Cabinet 26 January 2022 Scrutiny Panel 25 January 2022	Item 7

Report of	**Chief Operating Officer**	**Author**	**Paul Cook** **☎ 505861** **Darren Brown** **☎ 282891**
Title	**Budget 2022/23 and Medium-Term Financial Forecast**		
Wards affected	All		

1 Executive Summary

1.1 The report recommends a sustainable 2022/23 budget and Medium Term Financial Forecast 2022/23 to 2025/26.

2 **Recommended Decision**

2.1 To approve the 2022/23 Revenue Budget and revised Medium Term Financial Forecast as set out Appendix A.

2.2 To note the budget resilience statement and forecast level of balances set out in Appendix B.

2.3 To approve the Treasury Management Strategy Statement 2022/23 to 2025/26 set out in Appendix C

2.4 To recommend to Council the 2022/23 revenue budget requirement of £21.875m

2.5 To recommend to Council Colchester's element of the Council Tax at £205.47 per Band D property being an increase of £4.95.

3 Reason for Recommended Decision

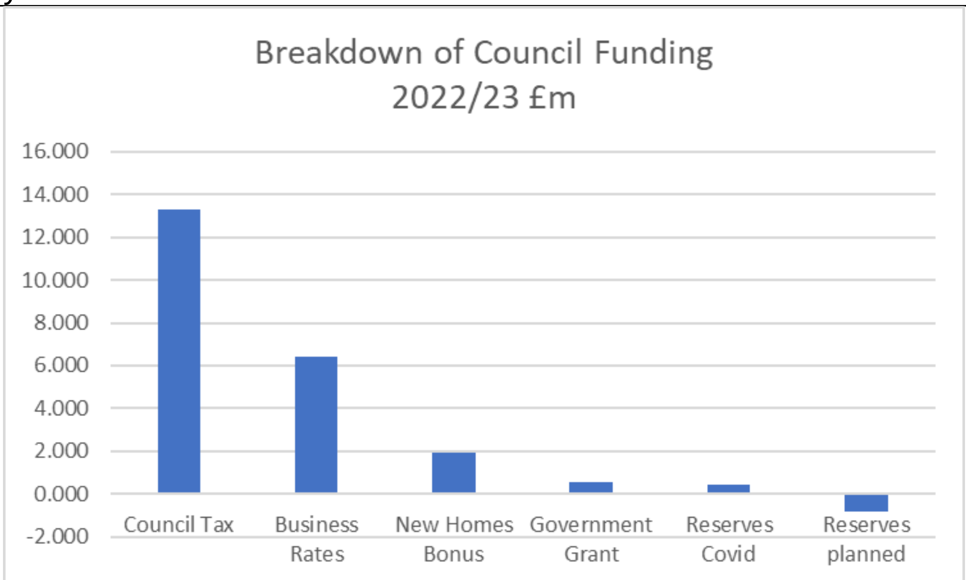
3.1 To balance the 2022/23 budget and revise the Medium Term Financial Forecast.

4 Alternative Options

4.1 None.

5 Summary of Council Funding

5.1 The table sets out a summary of the normal funding of Council services. This sets the budget recommendations in context.

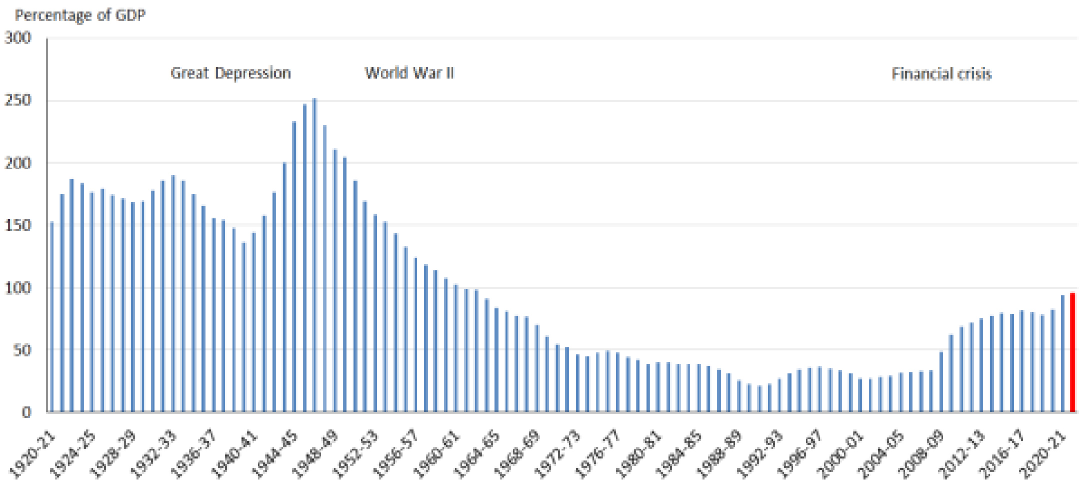
Revenue	These are running costs and income, including salaries, supplies and services and sales fees and charges.
Capital	Investment in land and buildings, plant and equipment.
Housing Revenue Account	Council houses and flats. It is ringfenced and self-financing for both revenue and capital.
General Fund	Non-Housing Revenue Account services accounted for in the General Fund such as waste collection, museums, sport and leisure, democratic services for example.
The 22/23 Budget	General Fund Revenue financial plan for next year 2022/23.
Medium Term Financial Forecast	Our financial plan for the next four years on General Fund or Medium Term Financial Forecast.
Net Budget requirement	A technical budget setting calculation the Council must make in accordance with complex rules set by the Government. Running costs, sales fees and charges and grants for individual services.
Net Budget	Circa £19.9m (excluding North Essex Parking Partnership). £84.3m costs less £64.4m income, as set out in Appendix E.
Government funding	Since 2012 funding comes mainly from retained business rates.
Business rates	We collect about £76m a year of which we expect to retain around £6m in 2022/23. Business rates are set nationally.
Council tax	We collect the council tax, most of which relates to Essex County Council services. Of a total £115m we expect to retain £13.300m in 2022/23. The district council tax will be increased by just under £5 per annum in 2022/23. This is the maximum increase without needing approval in a local referendum.
Collection Fund	Business rates and council tax are accounted for in a separate collection fund. This is used to distribute total income to the government, county council and police and fire as well as our own requirements. Also used to share surpluses or deficits compared to budget. This is a complex calculation over a number of financial years.
Breakdown of Council Funding	

