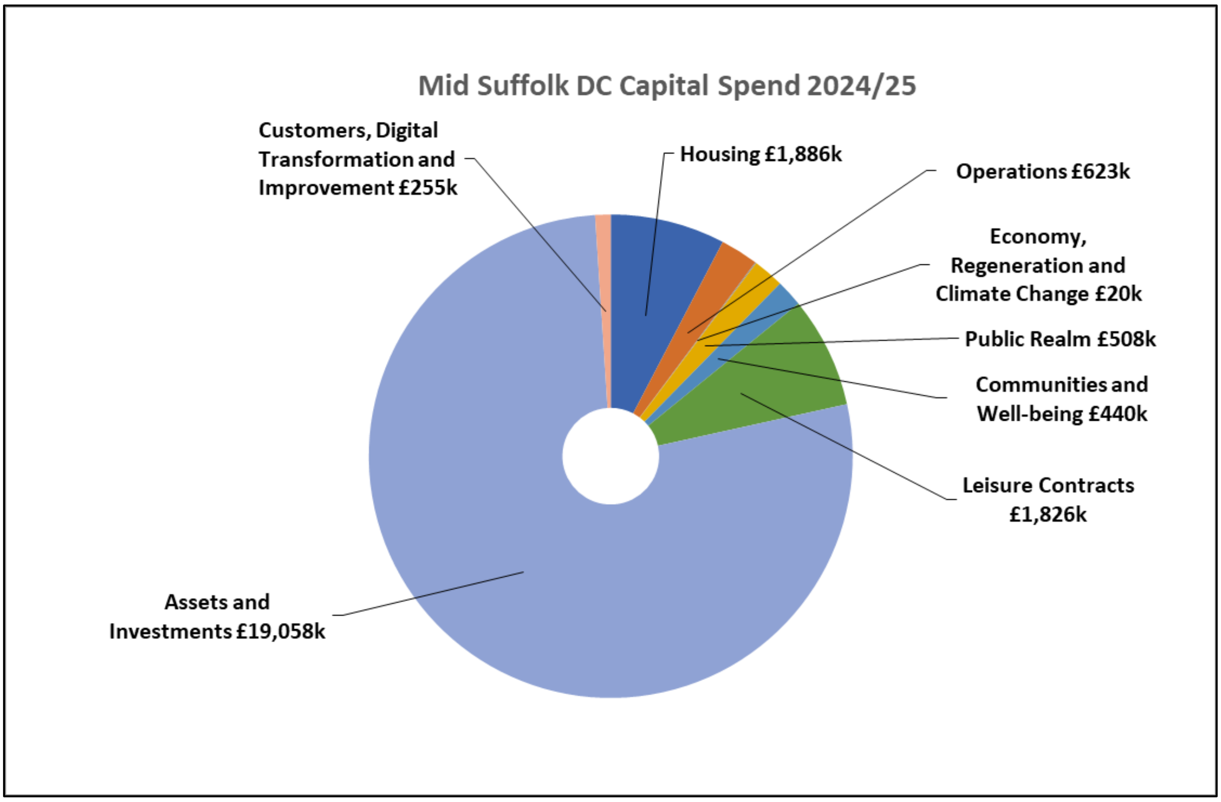
9.2. The most significant items included in the proposed total budget are the construction of a new depot to be shared with Babergh District Council (£6m), the construction of a skills and innovation centre at the Gateway 14 Freeport site (£18.2m), phase 1 of a sports, leisure and health based development at Stowmarket (£2.3m), and funding for Mid Suffolk Growth Ltd (£4.4m) to undertake housing developments. Budgets are also included to continue a range of annual capital initiatives such as housing and community grants.

9.3. Work is currently being undertaken on reviewing the best way of financing the building of the new depot with the aim of bringing a report on this matter to each Council in the near future. At this point in time the budget figures presented in this report assume that this is a jointly shared budget being financed through borrowing with the resultant financing charges impacting equally on the General Fund revenue budget of each council.

9.4. The Council's future capital programme will reflect the Council's new priorities. The Council is ambitious to use its resources to help create resilient and thriving communities in Mid Suffolk. As part of this, the capital strategy will include the following, and other, projects to be developed over the next few years and to which significant funding will be allocated:

- Development of housing for specific social groups, such as key workers
- Enabling community-led exemplar housing
- Bringing disused land back into use for amenity or other uses
- Land for biodiversity and to meet Biodiversity Net Gain
- Stowmarket town centre regeneration
- New foot/cycle paths to improve connectivity
- Improved sports provision in the district
- Utilisation or re-purposing of out of use heritage buildings
- Land for improved access to green spaces
- Solar roof programme

Chart 7: Capital Programme 2024/25 (including carry forwards) of £24.616m



9.5. Following review by Joint Audit and Standards Committee in January 2024, the Treasury Management, Investment, and Capital Strategy will have further details of the Council's borrowing capacity and the impacts of the capital programme, this is a separate agenda item on this Council's meeting Agenda.

10. LINKS TO THE CORPORATE PLAN

10.1. Ensuring that the Council makes best use of its resources underpins the ability to achieve the priorities set out in the Mid Suffolk 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.

11. FINANCIAL IMPLICATIONS

11.1. These are detailed in the report.

12. LEGAL IMPLICATIONS

12.1. The provisions of the Local Government Finance Act 1992 (LGFA 1992) require 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.

13. RISK MANAGEMENT

Key risks are set out below:

Key Risk Description	Likelihood 1-4	Impact 1-4	Key Mitigation Measures	Risk Register and Reference
The income projections for the Councils investment in the Capital Investment Fund (CIFCO) may not be met.	2 - unlikely	3 - Bad	Implementation of strong corporate governance. Engagement of independent professional advisers and preparation of annual audited accounts. Business Plan 23/24 approved by Council. Review by Overview and Scrutiny Committee. Council oversight of trading companies' management accounts.	Significant Risk Register - SRR001
Income, capital and economic outcomes projected for Gateway 14 Ltd may not be delivered	2 - unlikely	3 - Bad	Treasury management advice. Business plan 23/24 approved by Holding Co. Repayment of debt. Knowledgeable and experienced Board of Directors. Support from market leading experts. Delivery Partner appointment. Gateway14 Ltd is founding partner of Freeport East. Council oversight of trading companies' management accounts.	Significant Risk Register - SRR002
Mid Suffolk District Council may be unable to react in a timely and effective way to financial demands.	2 - unlikely	3 - Bad	Monitoring and reporting of financial forecast. Capital reserves. SLT position review workshops. Cabinet briefings to review position and budget options. Budget approval. Internal and external audits.	Significant Risk Register - SRR004 MSDC

Mid Suffolk District Council may fail to be financially sustainable.	2 - unlikely	4 - Disaster	Sharing of integrated workforce with Babergh. Single efficient office space with agile working strategy. The Mid Suffolk Plan. Development of medium-term financial strategy and creation of long term financial strategy. New outcomes framework. Joint performance and risk monitoring. Shared policies and procedures. Joint Cabinet briefings, audit and standards, overview and scrutiny.	Significant Risk Register - SRR008MSDC
Mid Suffolk District Council may suffer a significant overspend that needs to be funded from reserves.	3 - probable	2 - Noticeable	Reporting of impacts of inflationary pressure forecast to SLT and early warning cabinet and monitored through the quarterly outturn reports. Review level of reserves with SLT. Quarterly financial monitoring.	Significant Risk Register - SRR0013MSDC
Mid Suffolk District Council may expose itself to financial risk through its own subsidiary companies and other commercial activities.	3 - probable	3 - Bad	Directors representing the Council Shareholders on the board. Non-Exec Directors Management accounts shared with the Council Finance team monthly. Director of Assets and Investments is a Director on each Company Board. Director of Finance is provisioned with Company accounts annually in addition to receiving quarterly financial reporting.	Significant Risk Register - SRR0017MSDC

			Quarterly risk briefing attended by Risk Management Lead. Reserve created to fund Expected Credit Losses.	
The councils may face significant increases in their borrowing costs.	3 - probable	2 - Noticeable	Significant reserves held to fund if necessary. Regular review of current interest rates and ongoing advice from Arlingclose. Review as part of treasury and investment strategy, and budget setting to ensure further decisions that incur borrowing are affordable.	Significant Risk Register - SRR0025MSDC
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	3 - Probable	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 – 005MSDC and 007
If demand pressures and cost inflation exceed forecasts, then the Council could be in an overspend position at the year-end	3 - Probable	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 – 005MSDC 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 – 005MSDC and 007
If borrowing costs exceed projections, then the Council may need to fund	2 - Unlikely	2 - Noticeable	Discussions with the Council's treasury management adviser	Finance, Commissioning and Procurement

the excess costs from reserves at year-end			on interest rates to be used when setting the budgets	Operational Risk Register – 005MSDC
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 – 005MSDC
If the Councils achieve a poor return on investments, there will be fewer resources available to deliver services.	3 - Probable	2 - Noticeable	Focus is on security and liquidity, and careful cash flow management in accordance with the Joint TM Strategy is undertaken throughout the year.	Finance, Commissioning and Procurement Operational Risk Register – 006 & 007

14. CONSULTATIONS

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

14.2. The Council launched a 6-week consultation on the 4h October 2023 to give people the opportunity to provide feedback on the Councils long term vision and strategic priorities for the district.

14.3. The consultation also includes engagement around how the Council currently spends its money by presenting the budget by % spend in different areas. Respondents were shown a breakdown of the councils' (combined) spend and asked to what extent they agreed or disagreed this was the right mixture of spending activities. Views were mixed: with 38% agreeing (6% 'strongly'), 35% disagreeing (13% 'strongly') and 23% neutral. Four per cent gave a 'Don't know' response.

14.4. One-in-five felt spending should be increased on climate change and a similar proportion felt spending should be reduced on 'running the organisation'. Between 6-8% each felt that spending should be increased on economic growth, housing/affordable housing and communities and wellbeing.

14.5. A number (5%) felt that the presentation of spend data needed more information / better explanation or that they did not have sufficient understanding or expertise to judge (3%).

15. EQUALITY ANALYSIS

15.1. An Equality Impact Assessment (EIA) initial screening has been completed. This determined that a full EIA was not required. The proposed budget does not include any proposals that impact upon protected characteristics. If proposals are brought forward 'in year' then 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.

16. ENVIRONMENTAL IMPLICATIONS

16.1. The Council's new strategic priorities state that environmental and social responsibilities will be at the heart of all the work the council undertakes and the budget underpins this.

16.2. 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.

16.3. In support of the Council's commitment to be Carbon Neutral by 2030, including membership of UK100, several initiatives have and are being undertaken from a combination of the Council's own resources and those secured from external sources.

17. APPENDICES

Title	**Location**
Capital Programme	Appendix A
Budget, Funding and Council Tax	Appendix B
Robustness of Estimates and Adequacy of Reserves	Appendix C

18. BACKGROUND DOCUMENTS

Final Local Government Finance Settlement 2024/25

General Fund Financial Monitoring 2023/24 – Quarter 2 - MCa/23/30

Draft General Fund assumptions 2024/25 – MOS/23/01

Fees and Charges 2024/25 - MCa/23/35

General Fund and Housing Revenue Account 2023/24 – MOS/23/01 and MOS/23/05

EQIA Screening

APPENDIX A - CAPITAL PROGRAMME 2023/24 TO 2027/28

	2023/24 Revised Budget	2023/24 C/Fwds to 2024/25	2024/25 New Approval	2024/25 Total Budget	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Housing							
Mandatory Disabled Facilities Grant	700	200	698	**898**	698	698	698
Renovation/Home Repair Grants	120	8	100	**108**	100	100	100
Empty Homes Grant	29	440	100	**540**	100	100	100
Grants for Affordable Housing	0	340	0	**340**	0	0	0
Total Housing	**849**	**988**	**898**	**1,886**	**898**	**898**	**898**
Operations							
Replacement Refuse Freighters - Jt Scheme	162	208	255	**463**	420	210	210
Bins	160	0	160	**160**	160	160	160
Electric Buses	0	0	0	**0**	0	0	0
Total Operations	**322**	**208**	**415**	**623**	**580**	**370**	**370**
Economic Development and Regeneration							
EV Charging Points in Car Parks	220	20	0	**20**	0	0	0
Total Economic Development and Regen	**220**	**20**	**0**	**20**	**0**	**0**	**0**
Public Realm							
Street care - Vehicles and Plant Renewals	90	0	90	**90**	90	90	90
Planned Maintenance / Enhancements - Car Parks	50	200	40	**240**	40	40	40
Parking Strategy Implementation	15	100	0	**100**	0	0	0
Needham Lake Footpath - Planned Maintenance	20	63	15	**78**	15	15	15
Total Public Realm	**175**	**363**	**145**	**508**	**145**	**145**	**145**
Communities and Well-being							
Play equipment	50	200	50	**250**	50	50	50
Community Development Grants	233	0	190	**190**	190	190	190
Total Communities and Well-being	**283**	**200**	**240**	**440**	**240**	**240**	**240**
Leisure Contracts							
Stowmarket Leisure Centre - Repairs and Renewals	130	1,296	0	**1,296**	0	0	0
Stradbroke Pool - Repairs and Renewals	16	530	0	**530**	0	0	0
Total Leisure Contracts	**146**	**1,826**	**0**	**1,826**	**0**	**0**	**0**
Assets and Investments							
Corp Buildings - Planned Maintenance / Enhancements	60	207	30	**237**	30	30	30
Corporate Buildings - New Joint Depot	0	0	500	**500**	5,500	0	0
CIL Funded Infrastructure Grants	4,226	0	2,400	**2,400**	0	0	0
Strategic Investment Fund	10	2,816	0	**2,816**	0	0	0
Gateway 14 (capital loan to company)	0	0	0	**0**	0	0	0
Wingfield Barns	0	34	20	**54**	20	20	20
Regeneration Fund - HQ Sites	0	0	0	**0**	0	0	0
Gateway 14 Ltd - Skills and Innovation Centre	350	0	9,446	**9,446**	8,375	0	0
Housing Delivery - cap loan to MS Growth Ltd	413	0	2,500	**2,500**	1,500	0	0
Business Hub Cross Street, Eye	442	0	0	**0**	0	0	0
SHELF Phase 1	0	0	1,104	**1,104**	1,158	0	0
Total Assets and Investments	**5,501**	**3,057**	**16,001**	**19,057**	**16,583**	**50**	**50**
Customers, Digital Transformation and Improvement							
Replacement Finance Management System	335	0	39	**39**	0	0	0
ICT-Hardware/Software Refresh	48	65	152	**217**	225	150	150
Total Customers, Digital Transformation and Improvement	**383**	**65**	**191**	**255**	**225**	**150**	**150**
TOTAL General Fund Capital Spend	**7,879**	**6,726**	**17,890**	**24,616**	**18,671**	**1,853**	**1,853**
GF Financing							
External Grants and contributions	1,105	200	6,917	**7,117**	1,856	698	698
s106/CIL	4,226	0	2,851	**2,851**	0	0	0
Capital Receipts	0	0	55	**55**	0	0	0
Reserves	608	20	3,289	**3,309**	7,767	0	0
RCCO	0	0	608	**608**	608	0	0
Borrowing	1,941	6,506	4,171	**10,676**	8,440	1,155	1,155
Total GF Capital Financing	**7,879**	**6,726**	**17,890**	**24,616**	**18,671**	**1,853**	**1,853**

APPENDIX B: Budget, Funding and Council Tax Requirements

1) The precept requirements of Parish / Town Councils must be aggregated with the requirement of this authority to arrive at an average Council Tax figure for the district / parish purposes. This figure however is totally hypothetical and will not be paid by any taxpayer (other than by coincidence). A schedule of the precept requirements from Parish / Town Councils will be reported to Council on 22 February 2024.

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

3) The legally required calculation will be tabled at this Council's meeting.

APPENDIX C: Section 25 report on the robustness of estimates and adequacy of reserves

Introduction

1. The Local Government Act 2003 (Section 25) requires that when a local authority is agreeing its annual budget and Council Tax requirements, the Council's Section 151 officer must report to it on the following matters:
   - the robustness of the estimates made for the purposes of the calculations; and
   - the adequacy of the proposed financial reserves.

2. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Financial Management (FM) Code, published in October 2019, also makes this report a requirement.

3. The Council must have due regard to the report when making decisions on the budget and Council Tax.

4. This report covers the General Fund budget, the Housing Revenue Account, and the Treasury Management, Investment and Capital Strategies.

5. In the current absence of the Director of Corporate Resources (the S151 Officer), this advice is being given to Council by the Interim Corporate Manager: Finance who is the designated Deputy S151 Officer. CIPFA's guidance on the role of the Chief Financial Officer in Local Government states the following:

   "The CFO in local government is not only bound by professional standards but also by specific legislative responsibilities. This statement should also be applied to those individuals who carry out the role of deputy CFO or section 151 officer. They must have regard to the fact that delegated responsibility brings with it all the professional standards and legal responsibilities of the CFO".

6. I can confirm that I hold a recognised qualification needed to fulfil the professional standards required to give the section 25 advice (I am a fully qualified CIPFA chartered accountant) and the appropriate experience to do so (I have been the S151 Officer at three councils as both an interim as well as a permanent employee).

7. In expressing this Section 25 opinion, I have considered the financial management arrangements that are in place, the level of reserves the Council has available, and the budget assumptions and financial risks.

Financial Management Arrangements

8. The Council's Draft Statement of Accounts for 2020/21 to 2022/23 remain unsigned by the Council's External Auditors, thereby creating some uncertainty as to the exact size of carried forward balances and reserves. The issues delaying conclusion are sector wide and are largely associated with auditor capacity.