6 Macro-economic context November 2021

6.1 Increasing levels of public sector debt are likely to restrict funding availability for local authorities as set out in the Office for National Statistics October 2021 Public Sector Finances Bulletin.

Figure 2: Debt expressed as a percentage of gross domestic product has reached levels last seen in the early 1960s

Public sector net debt excluding public sector banks, UK, financial year ending March 1921 to October 2021



Source: Office for Budget Responsibility and Office for National Statistics – Public sector finances

6.2 The Bank of England Monetary Policy Committee's November 2021 forecast is set out in the table below. The Consumer Price Index inflation forecast is particularly concerning, and the council will need to monitor the position carefully.

Table 1.A: Forecast summary[a][b]

	Projections			
	2021 Q4	2022 Q4	2023 Q4	2024 Q4
GDP[c]	6.7 (8.5)	2.9 (2.3)	1.1 (1.3)	0.9
CPI inflation[d]	4.3 (4.0)	3.4 (2.5)	2.2 (2.0)	1.9
LFS unemployment rate	4.5 (4.8)	4.0 (4.3)	4.1 (4.3)	4.4
Excess supply/Excess demand[e]	+¼ (+½)	+¼ (+¼)	0 (0)	-½
Bank Rate[f]	0.2 (0.1)	1.0 (0.3)	1.1 (0.5)	1.0

7 Overview of the Provisional 2022/23 Local Government Finance Settlement

7.1 The Draft Local Government Finance Settlement was published 16 December 2021. The consultation closed 13 January 2022.

7.2 The settlement is for one year only.

7.3 For 2022/23 the settlement was more favourable than expected in the areas of New Homes Bonus, Lower Tier Services Grant, and Services Grant. These revised figures have now been built into the Medium Term Financial Forecast.

7.4 Over the coming months the Department for Levelling Up, Housing and Communities intends to work with local government on calculating new spending needs assessments for individual local authorities.

7.5 The revision of spending needs assessments is one of the main financial risks to the Council. The Department for Levelling Up, Housing and Communities state there will be a transition scheme (from 2023/24) to protect 'losing' authorities. Any transition scheme will not apply to one-off elements of the 2022-23 Settlement. The table below shows that of £7.206m government funding to the Council in 2022/23, £2.878m or 40% could be exempt from protection.

Government Funding Draft 2022-23 Local Government Finance Settlement £m	£m	One-off
Settlement Funding Assessment	4.328	
Compensation for under-indexing the business rates multiplier	0.356	0.356
New Homes Bonus	1.954	1.954
Lower Tier Services Grant	0.270	0.270
2022/23 Services Grant	0.298	0.298
Total Government Support	**7.206**	**2.878**

7.6 Business Rates were frozen at 2020/21 levels in the 27 October 2021 Budget. Council business rates baselines have therefore also been frozen in the Settlement. Under legislation councils must be compensated by the Department for Levelling Up, Housing and Communities for the impact of business rates not increasing by the Retail Price Index. For Colchester this compensation is worth £356k in 2022/23.