9. The Council has a sound system of budget monitoring, evidenced by the production of quarterly budget monitoring reports to Overview & Scrutiny and Cabinet within a reasonable timeframe from the period end. These reports are also reviewed by the Senior Leadership Team. However, in my opinion, improvements could be made to tighten budgetary control going forwards to ensure mitigating management action is taken to keep expenditure and income within the overall approved budget envelope as much as possible.

10. The budget planning process for 2024/25 was admittedly difficult primarily due to the following reasons:

- Late overall start to the process with a tight timetable that did not readily allow for iterations, intensive challenge and review with Senior Leadership Team and Cabinet Members along with limited engagement with elected members outside of Cabinet.

- Lack of capacity within the Finance Team with many of the finance officers undertaking the 2024/25 process not involved in the 2023/34 budget preparation.

- Late advice received on certain budget items resulting in large swings in figures from those reviewed by the Overview & Scrutiny Committee to those now being presented to Council for approval.

11. It is recommended that the budget process is reviewed for the 2025/26 cycle.

12. However, looking at the budget estimates rather than the budget process, these have been prepared by using the latest 2023/24 detailed forecasts which are produced quarterly by Budget Managers and the Finance Business Partners and with certain key estimates, (for example, the employees' budget, interest, and grant income), being prepared afresh from a zero base and in many cases with the use of expert external advice**.**

Level of reserves available – General Fund

13. The Council has a significant amount of earmarked reserves which have been increased by the forecast receipt of the £20m dividend from Gateway 14 Ltd and the estimated 2024/25 General Fund revenue budget surplus of £5.2m. Much of these earmarked reserves have not yet been committed to fund the priorities of the Green administration's Mid Suffolk Plan. Whilst it is the administration's objective to invest in the district and funding this investment from some of the council's earmarked reserves, if a sudden adverse financial impact were to happen, the fact that these reserves are not yet contractually committed would mean they could readily be repurposed to fund such an impact.

14. In addition, the council has a general fund balance of £1m and is proposing to establish a Financial Resilience Reserve of £1m – both of which will be available to fund any future budget gaps and budget pressures that might arise.

15. The proposals also include the creation of a new reserve of £538k to fund the impact of government changing the MRP regulations regarding the funding of Expected Credit Losses on loans lent to third parties by the council. The establishment of this reserve is a prudent measure.

Level of reserves available – Housing Revenue Account (HRA)

16. The long-term position as set out in the draft 30-year Business Plan shows that reserves are currently forecast to go below the minimum working balance in 2028/29 and will be depleted in the following year if forecast expenditure and income levels remain unchanged. Significant action needs to take place to ameliorate this unsustainable position.

The budget assumptions used and financial risks

17. We have sought appropriate expert advice in preparing the 2024/25 budget particularly for the assumptions used for inflation, interest rate forecasts, Business Rates income, HRA business planning and modelling, Business Cases for large capital projects, and the calculation for Expected Credit Losses.

18. However, assumptions are just that and are not the same as a guarantee. Some of the assumptions made are outside of this council's control and influence.

19. The key financial risks in the 2024/25 budget, in my view, are as follows:

Financial Risk	Assumptions made
Employees Budget	We have assumed a 2024/25 Pay Award of 4% as we did in 2023/24. In 2023/24 the actual award was much higher than budgeted and has resulted in an additional cost of £527k.
Interest rates and inflation	The global economic situation is currently uncertain, particular the situation in the Middle East, and this could have an impact on interest rates and inflation. A key risk is the cost of short-term borrowing as the council's 2024/25 Treasury Management Strategy proposes no long-term borrowing in 2024/25 given the high interest rates and the adverse impact on the council of locking itself into long-term borrowing at these rates. This proposed strategy will need to be reviewed for 2025/26. We have assumed interest rates on the council's short-term borrowing of 5.06%. A 1% difference would impact the revenue budget by £455k. It is more difficult to assess the impact of a rise in inflation as different expenditure budgets have increased by specific inflation indices.
Business Rates	The forecasting of Business Rates income is always difficult given the potential volatility arising from businesses moving out of the area or becoming bankrupt and the number of successful appeals lodged with the Valuation Office Agency on the rateable values used.

	One of the largest differences between the estimates presented to the Overview & Scrutiny Committee and those in this budget report has arisen from changed assumptions on the level of appeals. Our external advisers have changed their assumptions significantly as part of the recent NNDR1 preparation process.
Capital Programme	Key assumptions have been made in the capital programme on the following: Skills & Innovation Centre – it has been assumed that the construction of the Centre can proceed to plan so that the £6m Freeport Seed Funding grant can be utilised within the grant deadline (i.e. within 2024/25). If construction is delayed, then the total grant may not be received, and the council would need to fund this element itself. New shared depot – the costing and funding of this key project is still work in progress and therefore the capital budget for this scheme will need to be reviewed. Construction inflation – prices have started to fall very slowly by about 5% over the last 12 months mainly due to construction work drying up and contractors being more competitive to secure work. However, prices for steel and aggregate remain high. This would suggest that project overspends are now more likely to be driven by project specific factors (e.g. on-site contamination) rather than general price rises. The other factor is when budgets for the capital schemes were originally set and whether these budgets have been updated since the significant inflation that we saw in the last couple of years. The Finance Team have not undertaken a review of whether the capital budgets need updating from their original approval date. The Council is required to charge repayments of sums borrowed to its General Fund in the form of Minimum Revenue Provision (MRP). The MRP budget assumes that spending will be incurred in accordance with the proposed 2024/25 Capital Budget. If spending is delayed this will impact the MRP charge required in-year. Due to forecast slippage in the 2023/24 capital programme, MRP costs are currently estimated to reduce by 11% (£163k) from the original agreed budget.

Assurance on adequacy of reserves and robustness of estimates

Reserves

20. I am satisfied that the Council's General Fund has adequate reserves. I would however advise that given this council's ambitions to use its resources to help create resilient and thriving communities in Mid Suffolk, further work is needed

to incorporate robust spending plans into the forecast reserve position over the medium term. I understand however that this planning work will commence in the next few months.

22. I would also caution the Council in not committing all its usable reserves in funding its capital investment ambitions. The future is uncertain, particularly future funding levels from central government and any impacts from reforming the local government finance regime. The creation of a new Financial Resilience Reserve of £1m is a prudent proposal. However, this reserve may need to increase when the national government's Spending Review is announced in 2025 and any implications for local government, and this Council in particular, are better known.

23. I can give short term assurance over the level of reserves held by the HRA. However, the HRA has a fundamental structural financial problem and is not sustainable given current forecasts for expenditure and income levels.

24. Officers, led by the Director of Housing will continue to work to ensure the HRA business plan is sustainable over the 30-year period. This work is already in motion: £2.3m was taken out of the 2024/25 budget to ensure it was a balanced. It is important to note that the reasons for the challenges around the HRA account are complex and span a period back to 2012. The majority of Councils are in a similar position and the sector continues to lobby Central Government.

Robustness of Estimates

25. Taking all factors into consideration I can give you assurance on the reliability and robustness of the forecasts and estimates in the 2024/25 budget proposals (except for the budget items highlighted in the paragraph below). This assurance is based on the estimates incorporating current year spending and income levels, a zero-based budgeting approach for key items in the budget, and the use of expert external advisers to formulate estimates for some of the more complex elements of the budget. In addition, the Council has complied fully with the requirements of the Prudential Code for Capital Finance in Local Authorities and has taken a prudent approach to the likely changes to the MRP regulations.

26. I have concerns however on the following estimates and cannot give you full assurance on these.

- The capital expenditure profiled for the new shared depot in the capital budget. As mentioned above, the budget is currently a preliminary estimate only and, whilst detailed work has been undertaken to produce this estimate of £6m (total project cost forecast at £12m to be shared with Babergh District Council), further work is needed to develop the final Business Case (this work is currently proceeding).

- The interest costs forecast in the general fund and HRA revenue budgets. As mentioned earlier in the report the Finance Team will enhance the current model used for forecasting this expenditure incorporating more detailed cash flow projections into the model. This work may result in revised estimates for interest costs in 2024/25 and in the Medium-Term.

- The Medium-Term forecasts from 2025/26 onwards are not firm estimates but they do show the direction of travel. The priority for this budget cycle has been to review all the variables anticipated for 2024/25, including sufficiently estimating the budget pressures, so there is confidence in the immediate short-term planning horizon. The estimates from 2025/26 are not robust largely because of the following:
  - uncertainties over central government financial support,
  - the need to incorporate capital investment ambitions into the forecasts,
  - possible costs of changing legislation such as the new burdens costs arising from government's revised Waste Strategy,
  - the potential impact of the work needed to improve our forecasting of interest costs. and
  - Improvements needed in modelling future years including the use of scenarios and stress testing of key assumptions.

Karen Watling, CIPFA
Interim Corporate Manager: Finance (Deputy S151 Officer)

MID SUFFOLK DISTRICT COUNCIL

TO:	**Council**	**REPORT NUMBER: MC/23/41**
FROM:	**Councillor Rachel Eburne, Cabinet Member for Finance**	**DATE OF MEETING: 22 February 2024**
OFFICERS:	**Karen Watling, Interim Corporate Manager: Finance (Deputy S151 Officer)** **Jeni Smithies, Finance Business Partner**	**KEY DECISION REF NO. N/A**

HOUSING REVENUE ACCOUNT (HRA) 2024/25 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 2024/25.

1.2 To enable Members to consider key aspects of the 2024/25 HRA Budget, including council house rent levels.

2 BACKGROUND

2.1 The HRA forms part of the General Fund budget; it is a ringfenced account, which means that revenue from the HRA can't be used for General Fund functions and vice versa.

2.2 In 2012, the Government changed how council housing was financed for Mid Suffolk, which meant the Council took on a loan. Mid Suffolk Council took on £57.206m of debt. The trade-off was that Councils were able to keep the rent payments. It was expected that the debt would be paid off over time, using rent increases which were set by the government to run until 2025. However, in 2015, the government changed the rent policy, and since then, councils have found it challenging to balance the accounts.

3 OPTIONS CONSIDERED

3.1 The Housing Revenue Account Budget for 2024/25 is an essential element in achieving a balanced budget and sustainable medium-term position, therefore in the short term no other options are appropriate in respect of this.

3.2 In the longer term we will look at what other policy measures could help alleviate the HRA situation and review potential partnerships that might deliver our objectives without putting pressure on the HRA account.

4 RECOMMENDATIONS

4.1 That the Council approves:

a) The HRA Budget proposals for 2024/25 set out in the report.

b) An increase of 7.7% for council house rents, equivalent to an average rent increase of £7.33 for social rent and a RPI + 0.5% (9.4%) increase for affordable rent of £10.65, a week be implemented.

c) That the RPI increase of 8.9% in garage rents, equivalent to an average rent increase of £3.84 a month, be implemented.

d) That an increase of 18% for sheltered housing service charges, equivalent to £27.19 a month, be implemented.

e) That an increase of 44% for sheltered housing utility charges, equivalent to £29.63 a month, be implemented.

REASON FOR DECISION

To bring together all the relevant information to enable Council to review, consider and approve the Councils Housing Revenue Account budget.

5 KEY INFORMATION

Background

5.1 A detailed review of the HRA has been carried out over the past few months. This has highlighted that the status of the HRA account is significantly worse than previously reported primarily due to the way interest charges and the overall HRA loan have been treated.

5.2 The housing landscape will look very different in years to come, and the Council took 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 revised and up to date business plan is being produced and will be presented in March 2024. 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 taken. This will also give comfort to our tenants as our planned and estate enhancements will be included in the plan.

5.3 The Council’s HRA Business Plan will present a financial picture over the longer term (a thirty-year period as required under the self-financing regime). The business plan is used to plan and understand any potential borrowing requirements which are needed to adhere to Social Housing Regulations such as the Consumer Standards and the Decent Homes Standard.

5.4 Members should also note that officers will be working with residents 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 residents on what they would like to prioritise in the new business plan.

5.5 The information presented to Overview and Scrutiny Committee in January 2024 and this budget report presented to Cabinet and Full Council will focus on the budget for 2024/25. The revised business plan, when it is presented, will set out the longer-term financial implications and ambitions for the HRA and will consider any decisions or approvals in relation to the 2024/25 budget.

5.6 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 led to the Government making a change to the rent settlement last year and capping the increase at 7%. This is against the backdrop of aging stock which requires urgent investment.

5.7 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.

5.8 The 2024/25 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.

5.9 Central Government issued the 24/25 rent standard in January, this stated that a maximum of 7.7% increase could be applied to social rents. This for MSDC, like all other councils is difficult given the cost-of-living crisis. Like the general fund, the HRA has both a revenue pot and capital pot. If rents do not increase by the full amount available other difficult decisions will need to be made, these may include a reduction in the speed and level of repairs carried out and a reduction in services. Members will be aware that significant ongoing investment is required to provide safe dry homes for our residents therefore reducing repairs or services is not recommended.

5.10 The long-term position in relation to the 30-year business plan, currently indicates that our position will be unsustainable from year 4 without significant action taking place. Officers, led by the Director of Housing will continue to work to ensure the HRA business plan is sustainable and can cover its interest payments over the next 30 years. This work is already in motion, £2.3m was taken out of the 24/25 budget to ensure it was a balanced budget. It is important to note that the reasons for the challenges around the HRA account are complex and span a period back to 2002. The majority of Councils are in a similar position and the sector continues to lobby Central Government.

2023/24 Budget and Forecast Outturn

5.11 On 23 February 2023 the Council set the HRA Budget for 2023/24, showing a deficit of £806k.

5.12 The second quarter 2024 budget monitoring report was presented to Cabinet on 5 December 2023 showing a forecast adverse variance of £1.488m as at 31 March 2024. The key factors in this position are the additional costs being incurred to address the backlog in void and responsive repairs, increased property servicing on heating as well as increased employment costs. In parallel a detailed 30 Year Business Plan has been developed for the HRA. This exercise has highlighted a serious deterioration since the last report at Cabinet on 5 December 2023 which showed an adverse variance of £1.488m. The core reason for this is a recalculation of the way interest charges and the overall HRA loan have been treated in the previous 2023/24 budget. The deficit currently anticipated is now anticipated to be over £3m and the implications on the HRA reserves are outlined below.

Table 1: 2023/24 Budget vs Business Plan 2023/24 Forecast

Mid Suffolk DC HRA Summary of current year Budget vs Business Plan Forecast	2023/24 Budget £'000	2023/24 Forecast £'000	Variance £'000
Dwelling Rents	(16,324)	(16,737)	(413)
Non-Dwelling Rents	(396)	(406)	(10)
Charges For Services	(716)	(788)	(72)
Other Income	(51)	(52)	(1)
Total Income	**(17,487)**	**(17,982)**	**(495)**
Housing Management	5,234	4,948	(286)
Responsive & Cyclical	5,652	7,146	1,494
Depreciation	4,617	4,617	0
Bad Debts	100	100	0
Total Expenditure	**15,603**	**16,810**	**1,207**
Net Cost of HRA Services	**(1,884)**	**(1,172)**	**712**
Interest Charges	2,700	4,627	1,927
Interest receivable	(10)	0	10
Deficit / (Surplus) in Year on HRA Services	**806**	**3,455**	**2,649**

Table 2: Business Plan 2023/24 Forecast vs 2024/25 Budget

Mid Suffolk DC HRA Summary of Business Plan Forecast vs Budget	2023/24 Forecast £'000	2024/25 Budget £'000	Variance £'000
Dwelling Rents	(16,737)	(19,166)	(2,429)
Non-Dwelling Rents	(406)	(420)	(14)
Charges For Services	(788)	(970)	(182)
Other Income	(52)	(54)	(2)
Total Income	**(17,982)**	**(20,610)**	**(2,627)**
Housing Management	4,948	4,833	(114)
Responsive & Cyclical	7,146	7,040	(106)
Depreciation	4,617	4,709	92
Bad Debts	100	120	20
Total Expenditure	**16,810**	**16,703**	**(108)**
Net Cost of HRA Services	**(1,172)**	**(3,907)**	**(2,735)**
Interest Charges	4,627	4,867	240
Deficit / (Surplus) in Year on HRA Services	**3,455**	**960**	**(2,495)**

5.13 The third quarter position will be presented to Cabinet on 5 March 2024.

2024/25 Budget Proposals

5.14 In preparing the budget for 2024/25 the various headings have been thoroughly reviewed against the forecast for 2023/24, to ensure that they are set on a realistic basis for next year.

5.15 The budget for 2023/24 was a deficit of £806k, however due to a continuation of financial pressures described above and given the £1.9m increase in interest (see 4.31 for an explanation of this) to the Q2 financial monitoring, the budget position for next year has been carefully planned to increase by £154k as shown in table 3.

Table 3: Budget changes

	£'000	£'000
2023/24 Deficit		**806**
Pressures		
Interest charges	2,177	
Repairs inc. voids (inflation and increase based on outturn)	606	
Building Services Transformation	309	
4% Pay increase	183	
Depreciation	92	
Planned maintenance – heating (inflation)	90	
Fire Prevention increased due to 2023/24 increased actual spend	56	
Renewable Heat Incentive no longer received	40	
Surveyors recharge on asbestos and other checks	27	
Other small items (net)	34	
Total Draft Pressures		**3,614**
Savings/additional income		
Rental income – based on 7.7% increase	(2,939)	
Service Charges – based on prior year costs	(186)	
Professional & Consultancy fees	(91)	
Recharges	(80)	
Other savings on reduced one off costs and expenses	(164)	
Total Draft Savings/additional income		**(3,460)**
Total Net increase		**154**
2024/25 Draft Deficit		**960**

5.16 The current draft position for 2024/25 shows an overall deficit of £960k.

5.17 The Councils total cost of service has increased by £1.1m or 7%, and income has increased by £3.123m or 18%, as shown in table 4 below.