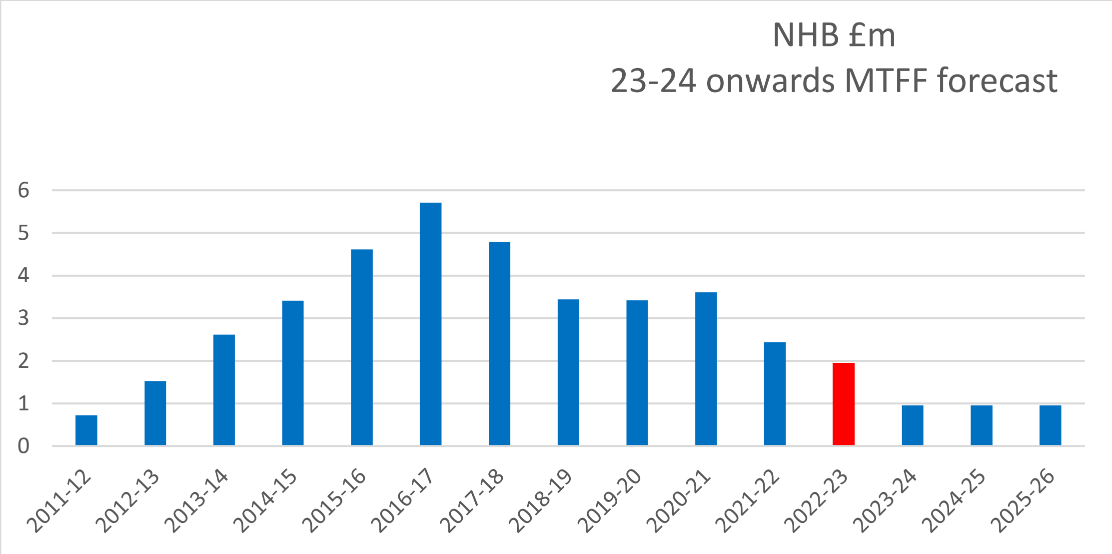
7.7 Under delegated authority agreed 13 October 2021 Cabinet, the Head of Finance in consultation with the Deputy Leader and Portfolio Holder for Resources has continued the Council's membership of the Essex Business Rates Pool. The Pool is confirmed in the Settlement.

7.8 The business rates retention system began in 2011/12. The local share is 50% of business rates collected. As a tariff authority, the Council must pay to Department for Levelling Up, Housing and Communities the difference between its business rates baseline and its assessed spending need.

7.9 Since 2011/12 growth in the local share of business rates has exceeded the baseline. The Council must pay the Department for Levelling Up, Housing and Communities a levy on the excess of its local share. Due to membership of the Essex Business Rates Pool this levy has been reduced to only 0.6%. The fundamental review of spending need set out in Section 7.5 could disturb what is an advantageous arrangement for the Council.

7.10 The Business Rates Reserve has been established to smooth year by year variations in business rates income arising in the Medium Term Financial Forecast.

7.11 The Council has been allocated £1.954m New Homes Bonus in 2022/23. This compares to the previous £950k Medium Term Financial Forecast assumption. The variance is a final year of 2019/20 legacy payments.



7.12 The Settlement announced that proposals for a revised New Homes Bonus would be published in the coming months. The revision of New Homes Bonus is also one of the main financial risks to the Council. In past years the Council has benefitted from high New Homes Bonus allocations, averaging £3.185m a year between 2011/12 and 2022/23.

7.13 Lower Tier services grant was first paid in 2021/22 and is paid again in 2022/23 at the same total of £111m nationally. It is split into 2 components – Settlement Funding Assessment or service element and Funding Floor protection. As shown in the table, Colchester's 2022/23 allocation of £270k is a substantial reduction on 2021/22. The grant's primary purpose is to ensure no authority has reduced core spending power in 2022/23 compared to 2021/22.

	21/22	**22/23**
National Total	111.000	111.000
Colchester services	0.184	0.194
Colchester cash floor	0.439	0.076
Colchester total Lower Tier Services Grant	**0.623**	**0.270**

7.14 A new Services Grant is announced in the Settlement worth £822m nationally. Colchester's allocation for 2022/23 is £298k. This one-off Service Grant is proposed for the local government finance settlement 2022 to 2023 to provide funding to all tiers of local government in recognition of the vital services delivered at every level of local government. It is distributed in proportion to each local authority's assessed spending need. The grant is intended to cover additional National Insurance costs announced in 2021.

7.15 £15m per annum nationally for the next 3 years to improve local audits was also announced in the Settlement. Details of Colchester's allocation are awaited.

7.16 On 30 November 2021 the Department for Levelling Up, Housing and Communities published a consultation paper Changes to the Capital Framework: Minimum Revenue Provision. The consultation closes 8 February 2022.

7.17 If put into force from 2023/24 as planned, the proposals would require the Council to make minimum revenue provision on loans to Amphora companies. Under current accounting policy the Council does not make such provision. This would result in considerable additional costs to the Medium Term Financial Forecast. The changes would potentially make the current business model of the Council lending to the companies unsustainable.

7.18 These changes are in addition to existing accounting requirements for advances to the companies. These include the need to demonstrate a corresponding asset value in the investment. If asset value cannot be demonstrated it is necessary to make minimum revenue provision or write down the investment to an appropriate level.

7.19 It is not clear that the purpose of the consultation is to prevent investment in local authority housing companies. If loans to housing companies are in due course exempted from the new requirements, then the planned programme of advances to Amphora Housing will be able to proceed. If loans to housing companies remain in scope, the planned advances in the capital programme will become unaffordable to the Council.

7.20 The results of the consultation will therefore be awaited before new projects are commenced in the companies that rely on borrowing from the Council or where a significant level of advance to the companies would be outstanding on 31 March 2023.

8 The Council's Budget

8.1 The Council has adopted a progressive approach to the 2022/23 budget emphasising investment in the local economy and recovery. Council tax and sales, fees and charges increases have generally been restricted to inflationary increases.

8.2 The rate of recovery will be dictated by Government policy on lockdown. Income budgets in 2022/23 assume a reduced level compared to 2020/21 original budgets in some areas and a gradual recovery. The position needs to be kept carefully under review through the normal monitoring processes.

8.3 At the same time Council efficiency and service delivery has been improved to deliver a wide range of savings. To balance its budget the Council has made appropriate use of reserves.

8.4 The Council continues to invest in the future of Colchester with projects such as the Town Deal and Northern Gateway. A vigorous programme of housing investment also continues. This capital investment will achieve improved services and increase employment.

8.5 The Council has available £254k of New Homes Bonus for allocation in 2022/23 and later years. This resource and efficient use of current budgets will help achieve the priorities in the Strategic Plan.

8.6 To balance its budget, the Council has made savings of £2.045m for 2022/23.

8.7 The Council has also allowed £2.169m for cost pressures and growth items in 2022/23. Some of the main items being;

- Inflation allowance (including fuel and utilities) - £1.006m
- 1.25% increase in National Insurance employer contributions £0.200m
- Reduction in income across a number of areas £0.388m
- Investment in the Digital Roadmap - £0.100m

8.8 The 2022/23 budget and MTFF allows for the financing costs of the Capital Programme. The Capital Programme is reported separately on this agenda.

8.9 The Council has limited most sales fees and charges to an inflationary increase. This is unavoidable given the need to finance essential services. Sales, fees and charges were agreed by November 2021 Cabinet.

8.10 The 2022/23 budget assumes a £4.95 Colchester council tax increase and the MTFF assumes the same increase is made in future financial years.

8.11 A 99% council tax collection rate is assumed. Local Council Tax Support take-up for 2022/23 onwards is assumed to be 12.5% higher than originally budgeted for 2020/21. Growth in property numbers is assumed to be 1% per annum.

8.12 The MTFF also assumes £200k of the gain from the Council's membership of the Essex Business Rates Pool.

8.13 It is also planned to use £0.450m of Council reserves for Covid-related pressures in 2022/23. This is in addition to the reserves already used in 2020/21 and 2021/22. A full statement on reserves is provided in Appendix G.

8.14 The Medium-Term Financial Forecast and the assumptions used are set out in Appendix A to this report.

9 MTFF Consultation

9.1 The budget strategy and timetable have ensured that information is available for Scrutiny Panel and input from all Members.

9.2 Budget Workshops were held on 20 September 2021; 22 November 2021; and 17 January 2022 so that all members could share in the task of meeting the budget challenge.

9.3 The Leader of the Opposition is able at any stage of the budget process to meet with officers to assist with consideration of any alternative budget proposals.

9.4 The statutory consultation with business ratepayers will take place on 9 February 2022.

9.5 Wider consultation for the 2022/23 budget has effectively been prevented by delays in government announcements with a major impact on the revenue budget. Nevertheless the Council has continued to work constructively with partners and stakeholders and consult appropriately over a wide range of projects including the Towns Fund. Key budget factors that were not available in time to permit a full budget consultation include:

- Uncertainty over the New Homes Bonus, this being covered by an unresolved Government Consultation
- Lack of clarity on the timetable and levels of increased business rates retention
- Lack of information on government levelling up proposals

9.6 It is expected that hopefully with a more stable financial framework in place for 2023/24 the normal public consultation can proceed for that year's budget.

10 Risk Management Implications

10.1 Staff and support costs reflect current assumptions but will be subject to the progress of our transformation work.

10.2 Modelling has been undertaken with service managers to assess the potential range of impacts before adopting the assumptions described within the report.

11 Financial implications

11.1 As set out in the report.

11.2 No changes are necessary to the 2020 Financial Regulations.

12 Environmental and Climate Change Implications

12.1 All budget measures are assessed for their likely environmental impact, reflecting the Council's commitment to be 'carbon neutral' by 2030. Environment and Climate Change is an essential cross-cutting theme in the Council's recovery planning and a core theme of the new Strategic Plan.