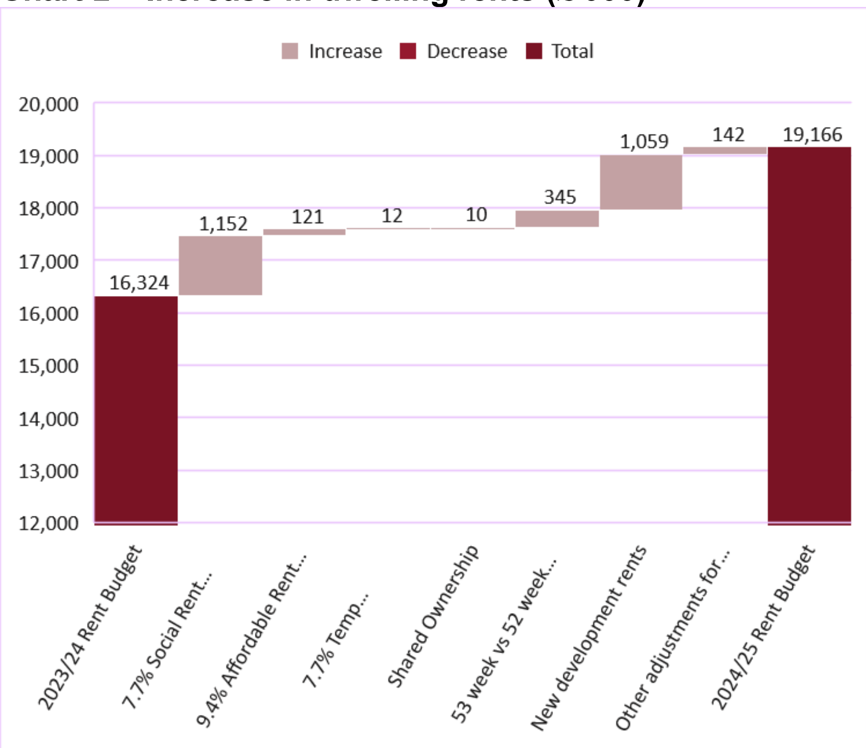
Table 4: Summary

	Budget 2023/24	Budget 2024/25	Movement 23/24 vs Budget 24/25
	£'000	£'000	£'000
Dwelling Rents	(16,324)	(19,166)	(2,842)
Service Charges	(716)	(970)	(254)
Non-Dwelling Income	(396)	(420)	(24)
Other Income	(51)	(54)	(3)
Total Income	**(17,487)**	**(20,610)**	**(3,123)**
Housing Management	5,234	4,833	(401)
Building Services	4,887	6,196	1,309
Repairs and Maintenance (all areas except Trades Team)	765	843	79
Bad Debt Provision	100	120	20
Depreciation	4,617	4,709	92
Total cost of service	**15,603**	**16,703**	**1,100**
Interest payable	2,700	4,867	2,167
Revenue Contribution to Capital			
Interest received	(10)		10
Deficit / (Surplus) for Year	**806**	**960**	**154**

In calculating the 2024/25 budget, the following assumptions have been made:

Income

Chart 1 – Increase in dwelling rents (£'000)



5.18 **Dwelling Rents** - an increase of 7.7% (CPI + 1%) has been built into the budget for 2024/25, which will be a 53-week rent year. It is assumed that 17 properties will be purchased by the tenant through the Right to Buy mechanism and the number of voids is expected to reduce to 1% (current void rate is 1.2%). All budget changes mentioned will generate £2.842m additional income.

5.19 Tables 5 and 6 below show the impact on income levels that would be available to the HRA as alternative options for a rent increase in 2024/25 compared to the maximum that is currently built into the budget. Table 5 shows the impact on the 2024/25 budget and Table 6 shows the cumulative impact over 1, 5, 10 and 30 years.

Table 5: Rent Scenarios

Mid Suffolk Rents	2024/25 Budget (7.7% increase) £'000	6% increase £ '000	3% increase £ '000	0% increase £ '000
Social housing rents	(15,251)	(15,011)	(14,586)	(14,161)
Affordable rents	(1,729)	(1,702)	(1,654)	(1,606)
Supported (Sheltered)	(1,321)	(1,300)	(1,264)	(1,227)
Shared ownership properties (RPI 8.9%+0.5%)	(138)	(133)	(130)	(126)
New Development	(916)	(922)	(926)	(1,107)
Less 1% voids	190	187	182	177
Total rents	**(19,166)**	**(18,882)**	**(18,377)**	**(18,049)**
Deficit / (Surplus) for the year	784	1,068	1,573	1,901
Net increase	**1,117**	**832**	**328**	**-**

Table 6: Rent increase – cumulative impact on HRA Business Plan

Rent increase	One year £ '000	Five years £ '000	10 years £ '000	30 years £ '000
3%	510	2,604	5,409	19,546
6%	1,019	5,208	10,817	39,093
7.7%	1,307	6,677	13,870	50,128

5.20 The average weekly social rent will increase by £7.35, from £95.46 to £102.81 For affordable housing, the weekly rent will increase by an average of £10.65 from £138.33 to £148.98.

5.21 Of the Council's 3,357 tenants, 1,067 (32%) that we know of are in receipt of Housing Benefit and 1,044 (31%) 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. Due to the Local Housing Allowance increasing, tenants will not need to find the additional rent as this will be paid for from the increased allowance.

5.22 **Sheltered Housing** - it is proposed that service charges are charged by individual scheme to recover expected costs in 2024/25. This is based on the costs from October 2022 to September 2023. The same basis has been used to recovery utility costs.

This change in charging results in a fairer apportionment of costs and should reduce the risk of the rent payers subsidising the Sheltered Housing schemes.

- Service charges – an average 18% increase of £6.28 per week or £27.19 per month.

- Heating - an average 58% increase of £7.11 per week or £30.79 per month.

- Water - an average 8% decrease of 27p per week or £1.17 per month.

- Overall charges are increased by an average of £13.11 (28%) per week, but this will vary from scheme to scheme depending on the service received and cost of utilities.

5.23 **Garage rents** are being increased in line with RPI (8.9%). Garages can be hard to let in some areas and sites are under review to assess their suitability for development.

5.24 **Other income** – 5% allowed for increase on Leasehold Service charges (to be calculated February/March 2024)

Housing Management

5.25 An overall decrease to the budget of £401k is proposed for 2024/25.-

5.26 Increases are required for:

- the annual pay award and increments in staffing costs (£229k)
- Fire Prevention (£53k)

Offset by the following savings:

- Pay Review and transformation costs to Building Services (all budgeted in Management in 2023/24) (£286k),
- Stock Condition Survey one off in 2023/24 (£125k),
- Transformation Project Costs prior year only (£177k),
- Recharges (£80k)
- Savings on other one-off costs, (£15k).

Building Services

5.27 The decision was made in 2022 to carry out a diagnostic and transformation programme within Building Services. This followed a significant period of increasing costs and reducing tenant satisfaction. The programme which aims to provide and implement excellence within Building Services is now almost complete. There were 3 separate work streams – compliance (complete), assets (complete), and Direct Labour Organisation (DLO) (in final stages). The journey to excellence will take several years to complete however we have already begun to see steady progress being made.

5.28 An overall increase to the budget of £1.309m is proposed for 2024/25.

5.29 Increases are required for:

- 4% increase to salaries and new roles for Building Services Transformation (£409k)

- Pay Review and transformation costs to Building Services (all budgeted in Management in 2023/24) (£286k)
- Heating Planned Maintenance 10% Inflation increase (£90k)
- Renewable Heat incentive no longer received (£40k)
- partially offset by savings on one off costs, (£47k).

5.30 A 10% inflationary increase has been made to the repairs budget of £79k.

Depreciation

5.31 The depreciation charge has increased by £92k due to the revaluation of the housing stock at 31 March 2023 and an increase in housing stock. The value of the housing stock at 31 March 2023 is £274m. 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

5.32 An increase of £2,167k to interest payable is included in the budget for 2024/25 due to the increase in current interest rates. This follows an overspend of £1,927k in the current year. This overspend was a result of the wrong figures used in the 2023/24 budget which have now been corrected This correction is based upon a detailed analysis of the entire HRA loan and reflects the fact that borrowing rates have prevented us from taking out further long-term loans and the short-term rate is also higher. The interest payable figure is based on a total long-term debt of £83.9m and recharges from the General Fund for £32.8m short-term borrowing costs. £57.2m of the long-term debt is the debt that the Council took on when the HRA Self-financing regime was introduced in 2012. Full details of the Councils loans are shown in table 6 and interest payments in table 7 below.

Table 6: HRA Loans

Mid Suffolk DC HRA Summary of Loans	Repayment Dates	2023/24 Interest rates	Budget 2023/24 £'000	Budget 2024/25 £'000	Budget 2025/26 £'000
PWLB	27 July 2053	7.9%	1,000	1,000	1,000
PWLB	27 July 2047	4.6%	3,500	3,500	3,500
PWLB	27 July 2052	4.6%	3,500	3,500	3,500
PWLB	27 July 2053	4.6%	3,831	3,831	3,831
PWLB	28 March 2032	3.0%	15,000	15,000	15,000
PWLB	28 March 2027	3.3%	15,000	15,000	15,000
PWLB	28 March 2042	3.4%	12,206	12,206	12,206
PWLB	28 March 2037	3.5%	15,000	15,000	15,000
LOBO Loan	22 August 2078	4.2%	2,000	2,000	2,000
LOBO Loan	22 August 2078	4.2%	2,000	2,000	2,000
Revolver		5.0%	10,830	17,806	24,172
Total Long Term loans			**83,867**	**90,844**	**97,209**
Internal and Short term loans		**5.3%**	**32,786**	**32,786**	**32,786**
Total Borrowing			**116,653**	**123,630**	**129,995**

Table 7: HRA Summary of Loan interest

Mid Suffolk DC HRA Summary of Loan Interest	2023/24 Forecast £'000	2024/25 Budget £'000	2025/26 Budget £'000	2026/27 Budget £'000	2027/28 Budget £'000
PWLB	2,467	2,467	2,467	2,463	1,972
LOBO Loan	168	168	168	168	168
Refinacing Options	-	-	-	5	450
Revolver	271	573	630	775	873
Total External loan payments	**2,906**	**3,208**	**3,265**	**3,411**	**3,464**
Internal and Short term loan payments	**1,721**	**1,659**	**1,272**	**1,010**	**984**
Total loan interest payments	**4,627**	**4,867**	**4,537**	**4,421**	**4,447**

Revenue Contribution to Capital

5.33 The revenue contribution to capital has been removed to offset the increase in cost of service and depreciation charge as depreciation can be used to fund capital expenditure.

Reserves

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

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

5.36 The 2024/25 budget position means that the Council will reduce its Strategic Priorities Reserve by a further £784k, compared to the 2023/24 likely reduction in reserves of over £3m.

5.37 The balance of all strategic reserves at 31 March 2025, as a result of the budget proposals, is forecast to be £874k, which equates to less than £305 per property. Full details of the Councils earmarked reserves are shown in table 8 below.

Table 8: Earmarked reserves

MSDC Reserves	Balance at 31 March 2023 £'000	Forecast Balance at 31 March 2024 £'000	2024/25 Budget Deficit £'000	2024/25 Capital interest £'000	Budget Balance at 31 March 2025 £'000
Strategic Reserves	(4,764)	(1,810)	960	(188)	(1,038)
Leaseholders Repairs Reserve	(26)	(26)	0		(26)
Building Council Homes Programme	(20)	(20)	0		(20)
Working Balance	(1,209)	(1,000)			(1,000)
Total Reserves	**(6,019)**	**(2,856)**	**960**	**(188)**	**(2,084)**

5.38 The Council holds £1m (reduced in 2023/24 from £1.209m) in the working balance which equates to around £300 per property.

Capital

5.39 The proposed capital programme for 2024/25 and the indicative programme for the following three years is shown in the table that follows.

Table 9: HRA Capital Programme 2024/25 to 2027/28

Mid Suffolk DC HRA Capital Programme Budget	2023/24 Forecast £'000	2024/25 Budget £'000	2025/26 Budget £'000	2026/27 Budget £'000	2027/28 Budget £'000
Planned Maintenance & Response					
Planned Maint	3,750	-	-	-	-
Other Maint	-	1,880	1,880	-	-
Neighbourhood Improvs	100	254	218	223	227
Adaptations	459	424	437	445	454
Kitchens	-	872	898	916	935
Bathroom	-	584	601	613	625
Windows/Doors	-	730	752	767	783
Garage Doors	-	21	21	22	22
Internal Fire Doors	-	13	13	14	14
Fire Detection	-	142	146	149	152
Emergency Lighting	-	28	29	29	30
Insulation	-	143	147	150	153
Heating	-	728	750	765	780
Domestic Elec	-	343	353	360	367
Roofing	-	1,060	3,990	4,069	4,151
R-Water Goods &FSB	-	221	228	232	237
Total Housing Maintenance	**4,309**	**7,443**	**10,465**	**8,756**	**8,931**
Other Capital Spend (ICT Projects etc)	**452**	**257**	**218**	**223**	
New build programme including acquisitions	**15,897**	**12,816**	**1,361**		
Total HRA Capital Spend	**20,658**	**20,515**	**12,044**	**8,979**	**8,931**
HRA Financing					
External Grant	-	514	-	-	-
RTB Recipts	170	1,917	-	-	-
Other RTB Receipts	656	695	716	730	744
Other Capital Receipts	4,386	5,659	159		
MRR	4,617	4,709	4,804	4,900	4,998
RCCO	-	-	-	-	-
Revolver Borrowing	10,830	7,021	6,365	3,349	3,189
Total HRA Capital Financing	**20,658**	**20,515**	**12,044**	**8,979**	**8,931**

5.40 The interest rate charges and loan calculation in the budget reflect carrying out the entire Capital programme.

5.41 The new build programme in under review and there may be other ways we can support the development of social housing in the District. For the purposes of the budget, it has been assumed that the new build programme will be financed entirely via the HRA.

5.42 The Capital Programme is dependent on the Stock Condition review currently taking place. The Programme may need revising depending upon the results of this exercise.

5.43 The new funding within the Capital Programme for 2024/25 totals £20.5m.

5.44 The new build and acquisition programme identified development sites across the district that could deliver approximately 260 new affordable homes by the end of March 2027. The programme is currently being reviewed-against the HRA business plan to ensure resources are utilised in the most efficient way and that new homes are delivered in sustainable locations.

5.45 There were 17 Right to Buy (RTB) sales for Mid Suffolk 2022/23 and this was used as a basis for the budget in 2024/25.

5.46 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.

5.47 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.

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

Key risks are set out below.

Key Risk Description	Likelihood 1-4	Impact 1-4	Key Mitigation Measures	Risk Register and Reference
Mid Suffolk District Council may be unable to react in a timely and effective way to financial demands.	2 - unlikely	3 - Bad	Monitoring and reporting of financial forecast. Capital reserves. SLT position review workshops. Cabinet briefings to review position and budget options. Budget approval. Internal and external audits.	Significant Risk Register - SRR004 MSDC
Mid Suffolk District Council may fail to be financially sustainable.	2 - unlikely	4 - Disaster	Sharing of integrated workforce with Babergh. Single efficient office space with agile working strategy. The Mid Suffolk Plan. Development of medium term financial strategy and creation of long term financial strategy. New outcomes framework. Joint performance and risk monitoring. Shared policies and procedures. Joint Cabinet briefings, audit and standards, overview and scrutiny.	Significant Risk Register - SRR008MSDC
Mid Suffolk District Council may suffer a significant overspend that needs to be funded from reserves.	3 - probable	2 - Noticeable	Reporting of impacts of inflationary pressure forecast to SLT and early warning cabinet and monitored through the quarterly outturn reports. Review level of reserves with SLT. Quarterly financial monitoring.	Significant Risk Register - SRR0013MSDC

The councils may face significant increases in their borrowing costs.	3 - probable	2 - Noticeable	Regular review of current interest rates and ongoing advice from Arlingclose	Significant Risk Register - SRR0025MSDC

9. CONSULTATIONS

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

10. EQUALITY ANALYSIS

10.1 The Assistant Director and Corporate Managers will undertake an Equality Impact Assessment for any individual budget proposals that have the potential to impact any of the protected characteristics under the Equality Act 2010.

11. ENVIRONMENTAL IMPLICATIONS

11.1 The Council's new strategic priorities state that environmental and social responsibilities will be at the heart of all the work the council does.

11.2 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.

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

11.4 There is a '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, that was adopted by the Council.

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

11.6 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

MCa/23/30 FINANCIAL MONITORING QUARTER 2 2023/24

BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

TO: MSDC Council	**REPORT NUMBER: MC/23/42**
FROM: Karen Watling, Interim Corporate Manager: Finance (Deputy S151 Officer)	**DATE OF MEETING:** **BDC - 20 February 2024** **MSDC - 22 February 2024**
OFFICER: Mike Hirst, Assistant Manager – Financial Accountant **Alistair Greer, Senior Finance Business Partner** **Sue Palmer, Senior Finance Business Partner**	**KEY DECISION REF NO. Item No. N/A**

JOINT CAPITAL, INVESTMENT AND TREASURY MANAGEMENT STRATEGIES 2024/25

1. PURPOSE OF REPORT

1.1 This report presents the Joint Capital, Investment and Treasury Management Strategies for the financial year 2024/25.

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 covering service and commercial (i.e. solely for yield) investments. 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 to this Council meeting in February 2024 for approval.

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. JASC reviewed this report at its meeting on 29 January 2024 (report reference JAC/23/19).

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 the period 2023/24 to 2027/28, including the Prudential Indicators, as set out in Appendix A.

3.2 The Joint Investment Strategy for service and commercial investments for the period 2023/24 to 2027/28, as set out in Appendix B.