13 Equality and Diversity Implications

13.1 Consideration will be given to equality and diversity issues in respect of budget changes proposed as part of the budget process. This will be done in line with agreed policies and procedures including production of Equality Impact Assessments where appropriate.

14 Other Standard References

14.1 There are no direct Publicity, Human Rights, Community Safety or Health and Safety implications as a result of this report.

Appendices

A	**2022-26 Medium Term Financial Forecast and Assumptions**
B	**Budget Robustness Statement**
C	**Treasury Management Strategy Statement**
D	**Technical reconciliations of budget requirement 2022/23**
E	**Summary Budget 2022/23**
F	**2022/23 General Fund Budgets**
G	**Reserves, Provisions and Balances**
H	**Allocation of New Homes Bonus**

Appendix A – 2022-26 Medium Term Financial Forecast and Assumptions

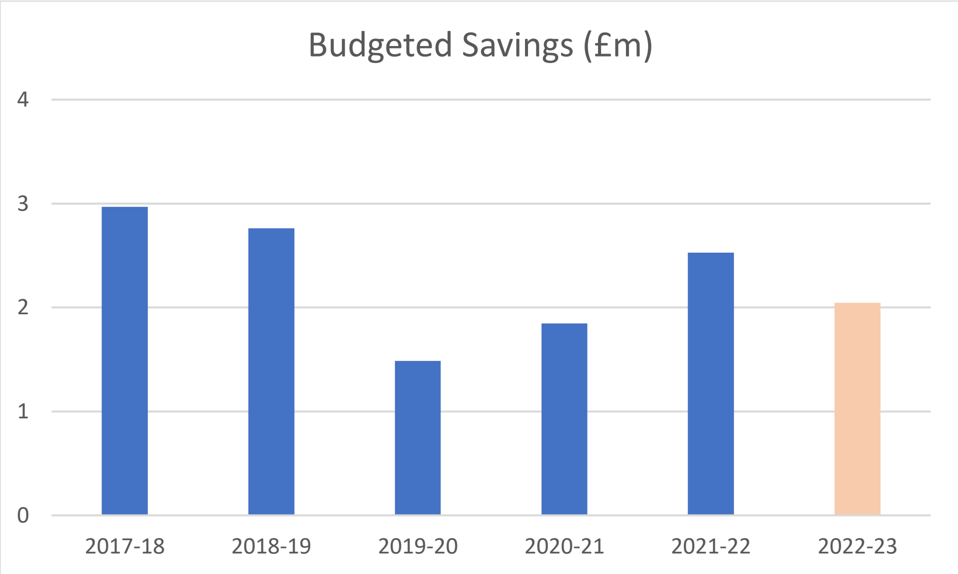
2022/23 Budget and MTFF	**22/23**	**23/24**	**24/25**	**25/26**
	£'000	£'000	£'000	£'000
Previous year's budget	**21,747**	**21,875**	**21,980**	**23,315**
Cost pressures & Growth items	2,169	496	900	900
Capital financing	0	609	385	(276)
Income losses	0	(150)	(200)	(200)
Savings	(2,045)	(146)	(50)	(50)
Change in forecast use of new homes bonus	4	(704)	300	0
Current year's budget	**21,875**	**21,980**	**23,315**	**23,689**
Business rates	(6,413)	(5,956)	(5,500)	(5,044)
Govt Grant	(568)	0	0	0
New Homes Bonus	(1,954)	(950)	(950)	(950)
Council Tax	(13,300)	(13,757)	(14,221)	(14,693)
Previously planned use of reserves	810	935	935	935
Covid use of reserves	(450)	(400)	(200)	(200)
Budget Gap Cumulative	**0**	**1,852**	**3,379**	**3,737**

MTFF Assumptions	**22/23**	**23/24**	**24/25**	**25/25**
Council Tax collection	99%	99%	99%	99%
Growth in council tax base	1.0%	1.0%	1.0%	1.0%
District council tax increase	£4.95p	£4.95p	£4.95p	£4.95p
LCTS increased take-up	12.5%	12.5%	12.5%	12.5%

Appendix B – Budget Robustness Statement

1 In 2021/22 the Council's financial position has been substantially affected by the Coronavirus pandemic. Fortunately the first quarter's income losses and additional costs have been supported by Government grants. The use of reserves for Covid in 2021/22 is expected to be £1.210m.

2 The value of new savings planned for 2022/23 is comparable to the level of savings achieved in recent financial years (see chart). The Council is however prioritising achieving high annual values of transformation savings from 2023/24 onwards to achieve a balanced and sustainable budget in the longer term



3 The Council's capital programme has resulted in increasing capital financing requirements in the 2022/23 revenue budget and in the Medium Term Financial Forecast. Care should be taken that current borrowing commitments do not restrict the scope for future spending decisions.

4 Minimum Revenue Provision accounting changes proposed by Government for 2023/24 would – if coming into force as set out in the Budget Report – render the current system of Council advances to Amphora financially unsustainable. These arrangements and the consultation progress need to be kept under thorough review.

5 The development of Colchester Northern Gateway is a major undertaking bearing significant financial risks. Given economic and business changes following Covid ongoing financial appraisal of the project is being undertaken to ensure the risks and rewards remain appropriate given the size of the Council's net budget.

6 The Council will need to carefully monitor the impact of inflation during 2022/23 in both pay and other areas.

7 The Council's borrowing requirements are largely financed in long maturity borrowing at fixed rates. Increasing interest rates may lead to additional investment income.

8 The Council has a good record of delivering agreed savings. The 2022/23 savings proposals were developed by the Transformation Board and assessed by the Finance Business Partners.

9 The Council has in place revenue and capital monitoring processes enabling it to take corrective action in the event of unexpected budget variations. The Council has sound finance and performance monitoring processes including the Performance Management Board and the Capital Programme Steering Group. These arrangements ensure that any new expenditure proposals are adequately assessed.

10 The Council is relying on an additional £0.450m use of balances to deliver its core services in 2022/23. Given the exceptional situation locally and nationally this is appropriate.

11 The budget process allows for the review of budget proposals by the Scrutiny Panel and this has applied to the 2022/23 proposals.

12 The Council's use of resources judgment by BDO in the 2019/20 audit was satisfactory, following an assessment of the Council's approach. The 2020/21 use of resources judgment is not available due to external audit delays

13 There is an effective risk management process in place in the Council.

14 The 2022/23 Provisional Local Government Finance Settlement was more favourable than expected. However planned Government recalculation of spending assessments and the abolition of new Homes Bonus are significant financial risks from 2023/24 as set out in the budget report.

15 The Chartered Institute of Public Finance and Accountancy resilience index has yet to be updated.

16 In order to maintain financial planning, monitoring and accounting at a robust level given all the risks and changes outlined above, the Finance resource and capacity within in the Council needs to be maintained and any additional accounting requirements appropriately resourced.

17 It appears therefore that the 2022/23 budget and Medium Term Financial Forecast are robust and the reserves and balances adequate as set out in the succeeding tables.

Appendix C

Treasury Management Strategy Statement
Minimum Revenue Provision Policy Statement and Annual Investment Strategy
2022/23

1 Introduction

1.1 Statement includes the Minimum Revenue Provision Policy Statement and Annual Investment Strategy.

1.2 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Treasury management ensures that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

1.3 The second main function of treasury management is funding the Council's Capital Programme. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost.

1.4 The contribution that treasury management makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. Treasury management balances the interest costs of debt and the investment income arising from cash deposits. Since cash balances primarily result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will result in a loss to the General Fund.

1.5 Loans to third parties will impact on the treasury function. These activities are classed as non-treasury activities arising from capital expenditure and are separate from day-to-day treasury management activities.

1.6 The Chartered Institute of Public Finance and Accountancy Code defines treasury management as:

> The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

1.7 Local authorities are required to adopt a Capital Strategy to provide focus on long term capital investment plans. The Capital Strategy is set out in the Resetting the Capital Programme and the Capital Strategy report on this Cabinet agenda. Transparent reporting for non-treasury investments including loans to third parties and the purchase of investment properties or commercial activity is required under the Localism Act 2011.

Reporting requirements

1.8 Following the adoption of the Treasury Management Strategy Statement by Budget Council, Governance and Audit Committee receives a mid-year update and outturn report.

Prudential and Treasury Indicators and Treasury Strategy

1.9 The 2022/23 Treasury Management Strategy Statement is recommended to Budget Council by 26 January 2022 Cabinet. The 25 January 2022 Scrutiny Panel also considers the recommended strategy as part of its review of the Budget. The Treasury Management Strategy Statement covers:

- Capital plans (including prudential indicators)
- Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time)
- Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators
- Investment strategy (the parameters within which investments are to be managed).

1.10 The Mid-Year Treasury Management Report to Governance and Audit Committee updates on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

1.11 The annual Treasury Report after the financial year end to Governance and Audit Committee reports actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Training

1.12 The Chartered Institute of Public Finance and Accountancy Code requires the Head of Finance and Section 151 Officer to ensure that Members with responsibility for treasury management or scrutiny receive adequate training in treasury management. Training is provided in one or more presentations to members by the Council's Treasury Advisers Link Asset Management. Dates for 2022/23 will be notified when the Municipal Calendar is set. The training needs of treasury management officers are periodically reviewed.