3.3 The Joint Treasury Management Strategy for the period 2023/24 to 2027/28, 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 Policy Statement as set out in Appendix H

3.7 The amendment to the 2023/24 Joint Minimum Revenue Provision Policy Statement, also set out in Appendix H

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

3.9 That Workshops to inform and guide the evolution of the Councils investment portfolio be scheduled

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 for service and commercial investments were introduced in 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 2024/25 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-treasury management assets that councils hold for financial return such as property portfolios, shares in council owned companies and lending to third parties. 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 has reduced 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 2024/25 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 The administrations are committed to ensuring that the three strategies within this report are aligned with their core principles. As a consequence, environmental and social impact will be considered alongside economic returns when making investment or dis-investment decisions to drive the pro-active evolution of the Councils' investment portfolio

4.7 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.

4.8 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 included 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.

4.9 HM Treasury also issued updated guidance in August 2021 setting out its lending policy, for Public Works Loan Board (PWLB) borrowing. The guidance provided broad definitions of permissible categories of a council's capital expenditure (service delivery, housing, regeneration, preventative action and treasury management). It also included a 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.

4.10 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.

4.11 It is widely expected that government will introduce changes to the statutory regulations on MRP (Minimum Revenue Provision) and accounting for Expected Credit Losses to take affect from 1 April 2024. Detailed proposals on these changes were published by DLUCH on 21 December 2023 and consultation on these closed on 16 February 2024.

4.12 The proposed changes would require councils to start making MRP on its capital loans in certain circumstances to third parties which were made for commercial purposes only. The MRP Policy Statement in Appendix H includes the required revisions needed for the likely regulatory change.

4.13 In addition, the revised MRP regulations may also change the accounting treatment of loan impairments with Expected Credit Losses being an immediate loss to be financed from the revenue budget instead of it being charged as an MRP cost over the life of the asset (say over 40 to 50 years). The General Fund budget paper on this Council's meeting agenda explains this more fully. New reserves are also proposed in that report to fund the Expected Credit Losses on loans to Babergh Growth Ltd and CIFCO Ltd. The MRP Policy Statement in Appendix H of this report revises the 2023/24 MRP Policy to allow for voluntary overpayments of MRP in both this financial year 2023/24 and next in order to fund the Expected Credit Losses.

National Economic Outlook and the state of Public Finances

4.14 The OBR (Office for Budget Responsibility) set out its latest national economic forecast in November 2023. A summary of this follows:

- The economy has proved to be more resilient to the shocks of the pandemic and energy crisis than anticipated. By the middle of this year, the level of real GDP stood nearly 2% above its pre-pandemic level. But the OBR now expects the economy to now grow more slowly at 0.6% this year and 0.7% next year. They forecast that growth then picks up to 1.4% in 2025 and an average of 1.9% 2026 and 2028.

- While inflation (as measured by the Consumer Price Index) has more than halved from its 40-year peak of 11% at the end of last year it is expected to be more persistent than previously thought, falling below 5% by the end of this year but not returning to the Bank of England's 2% target until the first half of 2025.

- Markets now expect that interest rates have peaked but will need to remain higher for longer to bring inflation under control. The Bank of England's Monetary Policy Committee (MPC) at its meeting on 31 January 2024, voted by a majority of 6 to maintain the Bank Base Rate at 5.25%.

- In terms of the national public finances: higher and more domestically fuelled inflation – and in particular the interplay between higher nominal earnings and frozen tax thresholds – raises nominal tax receipts and reduces underlying borrowing by around £60 billion in 2027/28. But higher inflation and earnings also push up the cost of inflation-linked welfare benefits and the triple-locked state pension by around £20 billion. And higher inflation and interest rates add £15 billion to the cost of serving the government's debts. But because the Chancellor leaves departmental and other spending largely unchanged in cash terms despite higher inflation the overall net position is a £27 billion net fiscal windfall in 2027/28.

- The Chancellor announced in the Autumn Statement that he would spend this windfall on cuts in National Insurance Contributions, permanent up-front tax write-offs for business investment, and a package of welfare reforms, which together provide a modest boost to output of 0.3% in 5 years.

- No major changes to departmental spending plans were announced in the Autumn Statement despite significantly higher inflation. Departmental expenditure limits (or DELs) account for around 40% of public spending and are allocated out between departments in periodic Spending Reviews. The current Spending Review period comes to an end in 2024/25, and the next review is not scheduled until after the next General Election.

4.15 Given the forecast state of the public finances it is not likely that significant increases in funding will be given to local government over the medium term even if there is a change in national government after the General Election

4.16 The economic situation has had a direct impact on the Councils' capital programmes and borrowing costs because of projects falling behind schedule due to staffing shortages and supply difficulties whilst the increasing interest rates have had an adverse impact on borrowing costs. In addition, there has been no forecast increase in the value of the Councils' long-term investments in a property fund no increases in funds comprising of equities and bonds as a result of the volatility in stock markets.

Statutory Background

4.17 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.

Joint Capital Strategy Appendix A

4.18 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.

4.19 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.

Joint Investment Strategy Appendix B

4.20 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).

4.21 This Joint Investment Strategy for 2024/25, meets the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories.

Joint Treasury Management Strategy Appendix C

4.22 The Joint Treasury Management Strategy (TMS) (Appendix C) covers the first point in 4.20 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.

4.23 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 BABERGH DC AND MID SUFFOLK DC PLANS

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 two Councils' plans. 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 The key risks are set out below:

Risk Description	Likelihood 1-4	Impact 1-4	Key Mitigation Measures	Risk Register and Reference
The income projections for the Councils investment in the Capital Investment Fund (CIFCO) may not be met	2	3	Implementation of strong corporate governance Engagement of independent professional advisers and preparation of annual audited accounts. Business Plan 23/24 approved by Council Review by Overview and Scrutiny Committee Council oversight of trading companies management accounts	SRR001
Income, capital and economic outcomes projected for Gateway 14 Ltd may not be delivered	2	3	Treasury management advice Business plan 23/24 approved by Holding Co Repayment of debt Knowledgeable and experienced Board of Directors Support from market leading experts Delivery Partner appointment Gateway14 Ltd is founding partner of Freeport East Council oversight of trading companies management accounts	SRR002

Babergh Council may be unable to react in a timely and effective way to financial demands	3	3	Inflationary risk reserve established to cover the impacts in 2022/23 Quarterly budget monitoring to Cabinets Reserves review Finance Transformation Plan Balance sheet review and monitoring Internal audit review of budget monitoring arrangements during 2021/22	SRR004BDC
Mid Suffolk Council may be unable to react in a timely and effective way to financial demands	2	3	Inflationary risk reserve established to cover the impacts in 2022/23 Quarterly budget monitoring to Cabinets Reserves review Finance Transformation Plan Balance sheet review and monitoring Internal audit review of budget monitoring arrangements during 2021/22	SRR004MSDC
Babergh District Council may expose itself to financial risk through its own subsidiary companies and other commercial activities	3	4	Directors representing the Council Shareholders on the board Non-Exec Directors Management accounts shared with the Council Finance team monthly Director of Assets and Investments is a Director on each Company Board Director of Finance is provisioned with Company accounts annually in addition to receiving quarterly financial reporting Quarterly risk briefing attended by Risk Management Lead Discussions with external auditors - EY Advice from Treasury Managers - Arlingclose	SRR017BDC
Mid Suffolk District Council may expose itself to financial risk through its own subsidiary companies and other commercial activities	3	3	Directors representing the Council Shareholders on the board Non-Exec Directors Management accounts shared with the Council Finance team monthly Director of Assets and Investments is a Director on each Company Board	SRR017MSDC

			Director of Finance is provisioned with Company accounts annually in addition to receiving quarterly financial reporting Quarterly risk briefing attended by Risk Management Lead Discussions with external auditors - EY Advice from Treasury Managers - Arlingclose	
The Councils may be subject to fraud, corruption and bribery	2	3	Internal Audit annual 'Managing the Risk of Fraud and Corruption Report' approved by the Senior Leadership Team and the Joint Audit and Standards Committee Prevention of Financial Crime Policy Councillors and staff awareness of policies Internal Audit Fraud Risk Register Audit membership Suffolk Counter Fraud Group Dedicated on-line Fraud Referral platform for members of the public to report allegations of fraud and corruption Participation in mandatory bi-annual National Fraud Initiative (NFI) investigating data matches Intelligence sharing and use of data	SRR020
Non-compliance with legislation and regulatory standards.	3	2	Established policies and procedures External inspections Work undertaken by Internal Audit Regulatory standards, procedures and guidance from central government Requirment to complete statutory returns Appointment of a dedicated Policy Officer Appointment of a dedicated Compliance Officer Established complaints and Whistleblowing procedure Performance measuring General managment oversight	SRR024

The councils may face significant increases in their borrowing costs	3	3	Review as part of treasury and investment strategy, and budget setting to ensure further decisions that incur borrowing are affordable	SRR025BDC
The councils may face significant increases in their borrowing costs	3	2	Review as part of treasury and investment strategy, and budget setting to ensure further decisions that incur borrowing are affordable	SRR025MSDC

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 2024/25	Attached
(b) Joint Investment Strategy 2024/25	Attached
(c) Joint Treasury Management Strategy 2024/25	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) Policy 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 2024/25

1. Introduction

1.1 This Joint Capital Strategy for the period 2023/24 to 2027/28 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 Details of the Councils' capital programmes are included initially in the Budget reports that were presented to Overview and Scrutiny Committees in January 2024 and Cabinet in February. They are now presented to this Council meeting for approval in a separate report on this Council's agenda.

Proposed Capital Expenditure

2.5 The actual capital spend for 2022/23, the revised budget for 2023/24, the proposed budget for 2024/25 and forecast from 2025/26 to 2027/28, for the General Fund and the Housing Revenue Account (HRA) is summarised as follows:

Table 1: Prudential Indicator: Estimated Capital Expenditure

Capital Expenditure						
Babergh District Council	**2022/23 Actual £m**	**2023/24 Forecast Outturn £m**	**2024/25 Budget ** £m**	**2025/26 Forecast £m**	**2026/27 Forecast £m**	**2027/28 Forecast £m**
General Fund	4.70	3.64	4.99	12.41	2.06	2.06
Capital Investments	1.03	5.62	4.02	1.84	0.06	0.06
Total General Fund	5.73	9.27	9.01	14.25	2.12	2.12
Council Housing (HRA)	**11.49**	**10.12**	**13.71**	**14.28**	**9.72**	**9.09**
Total Capital Expenditure	**17.22**	**19.38**	**22.72**	**28.53**	**11.84**	**11.21**

Capital Expenditure						
Mid Suffolk District Council	**2022/23 Actual £m**	**2023/24 Forecast Outturn £m**	**2024/25 Budget ** £m**	**2025/26 Forecast £m**	**2026/27 Forecast £m**	**2027/28 Forecast £m**
General Fund	5.32	7.47	22.12	17.17	1.85	1.85
Capital Investments	7.00	0.41	2.50	1.50	0.00	0.00
Total General Fund	12.32	7.88	24.62	18.67	1.85	1.85
Council Housing (HRA)	**21.96**	**20.66**	**20.52**	**12.04**	**8.98**	**8.93**
Total Capital Expenditure	**34.28**	**28.54**	**45.13**	**30.71**	**10.83**	**10.78**

** Including forecast carry-forward from 2023/24. These figures have not yet been agreed by the two Councils and are therefore could be subject to change.

General Fund Capital Expenditure

2.6 The key General Fund projects included in the Capital Programme for Babergh over the period 2023/24 to 2027/28 are the construction of a new depot to be shared with Mid Suffolk District Council (£6m), the refurbishment of Belle Vue (£1.5m), and Disabled Facilities grants (£3.3m). Budgets are also included to continue a range of annual capital initiatives such as housing and community grants.

2.7 The key General Fund projects included in the Capital Programme for Mid Suffolk over the period 2023/24 to 2027/28 are: the building of a new Skills and Innovation Centre at the Gateway 14 Freeport site (£17.8m), the building of a new shared depot (£6m), Phase 1 of a sports, leisure and health based development at Stowmarket (SHELF at £2.3m), Disabled Facilities grants (£2.9m) and CIL Funded Infrastructure grants (£2.4m).

2.8 Work is currently being undertaken on reviewing the best way of financing the building of the new depot with the aim of bringing a report on this matter to each Council in the near future. At this point in time the budget figures presented in this report assume that this is a jointly shared budget being financed through borrowing with the resultant financing charges impacting equally on the General Fund revenue budget of each council.

The Housing Revenue Account (HRA) Capital Expenditure

2.9 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

2.10 There are two types of Capital (non-treasury management) investments. 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 generation is the main purpose. Both councils no longer make any new investments of this kind, but hold historic investments made for this purpose in CIFCO Ltd, and therefore both comply with the revised Prudential Code (2021) and PWLB lending rules also introduced in 2021.

2.11 The service investments proposed in the capital programme for the period 2024/25 to 2027/28 for Babergh are proposed lending to Babergh Growth Ltd for the delivery of housing at the former Council Offices in Hadleigh (£9.2m), further strategic investments (£2.8m), and a roadside workspace development in Hadleigh (£1.9m).

2.12 The capital investments (which are service investments) in the capital programme for the period 2024/25 to 2027/28 for Mid Suffolk comprise of lending to Mid Suffolk Growth Ltd to undertake housing development (£4m) and the acquisition of strategic investments (£2.8m) for regeneration purposes as they arise.

2.13 The councils have adopted the DLUHC definition of an investment so that property and/or shares that are held primarily for service purposes, including regeneration, but also partly for income, are classed as a service investments. 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

2.14 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	2022/23 Actual £m	2023/24 Forecast Outturn £m	2024/25 Budget £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m
Capital Receipts	0.00	0.28	0.33	0.40	0.00	0.00
Capital Reserves	0.00	0.00	0.00	0.00	0.00	0.00
Revenue Contributions	0.00	0.00	0.00	0.00	0.00	0.00
Revenue Reserves	0.40	0.05	0.00	0.00	0.00	0.00
Grants	0.60	0.96	0.76	0.76	0.76	0.76
External Contributions	0.07	1.02	0.23	0.00	0.00	0.00
Borrowing	4.66	6.96	7.69	13.09	1.36	1.36
Total GF Capital Financing	**5.73**	**9.26**	**9.01**	**14.25**	**2.12**	**2.12**

Capital Financing - HRA Babergh District Council	2022/23 Actual £m	2023/24 Forecast Outturn £m	2024/25 Budget £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m
Capital Receipts	2.47	4.33	2.92	0.77	0.68	0.02
Capital Reserves	0.00	0.00	0.00	0.00	0.00	0.00
Revenue Contributions	2.63	0.97	5.62	1.32	2.18	1.95
Revenue Reserves	4.83	4.82	4.91	5.01	5.11	5.21
Grants	0.03	0.00	0.26	0.26	0.00	0.00
External Contributions	0.00	0.00	0.00	0.00	0.00	0.00
Borrowing	1.52	0.00	0.00	6.93	1.75	1.91
Total HRA Capital Financing	**11.49**	**10.12**	**13.71**	**14.28**	**9.73**	**9.09**
Total ALL Capital Financing	**17.22**	**19.38**	**22.72**	**28.53**	**11.84**	**11.21**

Capital Financing - General Fund Mid Suffolk District Council	2022/23 Actual £m	2023/24 Forecast Outturn £m	2024/25 Budget £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m
Capital Receipts	0.84	0.00	0.06	0.00	0.00	0.00
Capital Reserves	0.00	0.00	0.00	0.00	0.00	0.00
Revenue Contributions	0.00	4.23	3.46	0.61	0.00	0.00
Revenue Reserves	0.90	0.61	3.31	7.77	0.00	0.00
Grants	0.67	1.10	7.12	1.86	0.70	0.70
External Contributions	0.00	0.00	0.00	0.00	0.00	0.00
Borrowing	9.91	1.94	10.68	8.44	1.16	1.16
Total GF Capital Financing	**12.32**	**7.88**	**24.62**	**18.67**	**1.85**	**1.85**

Capital Financing - HRA Mid Suffolk District Council	2022/23 Actual £m	2023/24 Forecast Outturn £m	2024/25 Budget £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m
Capital Receipts	4.25	5.21	8.27	0.87	0.73	0.74
Capital Reserves	0.00	0.00	0.00	0.00	0.00	0.00
Revenue Contributions	1.06	0.00	0.00	0.00	0.00	0.00
Revenue Reserves	4.62	4.62	4.71	4.80	4.90	5.00
Grants	0.46	0.00	0.51	0.00	0.00	0.00
External Contributions	0.00	0.00	0.00	0.00	0.00	0.00
Borrowing	11.58	10.83	7.02	6.37	3.35	3.19
Total HRA Capital Financing	**21.96**	**20.66**	**20.52**	**12.04**	**8.98**	**8.93**
Total ALL Capital Financing	**34.28**	**28.54**	**45.13**	**30.71**	**10.83**	**10.78**

Capital Receipts

2.15 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 2024/25. Repayments of capital grants and loans also generate capital receipts.

2.16 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	2022/23 Actual £m	2023/24 Forecast Outturn £m	2024/25 Budget £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m
General Fund	0.00	0.28	0.33	0.40	0.00	0.00
General Fund Capital Loan Repayments	0.24	0.25	0.26	0.27	0.28	0.29
Council Housing (HRA) 1-4-1 Receipts	1.35	0.00	0.00	0.00	0.00	0.00
Council Housing (HRA) Other	1.12	4.33	2.92	0.77	0.68	0.02
Total Capital Receipts	**2.71**	**4.85**	**3.51**	**1.44**	**0.96**	**0.31**

Capital Receipts						
Mid Suffolk District Council	2022/23 Actual £m	2023/24 Forecast Outturn £m	2024/25 Budget £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m
General Fund	0.84	0.00	0.06	0.00	0.00	0.00
General Fund Capital Loan Repayments	24.64	7.97	0.28	0.71	4.31	0.31
Council Housing (HRA) 1-4-1 Receipts	2.65	0.17	1.92	0.00	0.00	0.00
Council Housing (HRA) Other	1.60	5.04	6.35	0.87	0.73	0.74
Total Capital Receipts	**29.73**	**13.18**	**8.61**	**1.58**	**5.04**	**1.05**

Repayment of Debt

2.17 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).

2.18 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	2022/23 Actual £m	2023/24 Forecast Outturn £m	2024/25 Budget £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m
MRP charged to General Fund Revenue	1.46	1.56	1.67	1.90	2.11	2.16
Total Repayment of Debt Finance	**1.46**	**1.56**	**1.67**	**1.90**	**2.11**	**2.16**

Repayment of Debt Finance						
Mid Suffolk District Council	2022/23 Actual £m	2023/24 Forecast Outturn £m	2024/25 Budget £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m
MRP charged to General Fund Revenue	1.33	1.31	1.32	1.59	1.76	1.99
Total Repayment of Debt Finance	**1.33**	**1.31**	**1.32**	**1.59**	**1.76**	**1.99**

2.19 The Councils' full minimum revenue provision (MRP) policy statement is shown in Appendix H. Table 4 does not include any voluntary overpayment of MRP needed to fund Expected Credit Losses on loans to third parties as discussed in paragraph 4.13 in the main report.

Capital Financing Requirement

2.20 The Councils' underlying need to borrow (indebtedness) 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.

2.21 The CFR represents the cumulative outstanding amount of debt finance. It increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to repay debt. Principal repayments of loans owed to the council from its companies are also used to reduce the CFR total.

2.22 Babergh's CFR is expected to increase by £5.15m and Mid Suffolk's increase by £3.49m during 2023/24. 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	2022/23 Actual £m	2023/24 Forecast Outturn £m	2024/25 Budget £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m
General Fund	20.36	19.91	22.02	31.26	30.45	29.59
Capital Investments	55.28	60.88	64.54	66.21	65.99	65.76
Total General Fund	**75.65**	**80.80**	**86.56**	**97.48**	**96.44**	**95.35**
Council Housing (HRA)	**94.42**	**94.42**	**94.42**	**101.35**	**103.10**	**105.01**
Total CFR	**170.06**	**175.22**	**180.98**	**198.82**	**199.54**	**200.36**

Cumulative Capital Financing Requirement (CFR)						
Mid Suffolk District Council	2022/23 Actual £m	2023/24 Forecast Outturn £m	2024/25 Budget £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m
General Fund	24.21	24.42	31.28	36.63	36.03	35.20
Capital Investments	60.99	53.43	55.65	56.45	52.14	51.83
Total General Fund	**85.20**	**77.86**	**86.93**	**93.08**	**88.17**	**87.03**
Council Housing (HRA)	**105.84**	**116.67**	**123.69**	**130.06**	**133.40**	**136.59**
Total CFR	**191.04**	**194.53**	**210.62**	**223.13**	**221.58**	**223.62**

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 2023:

- Babergh has £112.56m total borrowing at an average interest rate of 3.42% and £13.05m of treasury investments at an average rate of 4.86%.
- Mid Suffolk has £112.67m total borrowing at an average interest rate of 3.48% and £16.07m treasury investments at an average interest rate of 4.88%.

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 5.25%) and long-term fixed rate loans where the future cost is known but higher (currently around 5.35% to 5.68%). The stance proposed for 2024/25 is not to undertake any long-term borrowing given that interest rates are still high and are forecast to reduce significantly over the next couple of years. To undertake long term borrowing would therefore lock the councils into paying high financing charges for a number of years.

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 2.22, Table 5 above).

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

Gross Debt and Capital Financing Requirement						
Babergh District Council	**31.3.2023 Actual £m**	**31.3.2024 Forecast Outturn £m**	**31.3.2025 Budget £m**	**31.3.2026 Forecast £m**	**31.3.2027 Forecast £m**	**31.3.2028 Forecast £m**
General Fund						
Outstanding Borrowing (Debt)	(40.10)	(42.03)	(46.54)	(56.90)	(60.34)	(61.00)
Capital Financing Requirement	75.65	80.80	86.56	97.48	96.44	95.35
General Fund Headroom	**35.55**	**38.77**	**40.03**	**40.57**	**36.10**	**34.35**
HRA						
Outstanding Borrowing (Debt)	(84.75)	(84.75)	(84.75)	(89.94)	(92.99)	(100.86)
Capital Financing Requirement	94.42	94.42	94.42	101.35	103.10	105.01
HRA Headroom	**9.67**	**9.67**	**9.67**	**11.40**	**10.11**	**4.15**

Gross Debt and Capital Financing Requirement						
Mid Suffolk District Council	**31.3.2023 Actual £m**	**31.3.2024 Forecast Outturn £m**	**31.3.2025 Budget £m**	**31.3.2026 Forecast £m**	**31.3.2027 Forecast £m**	**31.3.2028 Forecast £m**
General Fund						
Outstanding Borrowing (Debt)	(49.69)	(35.86)	(42.74)	(50.59)	(52.40)	(52.37)
Capital Financing Requirement	85.20	77.86	86.93	93.08	88.17	87.03
General Fund Headroom	**35.50**	**41.99**	**44.19**	**42.48**	**35.77**	**34.66**
HRA						
Outstanding Borrowing (Debt)	(73.04)	(83.87)	(89.13)	(95.66)	(99.76)	(102.99)
Capital Financing Requirement	105.84	116.67	123.69	130.06	133.40	136.59
HRA Headroom	**32.80**	**32.80**	**34.56**	**34.39**	**33.64**	**33.60**

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' forecast borrowing/debt 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 £135.07m for Babergh and £125.89m for Mid Suffolk for 2023/24 and is forecast to increase to £174.71m and £145.10m respectively over the next four years.

Table 7: Borrowing and the Liability Benchmark

Borrowing and Liability Benchmark						
Babergh District Council	**2022/23 Actual £m**	**2023/24 Forecast Outturn £m**	**2024/25 Budget £m**	**2025/26 Forecast £m**	**2026/27 Forecast £m**	**2027/28 Forecast £m**
Liability Benchmark	125.03	135.07	149.97	172.38	172.74	174.71
Outstanding Borrowing (Debt)	(124.84)	(126.77)	(131.28)	(146.84)	(153.33)	(161.86)
	0.19	**8.30**	**18.69**	**25.53**	**19.41**	**12.85**

Borrowing and Liability Benchmark						
Mid Suffolk District Council	**2022/23 Actual £m**	**2023/24 Forecast Outturn £m**	**2024/25 Budget £m**	**2025/26 Forecast £m**	**2026/27 Forecast £m**	**2027/28 Forecast £m**
Liability Benchmark	118.66	125.89	124.28	145.01	143.37	145.10
Outstanding Borrowing (Debt)	(122.73)	(119.73)	(131.88)	(146.26)	(152.17)	(155.36)
	(4.07)	**6.16**	**(7.59)**	**(1.25)**	**(8.80)**	**(10.26)**

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.

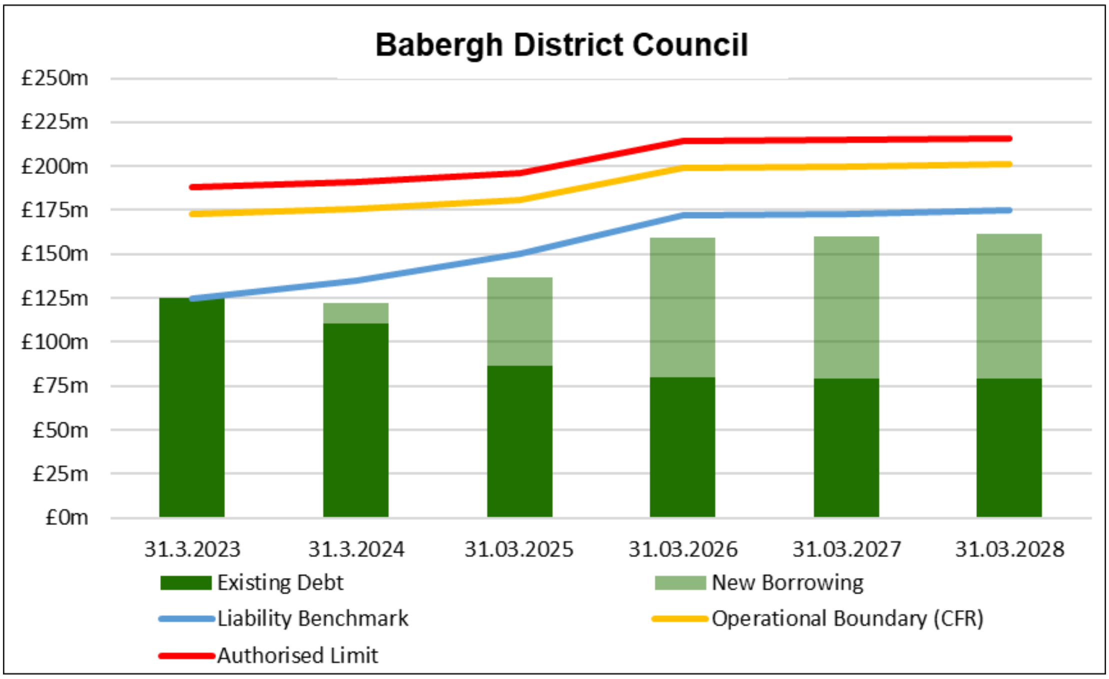
<u>Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt</u>

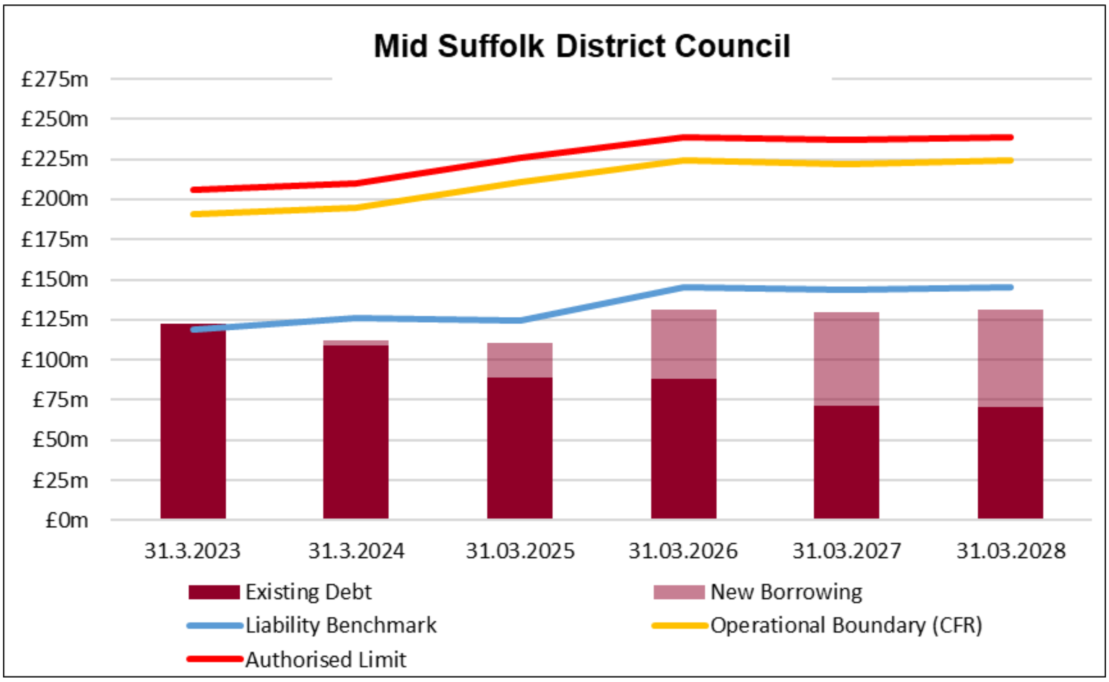
Operational Boundary & Authorised Limit					
Babergh District Council	2023/24 Limit £m	2024/25 Limit £m	2025/26 Limit £m	2026/27 Limit £m	2027/28 Limit £m
Operational Boundary	176	181	199	200	201
Authorised Limit	191	196	214	215	216
Ratio of Debt to Authorised Limit	65.4%	64.7%	61.3%	68.3%	71.0%

Operational Boundary & Authorised Limit					
Mid Suffolk District Council	2023/24 Limit £m	2024/25 Limit £m	2025/26 Limit £m	2026/27 Limit £m	2027/28 Limit £m
Operational Boundary	195	211	224	222	224
Authorised Limit	210	226	239	237	239
Ratio of Debt to Authorised Limit	58.4%	53.0%	55.2%	61.7%	63.7%

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 Management 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 influences the Councils' need to borrow.

4.17 **Risk management:**

The effective management and control of risk are prime objectives of the Councils' treasury management activities. The Joint Treasury Management Strategy in Appendix C sets out various Prudential Indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks**.**

4.18 **Governance:**

Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the 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. Liabilities:

5.1 In addition to debt of £131.28m for Babergh and £131.88m for Mid Suffolk, as detailed in Table 7 above for 2024/25, the Councils are committed to making future payments to cover their pension fund deficits if these exist. However, on 31 March 2023 Babergh enjoyed a surplus valued at £8.20m whilst Mid Suffolk's surplus was £3.53m.

6. Governance:

6.1 Reports on the capital expenditure being incurred against the approved capital budget are taken to Cabinet as part of the budget monitoring process.

7. Revenue Budget Implications

7.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. 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 31.61% in 2026/27 and for Mid Suffolk it is 22.65% in 2025/26 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	2023/24 Forecast Outturn	2024/25 Budget	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
General Fund -					
Gross Financing costs £m	3.04	3.51	3.99	4.24	4.10
Proportion of net revenue stream %	24.45%	24.97%	30.47%	31.61%	29.85%
Council Housing (HRA) -					
Financing costs £m	3.30	3.28	3.10	2.98	3.08
Proportion of net revenue stream %	17.09%	15.42%	14.41%	13.59%	13.85%

Proportion of Gross Financing Costs to Net Revenue Stream Mid Suffolk District Council	2023/24 Forecast Outturn	2024/25 Budget	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
General Fund -					
Gross Financing costs £m	2.83	2.68	4.06	3.25	3.02
Proportion of net revenue stream %	17.65%	13.76%	22.65%	17.81%	16.30%
Council Housing (HRA) -					
Financing costs £m	4.63	4.87	4.54	4.42	4.45
Proportion of net revenue stream %	26.63%	24.85%	22.49%	21.52%	21.34%

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	2023/24 Forecast Outturn £	2024/25 Budget £	2025/26 Forecast £	2026/27 Forecast £	2027/28 Forecast £
Increase in average weekly rents	5.41	30.84	8.85	13.91	13.00

Mid Suffolk District Council	2023/24 Forecast Outturn £	2024/25 Budget £	2025/26 Forecast £	2026/27 Forecast £	2027/28 Forecast £
Increase in average weekly rents	7.31	9.42	10.88	11.52	12.15

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 Reports that are presented as a separate report at this Council meeting.

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 Interim Corporate Manager: Finance (Deputy S151 Officer) 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, the Assistant Manager – Financial Accountant is a CIMA qualified accountant with over 25 years' experience, and the interim Corporate Manager is a CIPFA qualified accountant with 35 years' experience including S151 experience at a number of councils. 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, consultants and interims 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 2024/25

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 - where income yield is the main purpose).

1.2 This Joint Investment Strategy is for 2024/25, meets the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories. These are also known as non-treasury management investments and comprise of property assets, shares in companies, and loans made to the councils' companies.

1.3 Both councils no longer make any new investments purely for yield and therefore both comply with the revised Prudential Code (2021) and PWLB lending rules also introduced in 2021. Both councils do however hold historical investments made purely for yield in CIFCO Ltd.

2. Service Investments in property

2.1 Service investments comprise the use and development of council owned assets and lending to third parties in order to meet council service priorities The definition does not include the redevelopment for council housing through the HRA.

Contribution:

2.2 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. They do this either directly or through share ownership and/or lending to its companies.

2.3 The current and future service investments for each council are described below.

Babergh District Council

- **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 investment is being undertaken by the council lending to Babergh Growth Ltd and this is described in more detail in section 3 of this Appendix.
- **Hadleigh A1071 Roadside 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 District Council

- **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.
- **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 investment is being undertaken by the council lending to Mid Suffolk Growth Ltd and this is described in more detail in section 3 in this Appendix.

Table 1: Service investments: Cumulative expenditure

Cumulative Expenditure on Property Investments						
Babergh District Council	2022/23 Cumulative Actual £m	2023/24 Forecast Outturn £m	2024/25 Budget £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m
Borehamgate, Sudbury	3.69	3.83	4.00	4.06	4.12	4.18
Former Council Offices, Hadleigh	0.68	6.14	9.89	9.89	9.89	9.89
A1071 Economic Development, Hadleigh	0.00	0.01	0.11	1.89	1.89	1.89
Total	**4.37**	**9.99**	**14.01**	**15.85**	**15.91**	**15.97**

Cumulative Expenditure on Property Investments						
Mid Suffolk District Council	2022/23 Cumulative Actual £m	2023/24 Forecast Outturn £m	2024/25 Budget £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m
Former Council Offices, Needham Market	1.62	1.62	1.62	1.62	1.62	1.62
Former Retail Site, Stowmarket	1.88	1.88	1.88	1.88	1.88	1.88
11 Market Place, Stowmarket	0.36	0.36	0.36	0.36	0.36	0.36
Total	**3.86**	**3.86**	**3.86**	**3.86**	**3.86**	**3.86**

Security:

2.4 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 and development costs including taxes and transaction costs.