Treasury Management Strategy for 2022/23

1.13 The Treasury Management Strategy for 2022/23 covers two main areas:

<table>
<tr><td colspan="2">Content of Treasury Management Strategy</td></tr>
<tr><td rowspan="2">Capital</td><td>capital expenditure plans and the associated prudential indicators</td></tr>
<tr><td>minimum revenue provision policy</td></tr>
<tr><td rowspan="9">Treasury management</td><td>current treasury position</td></tr>
<tr><td>treasury indicators which limit the treasury risk and activities of the Council</td></tr>
<tr><td>prospects for interest rates</td></tr>
<tr><td>borrowing strategy</td></tr>
<tr><td>policy on borrowing in advance of need</td></tr>
<tr><td>debt rescheduling</td></tr>
<tr><td>investment strategy</td></tr>
<tr><td>creditworthiness policy</td></tr>
<tr><td>policy on use of external service providers</td></tr>
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1.14 These elements cover the requirements of the Local Government Act 2003; The Chartered Institute of Public Finance and Accountancy Prudential Code: The Department of Levelling-Up Minimum Revenue Provision Guidance; The Chartered Institute of Public Finance and Accountancy Code Treasury Management Code; and Department of Levelling-Up, Housing and Communities Investment Guidance.

Treasury management consultants

1.15 The Council uses Link Asset Services as its external treasury management advisors.

1.16 Responsibility for treasury management decisions remains with the Council and undue reliance is not placed upon external advisors. Decisions use available information including external advice.

International Financial Reporting Standard 16 Leases

1.17 This Standard replaces previous guidance on leases in International Accounting Standard 17. The new Standard provides a single lessee accounting model. This requires lessees to recognise assets and liabilities for all leases. (Unless the lease term is 12 months or less or the underlying asset has a low value.) Lessors continue to classify leases as operating or finance. International Financial Reporting Standard 16 approach to lessor accounting remaining substantially unchanged from Internationl Accounting Standard 17.

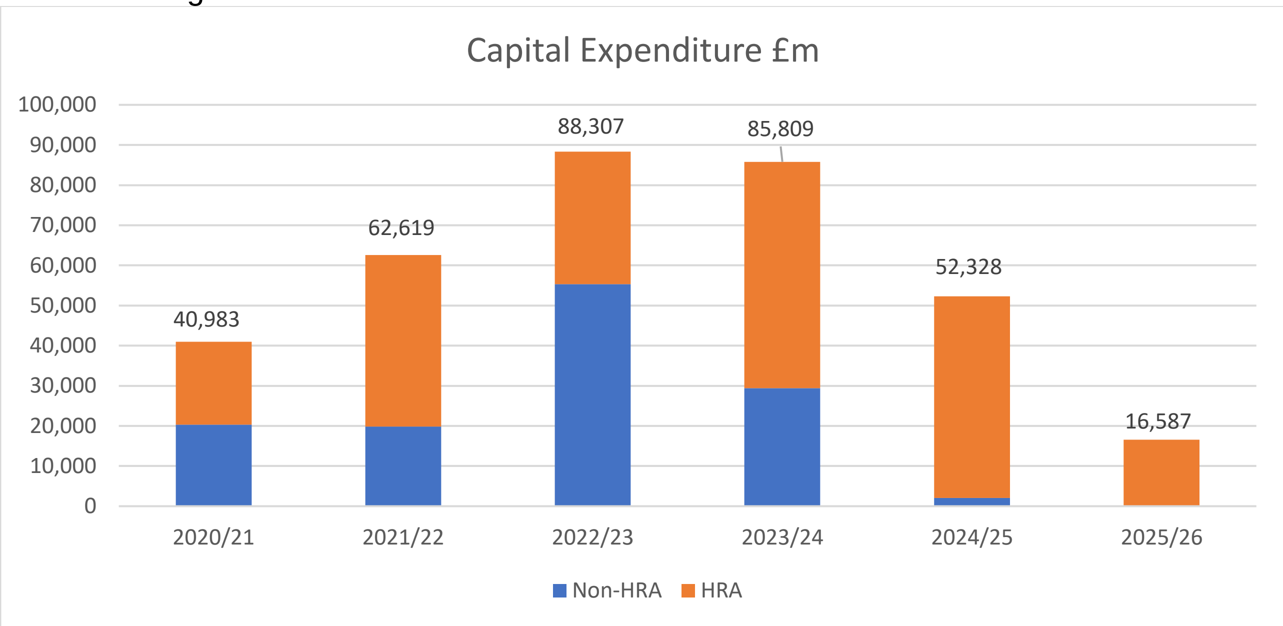
1.18 In December 2018, The Chartered Institute of Public Finance and Accountancy delayed implementation of International Financial Reporting Standard 16 in the Accounts Code until 1 April 2022. The impact of adopting International Financial Reporting Standard 16 will be disclosed in the financial statements for the year ending 31 March 2023.