2.5 A fair value assessment of the Councils' directly owned service 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 2023/24 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:

2.6 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.

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

2.8 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.

2.9 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 in order to secure a commercial return.

Liquidity:

2.10 Property investments 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.

3. Commercial and service investments in Shares and Loans

3.1 The Councils invest through share ownership and lending to their wholly owned companies, special purpose vehicles or third parties (local organisations) for housing, regeneration commercial, and other service objectives.

3.2 **Commercial Investments**: The Councils has invested indirectly in commercial property for yield, through two wholly owned holding companies, (CIFCO) 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.

3.3 **Service Investments**: 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. Mid Suffolk District Council also has service investments in Gateway 14 Ltd.

CIFCO Ltd

3.4 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.

3.5 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.

3.6 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 has been no further investment by the Councils for commercial property purchases after 2020/21.

3.7 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.

3.8 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.

3.9 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.

3.10 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.

3.11 With financial return having been the main objective when the councils were allowed to make these investments (prior to 2022), the Councils accept a higher risk on the CIFCO investments 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.

Babergh Growth Ltd

3.12 BDC (Suffolk Holdings) Limited, 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 possible other residential and mixed used schemes in the future. The Council has invested in £5k of shares in the company.

3.13 The Council is providing 100% of the finance of the housing development by lending to the company. A peak cash flow funding requirement of £9m is included in the capital programme. The scheme commenced in August 2022 and is planned to finish in 2025.

Mid Suffolk Growth Ltd

3.14 MSDC (Suffolk Holdings) Limited, owns 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 possible residential and mixed used schemes in the future. The Council has invested in £5k of shares in the company.

3.15 The Council is providing 50% of the finance by lending to the company and the relevant funding requirements are included in the capital programme.

3.16 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 2024.

Gateway 14 Ltd

3.17 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. Jaynic was appointed as Development manager in 2020.

3.18 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. Gateway 14 repaid all of the principal debt and interest to the Council in December 2023. No further lending is anticipated to Gateway 14 Ltd, and this is reflected in the capital budget.

3.19 Gateway 14 is now in the delivery phase of the development with infrastructure works ongoing. The sale of a large distribution unit, was completed in December 2023.

3.20 As reported in the revenue budget report for Mid Suffolk District Council, a £20m dividend is anticipated to be received by the Council from the company's profits made to-date in 2024/25. Further dividends maybe available to the council in future years but not at this magnitude. The 2024/25 revenue and capital budget proposals include the setting aside of this income into reserves with £5m being used to fund the construction of a skills and development centre at the Gateway 14 site.

Table 2: Total Investments in shares and loans

Cumulative Investments through Shares and Loans						
Babergh District Council	2022/23 Cumulative Actual £m	2023/24 Forecast Outturn £m	2024/25 Budget £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m
CIFCO Ltd (1)	25.53	25.40	25.25	25.10	24.95	24.78
CIFCO Ltd (2)	23.27	23.17	23.05	22.93	22.80	22.67
Babergh Growth Company	1.03	6.85	5.31	0.00	0.00	0.00
Total	**49.83**	**55.41**	**53.61**	**48.03**	**47.75**	**47.45**
Investment in Shares	4.96	4.96	4.96	4.96	4.96	4.96
Investment through Loans	44.87	50.45	48.65	43.07	42.79	42.49
Total	**49.83**	**55.41**	**53.61**	**48.03**	**47.75**	**47.45**

Cumulative Investments through Shares and Loans						
Mid Suffolk District Council	2022/23 Cumulative Actual £m	2023/24 Forecast Outturn £m	2024/25 Budget £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m
CIFCO Ltd (1)	25.53	25.40	25.25	25.10	24.95	24.78
CIFCO Ltd (2)	23.27	23.17	23.05	22.93	22.80	22.67
Gateway 14 Ltd	24.56	0.00	0.00	0.00	0.00	0.00
Mid Suffolk Growth Company	1.23	1.60	4.63	5.55	0.00	0.00
Total	**74.59**	**50.17**	**52.93**	**53.58**	**47.75**	**47.45**
Investment in Shares	6.58	6.58	6.58	6.58	6.58	6.58
Investment through Loans	68.01	43.59	46.35	47.00	41.17	40.87
Total	**74.59**	**50.17**	**52.93**	**53.58**	**47.75**	**47.45**

Risk Assessment:

3.21 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.

3.22 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.

3.23 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.

3.24 The CIFCO companies are in a position to fully repay the principal and interest payments to the councils from 2024/25 onwards as they fall due as specified in the loan agreement. During 2022/23 and 2023/24 however, and with the agreement of the Council, the interest payments owing to both councils were deferred. This has had an impact on the calculation of the Expected Credit Loss forecast by Arlingclose on the loans and, as explained in the General Fund Budget Report, has meant that the creation of reserves to pay for the Expected Credit Losses is being proposed.

3.25 Following the confidential report presented to Cabinet on 4th December 2023 regarding the possible non-repayment of part of the capital loan by Babergh Growth Ltd to the council, (BCa/23/30), proposals to establish a new reserve to fund an Expected Credit Loss on this loan are also included in the General Fund Budget Report.

Liquidity:

3.26 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.

4. Proportionality

4.1 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.

4.2 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	2022/23 Actual £m	2023/24 Forecast Outturn £m	2024/25 Budget £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m
Gross service expenditure	35.83	36.58	35.96	36.07	36.92	37.61
Gross Investment income	2.82	2.77	2.74	2.73	2.72	2.70
Proportion	**7.88%**	**7.57%**	**7.62%**	**7.57%**	**7.35%**	**7.18%**

Proportionality of Investments						
Mid Suffolk District Council	2022/23 Actual £m	2023/24 Forecast Outturn £m	2024/25 Budget £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m
Gross service expenditure	34.96	37.15	36.32	36.16	36.38	37.10
Gross Investment income	4.26	2.88	2.77	2.76	2.74	2.73
Proportion	**12.20%**	**7.75%**	**7.62%**	**7.62%**	**7.54%**	**7.35%**

5. Borrowing in Advance of Need

CIPFA Prudential Code

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

5.2 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

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

5.4 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 overall 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 (Capital Financing Requirement) as per the CIPFA definition.

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

- When exercising the power to invest, the Councils will act for a proper purpose and act in a reasonable manner, its fiduciary duty to obtain value for money and whether the investments are proportionate and properly balanced against the anticipated benefits as well as the wider interests of the Councils' local Business Rate and Council Taxpayers.
- To have regard to the regeneration and development strand of the Councils' Joint Asset and Investment Strategy 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
- 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 and delivery of service objectives, over short-term gain.
- To fund and structure each investment to optimise risks and rewards, having regard to the previous bullet point.

6. <u>Knowledge and Skills</u>

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

7. <u>Governance – Capital Investments</u>

7.1 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.

8. <u>Investment Indicators</u>

8.1 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:

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

Table 4: Total investment exposure

Cumulative Investment Exposure						
Babergh District Council	2022/23 Actual £m	2023/24 Forecast Outturn £m	2024/25 Budget £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m
Treasury Management Minimum Investments	12.77	13.00	13.00	13.00	13.00	13.00
Capital Investments	54.20	59.94	58.41	54.67	54.44	54.20
Total Exposure	**66.97**	**72.94**	**71.41**	**67.67**	**67.44**	**67.20**

Cumulative Investment Exposure						
Mid Suffolk District Council	2022/23 Actual £m	2023/24 Forecast Outturn £m	2024/25 Budget £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m
Treasury Management Minimum Investments	12.65	13.50	13.50	13.50	13.50	13.50
Capital Investments	78.45	54.02	56.79	57.44	51.61	51.31
Total Exposure	**91.10**	**67.52**	**70.29**	**70.94**	**65.11**	**64.81**

How service and commercial investments are funded:

8.3 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.

8.4 For those investments funded by borrowing the exposure at the beginning of 2024/25 is forecast to be £59.9m for Babergh and £54.02m for Mid Suffolk as shown in Table 5 that follows.

8.5 As discussed elsewhere in this report both councils no longer invest in investments purely for yield (commercial investments).

8.6 **Table 5: Capital (Service & Commercial) Investments funded by borrowing**

Cumulative investments funded by borrowings						
Babergh District Council	2022/23 Actual £m	2023/24 Forecast Outturn £m	2024/25 Budget £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m
Capital Investments	54.20	59.94	58.41	54.67	54.44	54.20
Total Funded by borrowing	**54.20**	**59.94**	**58.41**	**54.67**	**54.44**	**54.20**

Cumulative investments funded by borrowings						
Mid Suffolk District Council	2022/23 Actual £m	2023/24 Forecast Outturn £m	2024/25 Budget £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m
Capital Investments	78.45	54.02	56.79	57.44	51.61	51.31
Total Funded by borrowing	**78.45**	**54.02**	**56.79**	**57.44**	**51.61**	**51.31**

8.7

Rate of return received:

8.8 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	2022/23 Actual %	2023/24 Forecast Outturn %	2024/25 Budget %	2025/26 Forecast %	2026/27 Forecast %	2027/28 Forecast %
Treasury Management Investments	3.67	3.26	3.35	3.35	3.35	3.35
Service (Other Capital) Investments	7.17	6.33	7.54	7.54	7.77	7.77
Yield Investments	3.39	4.04	4.05	4.07	4.08	4.10
Babergh Growth Company	-	(6.58)	(6.37)	(1.84)	-	-
All investments (Average)	**3.53**	**3.51**	**3.57**	**4.07**	**4.27**	**4.29**

Investments net rate of return						
Mid Suffolk District Council	2022/23 Actual %	2023/24 Forecast Outturn %	2024/25 Budget %	2025/26 Forecast %	2026/27 Forecast %	2027/28 Forecast %
Treasury Management Investments	4.13	3.12	3.12	3.12	3.12	3.12
Yield Investments	2.94	3.59	3.62	3.66	3.70	3.79
Gateway 14 Ltd	5.60	2.65	-	-	-	-
Mid Suffolk Growth Company	-	2.12	(7.41)	(2.52)	4.26	-
All investments (Average)	**3.74**	**3.51**	**3.41**	**3.48**	**3.71**	**3.85**

Note: The returns for Gateway 14 Ltd 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 2024/25

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 2024/25 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 4.81% and 5.51%, and that new long-term loans will be borrowed at an average rate between 5.35% and 5.68%

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 2023, Babergh held £112.56m of borrowing and £13.05m of investments, Mid Suffolk held £112.67m of borrowing and £16.07m 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	**2022/23 Actual £m**	**2023/24 Forecast Outturn £m**	**2024/25 Budget £m**	**2025/26 Forecast £m**	**2026/27 Forecast £m**	**2027/28 Forecast £m**
Capital Financing Requirement	170.06	175.22	180.98	198.82	199.54	200.36
Less: Other Debt Liabilities *	0.00	0.00	0.00	(0.06)	(0.02)	0.00
Loans CFR	**170.06**	**175.22**	**180.98**	**198.76**	**199.52**	**200.36**
Less: External Borrowing**	(124.84)	(110.28)	(86.71)	(80.12)	(79.53)	(78.92)
Internal (Over) Borrowing (Cumulative)	**45.22**	**64.94**	**94.28**	**118.64**	**119.99**	**121.44**
Less: Balances Sheet Resources	(57.80)	(53.14)	(44.01)	(39.39)	(39.78)	(38.65)
(Treasury Investments) / New Borrowing Requirement	**(12.58)**	**11.79**	**50.27**	**79.26**	**80.21**	**82.79**

Cumulative Capital Financing Requirement						
Mid Suffolk	**2022/23 Actual £m**	**2023/24 Forecast Outturn £m**	**2024/25 Budget £m**	**2025/26 Forecast £m**	**2026/27 Forecast £m**	**2027/28 Forecast £m**
Capital Financing Requirement	191.04	194.53	210.62	223.13	221.58	223.62
Less: Other Debt Liabilities *	0.00	0.00	0.00	(0.06)	(0.02)	0.00
Loans CFR	**191.04**	**194.53**	**210.62**	**223.08**	**221.56**	**223.62**
Less: External Borrowing**	(122.73)	(109.10)	(88.95)	(87.79)	(71.60)	(70.38)
Internal (Over) Borrowing (Cumulative)	**68.31**	**85.42**	**121.67**	**135.29**	**149.96**	**153.24**
Less: Balances Sheet Resources	(85.03)	(82.13)	(99.84)	(91.57)	(91.68)	(92.02)
(Treasury Investments) / New Borrowing Requirement	**(16.72)**	**3.29**	**21.83**	**43.72**	**58.28**	**61.22**

* 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 £50.27m and Mid Suffolk up to £21.83m 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 4.11. 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.

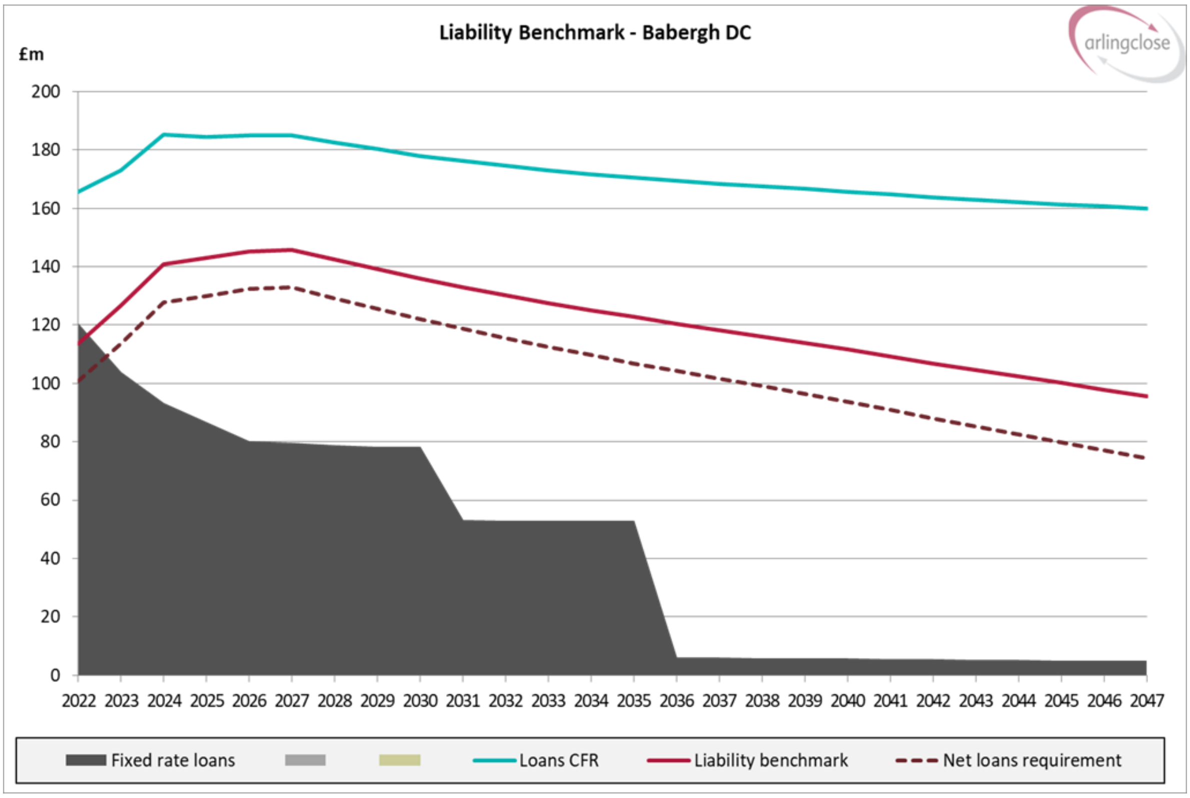
Table 2: Prudential Indicator: Liability Benchmark

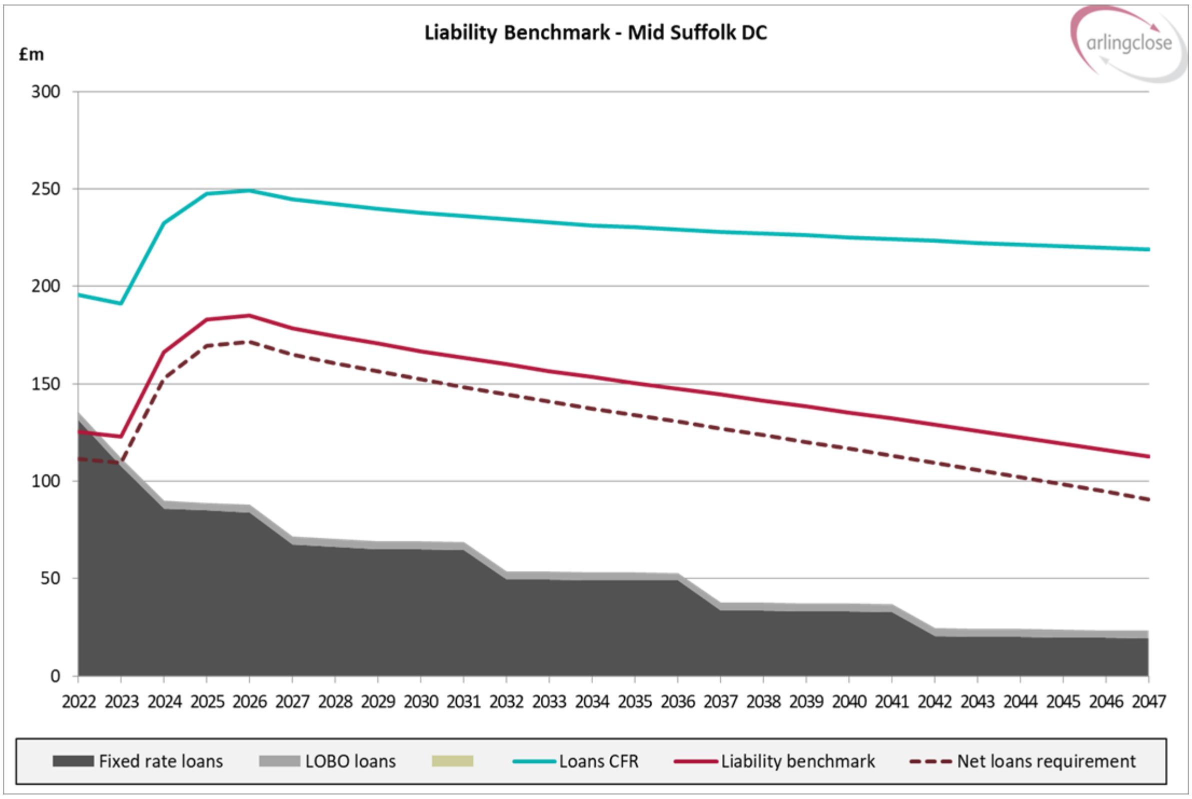
Liability Benchmark						
Babergh	**2022/23 Actual £m**	**2023/24 Forecast Outturn £m**	**2024/25 Budget £m**	**2025/26 Forecast £m**	**2026/27 Forecast £m**	**2027/28 Forecast £m**
External Borrowing	124.84	110.28	86.71	80.12	79.53	78.92
(Investments) / New Borrowing	(12.58)	11.79	50.27	79.26	80.21	82.79
Net Loans Requirement	**112.26**	**122.07**	**136.97**	**159.38**	**159.74**	**161.71**
Minimum Investments/Liquidity Allowance	12.77	13.00	13.00	13.00	13.00	13.00
Liability Benchmark	**125.03**	**135.07**	**149.97**	**172.38**	**172.74**	**174.71**

Liability Benchmark						
Mid Suffolk District Council	**2022/23 Actual £m**	**2023/24 Forecast Outturn £m**	**2024/25 Budget £m**	**2025/26 Forecast £m**	**2026/27 Forecast £m**	**2027/28 Forecast £m**
External Borrowing	122.73	109.10	88.95	87.79	71.60	70.38
(Investments) / New Borrowing	(16.72)	3.29	21.83	43.72	58.28	61.22
Net Loans Requirement	**106.01**	**112.39**	**110.78**	**131.51**	**129.87**	**131.60**
Minimum Investments/Liquidity Allowance	12.65	13.50	13.50	13.50	13.50	13.50
Liability Benchmark	**118.66**	**125.89**	**124.28**	**145.01**	**143.37**	**145.10**

3.9 Following on from the medium-term forecasts in Table 2 above, the long-term liability benchmark, over a twenty five year period, 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 **<u>Table 2: Chart: Liability Benchmark</u>**





4. Borrowing Strategy

Overview

4.1 As at 30 November 2023 Babergh held loans of £112.56m and Mid Suffolk £112.67m. These have decreased by £0.56m for Babergh and £22.61m for Mid Suffolk on the previous year, due to slippage in this year's capital programmes and capital receipts in Mid Suffolk.

4.2 The balance sheet forecast for borrowing in Table 1 above shows that Babergh could need to borrow up to £50.27m and Mid Suffolk could borrow up to £21.83m in 2024/25. The Councils may borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £196m for Babergh and £226m 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 2024/25 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 2024/25 and beyond in order to retain its access to PWLB loans.

4.9 Alternatively, the Councils may arrange forward starting loans during 2024/25, 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 an additional 0.4% is also available for lending to support nominated infrastructure projects. From 15th June 2023 the government introduced the HRA rate which applies an interest rate of the gilt yield plus 40 basis points (0.40%). This rate is solely intended for use in Housing Revenue Accounts and primarily for new housing delivery.

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 2024/25 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 £12.5m and £23.3m. Mid Suffolk's treasury investment balances ranged between £11.2m and £25.1m

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 minimum 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	**31.03.2023 Actual £m**	**31.03.2024 Forecast Outturn £m**	**31.03.2025 Budget £m**	**31.03.2026 Forecast £m**	**31.03.2027 Forecast £m**	**31.03.2028 Forecast £m**
Long Term Investments	11.06	11.00	11.00	11.00	11.00	11.00
Cash and Cash Equivalents	1.72	2.00	2.00	2.00	2.00	2.00
Total TM Investments	**12.77**	**13.00**	**13.00**	**13.00**	**13.00**	**13.00**

Treasury Management Investments						
Mid Suffolk District Council	**31.03.2023 Actual £m**	**31.03.2024 Forecast Outturn £m**	**31.03.2025 Budget £m**	**31.03.2026 Forecast £m**	**31.03.2027 Forecast £m**	**31.03.2028 Forecast £m**
Short Term Investments	0.50	0.50	0.50	0.50	0.50	0.50
Long Term Investments	11.06	11.00	11.00	11.00	11.00	11.00
Cash and Cash Equivalents	1.10	2.00	2.00	2.00	2.00	2.00
Total TM Investments	**12.65**	**13.50**	**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.

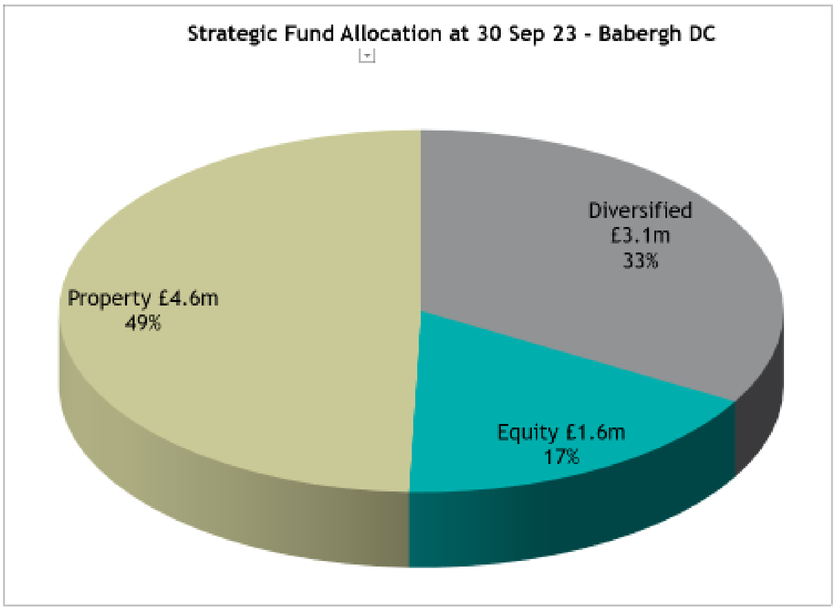
Strategy

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.

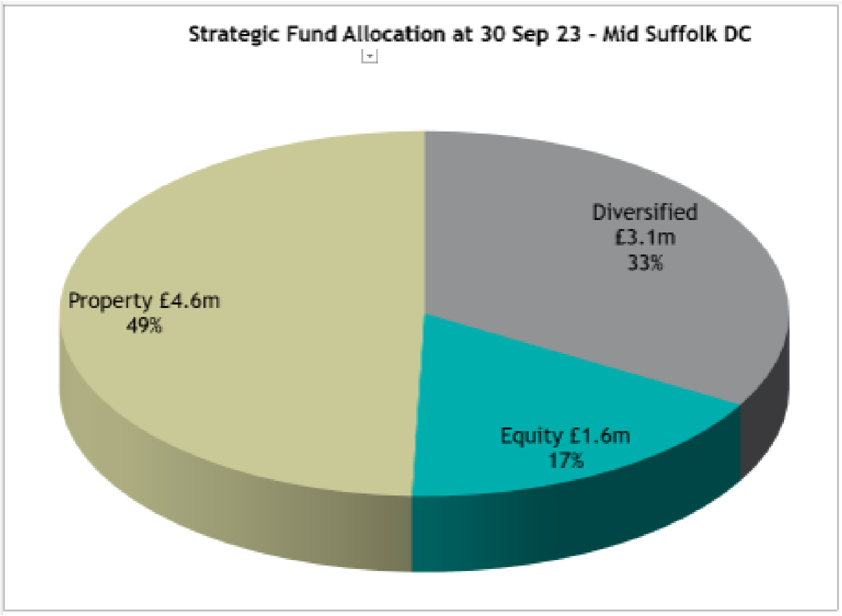
5.10 The value of these funds can fluctuate and they are therefore considered to be long term investments. The Councils have invested in a number of strategic pooled funds, across a variety of asset classes to minimise risk, as shown below.

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

Babergh



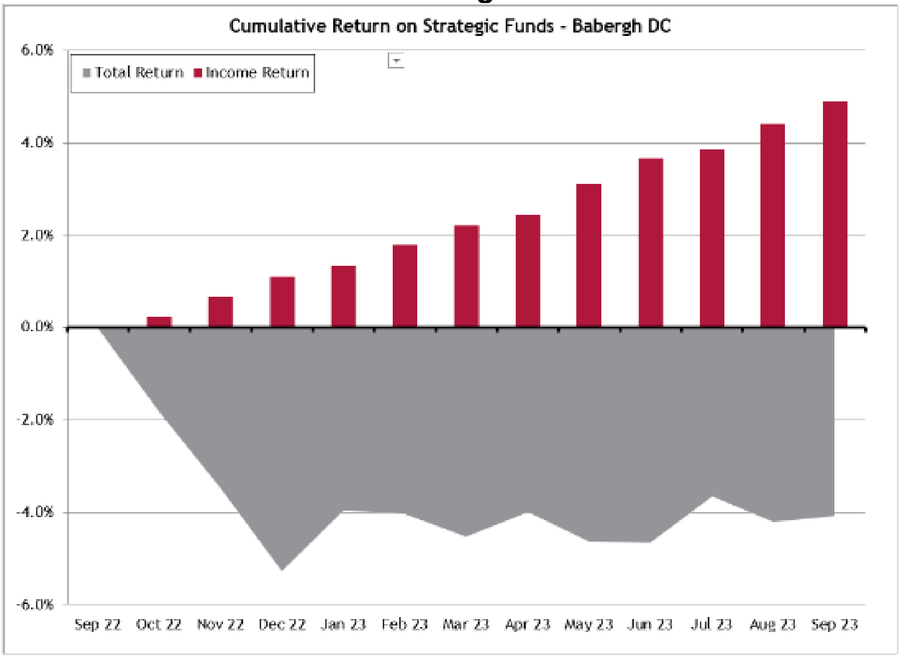
Mid Suffolk



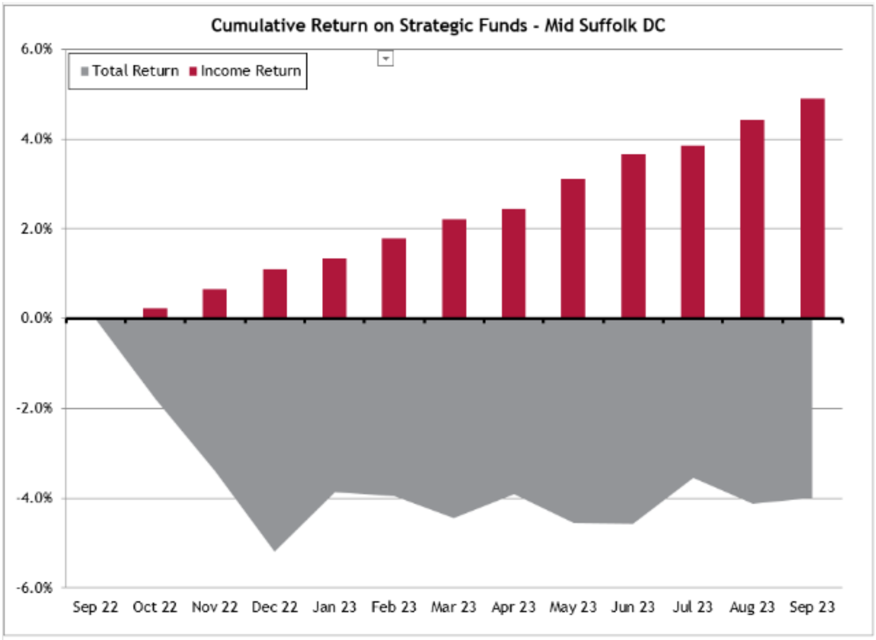
5.11 Although these funds have incurred unrealised capital losses, the overall total return for each has been positive with a total return of 5.94% for Babergh and 5.86% for Mid Suffolk up to September 2023 as illustrated in the following charts:

<u>Chart 2: Cumulative return on strategic pooled funds</u>

Babergh



Mid Suffolk



Environment, social and governance (ESG) policy

5.12 In 2019 the Councils declared a climate emergency reflecting the concern that the Councils have over climate change, and the commitment of the Councils to address the issue with regards to evaluating the climate change impact of all our decisions.

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 CIPFA Treasury Management Code and DLUHC Investment Guidance state that the main principles in investing are Security, Liquidity and Yield in that order. However, as part of the 2021 Code, CIPFA now requires local authorities to have some consideration of ESG factors when investing.

5.15 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.

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

5.17 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

5.18 For direct investments, the Council will seek to ensure that counterparties (excluding the UK Government and other UK Local Authorities) have no direct investment in Fossil Fuel companies prior to investing.

5.19 For additional investments into Pooled Funds the Council will seek to ensure that any fund used does not have direct exposure to Fossil Fuel investments prior to investing.

5.20 Short term ESG investments: When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code. The Authority may also consider options for investment of up to a total of £5 million of short-term funds with institutions who ring fence the use of such funds for ESG related matters.

5.21 The criteria for credit rating of security of such deposits will need to remain in line with the wider Authority policy, however where appropriate and at the Authorities discretion, some flexibility will be provided to allow for slightly longer durations of investment and potentially lower returns in order to support the ESG focus.

5.22 Any investment will be subject to agreement of the S151 Officer taking these factors into consideration. Direct involvement and financing of green energy projects is treated as capital expenditure, and as such is not covered within the remit of treasury management.

5.23 The subject has been debated by both Joint Audit and Standards Committee and the Cabinets. 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.

5.24 The evolving ESG criteria of the Mid Suffolk District council investment profile will be a factor in future investment decisions, reflecting the importance the administration places upon ensuring that their portfolio not only generates economic returns but also has a positive environmental and social impact. Investments will be assessed using this broader lens, rather than the narrow prism of income generation and ESG progress monitored in future iterations of this paper.

Business Models

5.25 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

5.26 The minimum proposed investment criteria for UK counterparties in the 2024/25 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).

5.27 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

5.28 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

5.29 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.

5.30 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.

5.31 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

5.32 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.

5.33 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.

5.34 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

5.35 The Councils’ total General Fund reserves available to cover investment losses are forecast to be £8.5m for Babergh and £26m for Mid Suffolk on 31 March 2024. 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.

5.36 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.

5.37 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

5.38 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.

5.39 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 2023 were Babergh 4.93 and Mid Suffolk 4.77 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	**2024/25 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 each 1% change in interest rates will be:

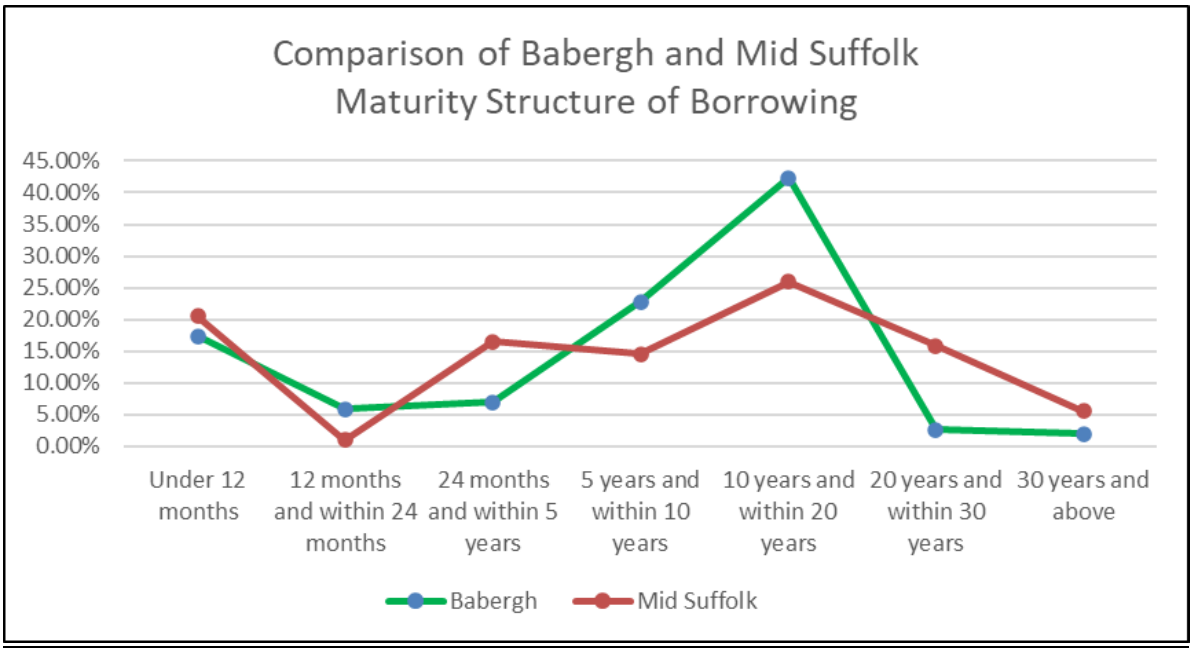
Interest rate risk indicator	
Upper impact on Revenue of a 1% increase in rates	**2024/25 Limit £m**
Babergh District Council	0.050
Mid Suffolk District Council	0.086

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 30.11.2023 Proportion	Mid Suffolk 30.11.2023 Proportion	Lower Limit %	Upper Limit %
Under 12 months	17.38%	20.54%	0.00	50.00
12 months and within 24 months	5.84%	1.03%	0.00	50.00
24 months and within 5 years	6.93%	16.51%	0.00	50.00
5 years and within 10 years	22.82%	14.53%	0.00	100.00
10 years and within 20 years	42.34%	25.94%	0.00	100.00
20 years and within 30 years	2.68%	15.86%	0.00	100.00
30 years and above	2.00%	5.59%	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. Long Term treasury management investments

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	2023/24	2024/25	2025/26	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 2024/25 is £2.75m for Babergh and £2.78m for Mid Suffolk, based on an average investment portfolio of £71.3m for Babergh and £68.5m Mid Suffolk. The average return is 3.86% for Babergh and 4.06% for Mid Suffolk.

6.10 The budget for debt interest payable in 2024/25 is £5.13m for Babergh and £6.2m for Mid Suffolk, based on an average debt portfolio of £131.3m for Babergh and £131.9m for Mid Suffolk. The average cost is 3.91% for Babergh and 4.7% 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 (NOVEMBER 2023)

1 Economic background

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

1.2 The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level in September and then again in November. Members of the BoE's Monetary Policy Committee voted 6-3 in favour of keeping Bank Rate at 5.25%. The three dissenters wanted to increase rates by another 0.25%.

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

1.4 Office for National Statistics (ONS) figures showed CPI inflation was 6.7% in September 2023, unchanged from the previous month but above the 6.6% expected. Core CPI inflation fell to 6.1% from 6.2%, in line with predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling, declining to around 4% by the end of calendar 2023 but taking until early 2025 to reach the 2% target and then falling below target during the second half 2025 and into 2026.

1.5 ONS figures showed the UK economy grew by 0.2% between April and June 2022. The BoE forecasts GDP will likely stagnate in Q3 but increase modestly by 0.1% in Q4, a deterioration in the outlook compared to the August MPR. The BoE forecasts that higher interest rates will constrain GDP growth, which will remain weak over the entire forecast horizon.

1.6 The labour market appears to be loosening, but only very slowly. The unemployment rate rose slightly to 4.2% between June and August 2023, from 4.0% in the previous 3-month period, but the lack of consistency in the data between the two periods made comparisons difficult. Earnings growth remained strong, with regular pay (excluding bonuses) up 7.8% over the period and total pay (including bonuses) up 8.1%. Adjusted for inflation, regular pay was 1.1% and total pay 1.3%. Looking forward, the MPR showed the unemployment rate is expected to be around 4.25% in the second half of calendar 2023, but then rising steadily over the forecast horizon to around 5% in late 2025/early 2026.

1.7 Having increased its key interest rate to a target range of 5.25-5.50% in August 2023, the US Federal Reserve paused in September and November, maintaining the Fed Funds rate target at this level. It is likely this level represents the peak in US rates, but central bank policymakers emphasised that any additional tightening would be dependent on the cumulative impact of rate rises to date, together with inflation and developments in the economy and financial markets.

1.8 US GDP grew at an annualised rate of 4.9% between July and September 2023, ahead of expectations for a 4.3% expansion and the 2.1% reading for Q2. But as the impact from higher rates is felt in the coming months, a weakening of economic activity is likely. Annual CPI inflation remained at 3.7% in September after increasing from 3% and 3.2% consecutively in June and July.

1.9 Eurozone inflation has declined steadily since the start of 2023, falling to an annual rate of 2.9% in October 2023. Economic growth has been weak, and GDP was shown to have contracted by 0.1% in the three months to September 2023. In line with other central banks, the European Central Bank has been increasing rates, taking its deposit facility, fixed rate tender, and marginal lending rates to 3.75%, 4.25% and 4.50% respectively.

2 Credit outlook

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

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

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

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

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

2.6 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 (November 2023)

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

3.2 Arlingclose expects long-term gilt yields to eventually fall from current levels (amid continued volatility) reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

3.3 Like the BoE, the Federal Reserve and other central banks see persistently high policy rates through 2023 and 2024 as key to dampening domestic inflationary pressure. Bond markets will need to absorb significant new supply, particularly from the US government.

3.4 Table 1 Interest Rate Forecast

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	5.40	5.40	5.40	5.30	5.15	4.80	4.30	4.10	3.80	3.50	3.25	3.05	3.05
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.28	4.35	4.30	4.25	4.10	4.00	3.75	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.55	-0.75	-0.85	-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	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.32	4.40	4.35	4.30	4.25	4.15	4.00	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.55	-0.75	-0.85	-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	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.78	4.70	4.65	4.55	4.45	4.35	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Downside risk	0.00	-0.55	-0.75	-0.85	-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	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.38	4.30	4.25	4.20	4.15	4.15	4.10	4.10	4.10	4.10	4.10	4.10	4.10
Downside risk	0.00	-0.55	-0.75	-0.85	-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 November 2023)

Underlying assumptions:

4.1 UK inflation and wage growth remain elevated but, following a no-change MPC decision in November, Bank Rate appears to have peaked in this rate cycle. Near-term rate cuts are unlikely, although downside risks will increase as the UK economy likely slides into recession and inflation falls more quickly.

4.2 The much-repeated message from the MPC is that monetary policy will remain tight as inflation is expected to moderate to target slowly. In the Bank's forecast, wage and services inflation, in particular, will keep CPI above the 2% target until 2026.

4.3 The UK economy has so far been relatively resilient, but recent data indicates a further deceleration in business and household activity growth as higher interest rates start to bite. Global demand will remain soft, offering little assistance in offsetting weakening domestic demand. A recession remains a likely outcome.

4.4 Employment demand is easing, although the tight labour market has resulted in higher nominal wage growth. Anecdotal evidence suggests slowing recruitment and pay growth, and we expect unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household spending will therefore be weak. Higher interest rates will also weigh on business investment and spending.

4.5 Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC's attention will remain on underlying inflation measures and wage data. We believe policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further 'second-round' effects has diminished.

4.6 Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant policy loosening in the future to boost activity.

4.7 Global bond yields will remain volatile, particularly with the focus on US economic data and its monetary and fiscal policy. Like the BoE, the Federal Reserve and other central banks see persistently high policy rates through 2023 and 2024 as key to dampening domestic inflationary pressure. Bond markets will need to absorb significant new supply, particularly from the US government.

4.8 There is a heightened risk of geo-political events causing substantial volatility in yields.

Forecast:

4.9 The MPC held Bank Rate at 5.25% in November. Arlingclose believes this is the peak for Bank Rate.

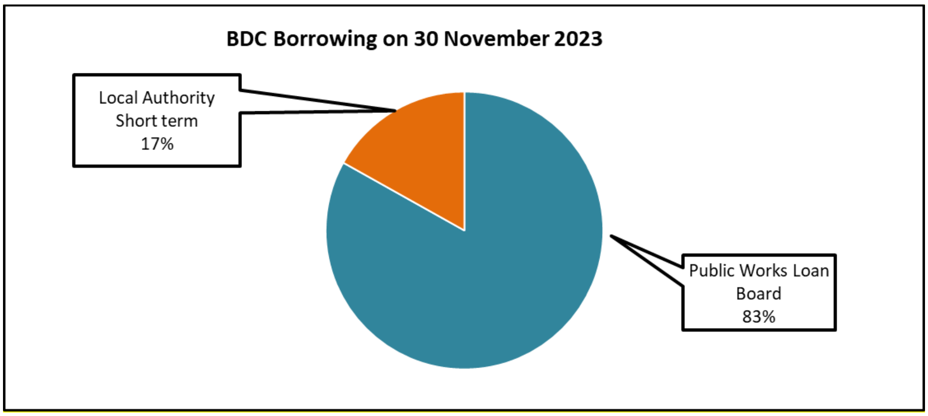
4.10 The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. We see rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.

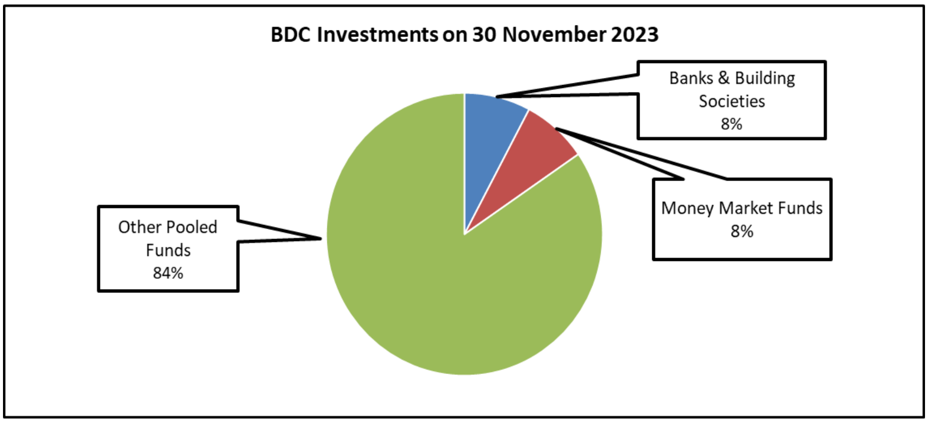
4.11 The immediate risks around Bank Rate remain on the upside, but these diminish over the next few quarters and shift to the downside before balancing out, due to the weakening UK economy and dampening effects on inflation.

4.12 Arlingclose expects long-term gilt yields to eventually fall from current levels (amid continued volatility) reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply.

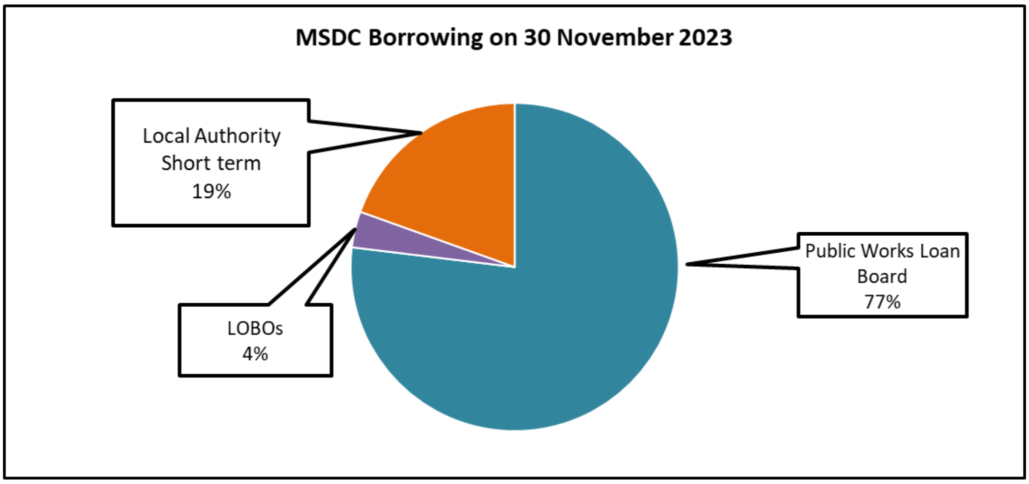
APPENDIX F: EXISTING INVESTMENT & DEBT PORTFOLIO POSITION FOR GENERAL FUND AND HRA

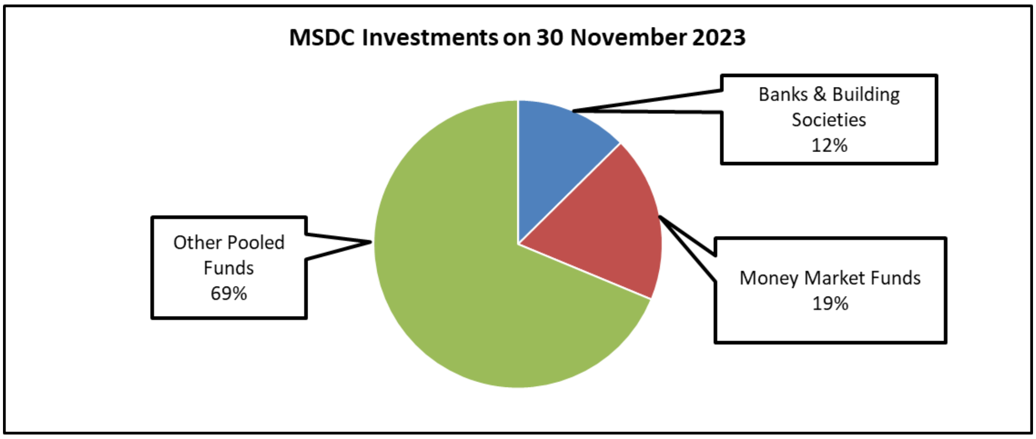
Babergh	30.11.2023 Portfolio £m	Average Rate %
External Borrowing:		
Public Works Loan Board	93.56	3.21%
Local Authority Short term	19.00	4.45%
Total External borrowing	**112.56**	3.42%
Treasury Investments:		
Banks & Building Societies	1.01	4.24%
Money Market Funds	1.00	5.18%
Other Pooled Funds	11.04	4.89%
Total Treasury Investments	**13.05**	4.86%
Net Debt	**99.51**	





Mid Suffolk	30.11.2023 Portfolio £m	Average Rate %
External Borrowing:		
Public Works Loan Board	86.67	3.32%
LOBOs	4.00	4.21%
Local Authority Short term	22.00	4.00%
Total External borrowing	**112.67**	3.48%
Treasury Investments:		
Banks & Building Societies	2.02	4.73%
Money Market Funds	3.00	4.92%
Other Pooled Funds	11.05	4.90%
Total Treasury Investments	**16.07**	4.88%
Net Debt	**96.60**	





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 November 2023						
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 November 2023						
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. Introduction and Background

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 Assistant Manager – Financial Accountant 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 2024/25, AND AMENDMENT TO 2023/24 STATEMENT

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, unless (a) the loan is an investment for commercial purposes and no repayment was received in year or (b) an expected credit loss was recognised or increased in-year. The Council will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement. In years where there is no principal repayment, on loans that are investments for commercial purposes, 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. Sufficient MRP will be charged to ensure that the outstanding capital financing requirement (CFR) on the loan is no higher than the principal amount outstanding less the expected credit loss. This is recommended as being 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, but depreciation on those assets will be charged in line with regulations.

1.12 Capital expenditure incurred during 2023/24 will not be subject to an MRP charge until 2024/25 and capital expenditure incurred during 2024/25 will not be subject to an MRP charge until 2025/26.

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 2024, the budget for MRP for 2024/25 has been set as follows:

Estimated Capital Financing Requirement		
Babergh District Council	**31.3.2024 Estimated CFR £m**	**2024/25 Estimated MRP £m**
Capital expenditure before 01.04.2008	(0.38)	-
Unsupported capital expenditure after 31.3.2008	31.40	1.67
Transferred debt to HRA	(0.33)	-
Loans to other bodies repaid in instalments	50.10	-
Total General Fund	**80.80**	**1.67**
Assets in the Housing Revenue Account	15.00	-
HRA subsidy reform payment	79.10	-
Transferred debt from GF	0.33	-
Total Housing Revenue Account	**94.42**	**-**
Total CFR	**175.21**	**1.67**

Estimated Capital Financing Requirement		
Mid Suffolk District Council	31.3.2024 Estimated CFR £m	2024/25 Estimated MRP £m
Capital expenditure before 01.04.2008	7.88	0.09
Unsupported capital expenditure after 31.3.2008	25.98	1.48
Transferred debt to HRA	(1.76)	-
Loans to other bodies repaid in instalments	45.76	-
Total General Fund	**77.86**	**1.56**
Assets in the Housing Revenue Account	57.70	-
HRA subsidy reform payment	57.21	-
Transferred debt from GF	1.76	-
Total Housing Revenue Account	**116.67**	**-**
Total CFR	**194.53**	**1.56**

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

MRP compared to CFR						
Babergh District Council	2022/23 Actual £m	2023/24 Forecast Outturn £m	2024/25 Budget £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m
MRP charged to General Fund Revenue	1.46	1.56	1.67	1.90	2.11	2.16
General Fund CFR	75.65	80.80	86.56	97.48	96.44	95.35
MRP as a Proportion of CFR	**1.9%**	**1.9%**	**1.9%**	**2.0%**	**2.2%**	**2.3%**

MRP compared to CFR						
Mid Suffolk District Council	2022/23 Actual £m	2023/24 Forecast Outturn £m	2024/25 Budget £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m
MRP charged to General Fund Revenue	1.33	1.31	1.32	1.59	1.76	1.99
General Fund CFR	85.20	77.86	86.93	93.08	88.17	87.03
MRP as a Proportion of CFR	**1.6%**	**1.7%**	**1.5%**	**1.7%**	**2.0%**	**2.3%**

1.16 It is also proposed that the following additional paragraph be inserted into the 2023/24 MRP Statement:

"Under proposed changes to the MRP regulations proposals (expected to come into force in 2024/25), it is expected that any expected credit loss arising from the loans undertaken to CIFCO and Babergh Growth Ltd must be charged to the revenue budgets of the Councils in the year that the loss is recognised. The Council proposes to pre-empt this requirement by make the following overpayments of MRP in the 2023/24 financial year: a) BDC; £538k in respect of the loan to CIFCO and £400k in respect of the loan to Babergh Growth Ltd: b) MSDC; £538k in respect of the loan to CIFCO

The reason for make the overpayment in 2023/24 is to clearly set the amount aside to finance capital expenditure, rather than leaving it in a revenue reserve, which would give the impression that it is available for other purposes. There would be scope to unwind some or all the provision in future years if it was deemed that the provision was not required".

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 2023). 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	
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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