2 The Capital Prudential Indicators 2020/21 – 2025/26

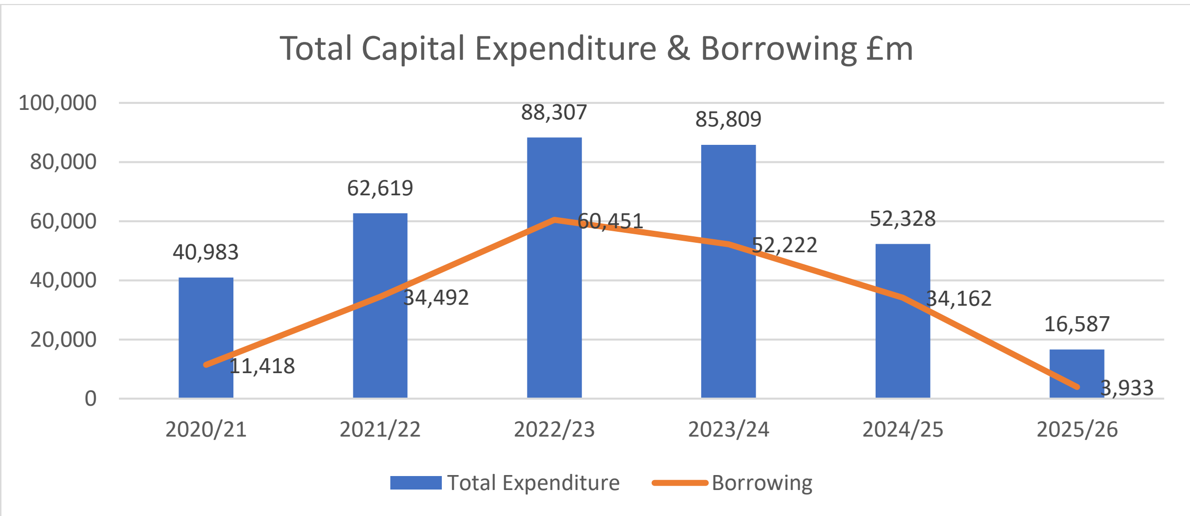
2.1 The Council's capital expenditure plans are the key driver of treasury. The output of the capital expenditure plan is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Capital expenditure

2.2 This prudential Indicator is a summary of the Council's capital expenditure plans as set out in the Resetting the Capital Programme and the Capital Strategy report on this agenda.



The table below summarises how the above capital expenditure plans will be financed by capital or revenue resources. The balance of financing will be provided by borrowing.



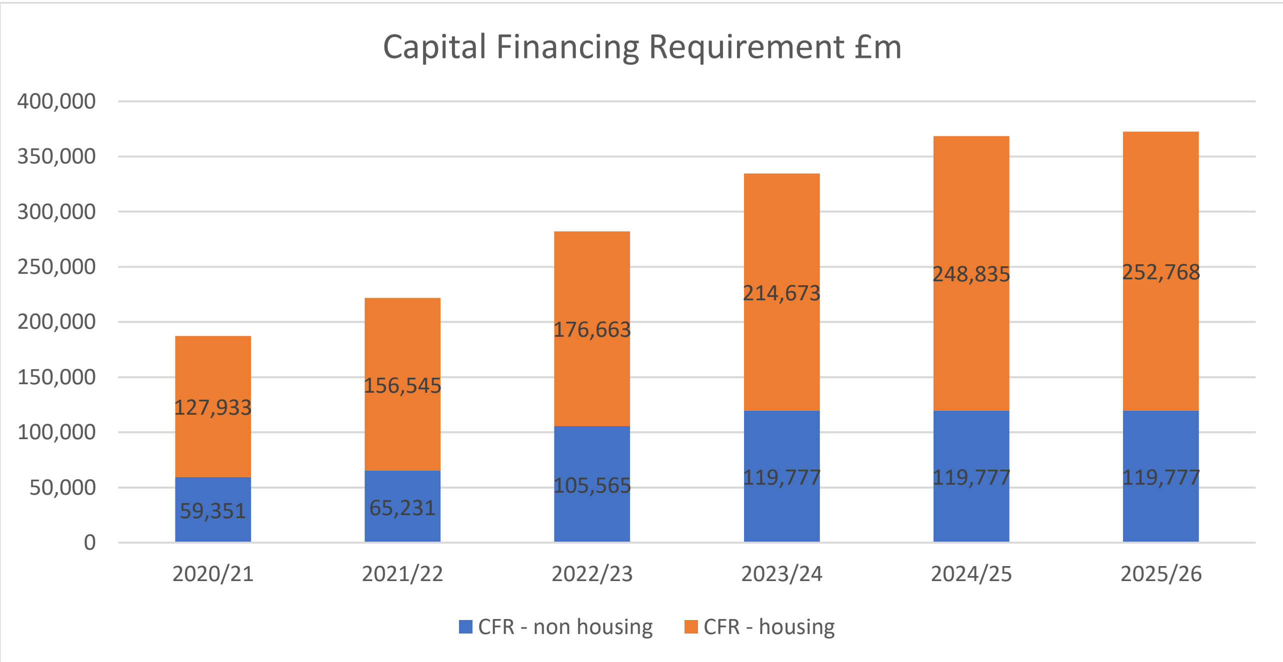
The Council's borrowing need (The Capital Financing Requirement)

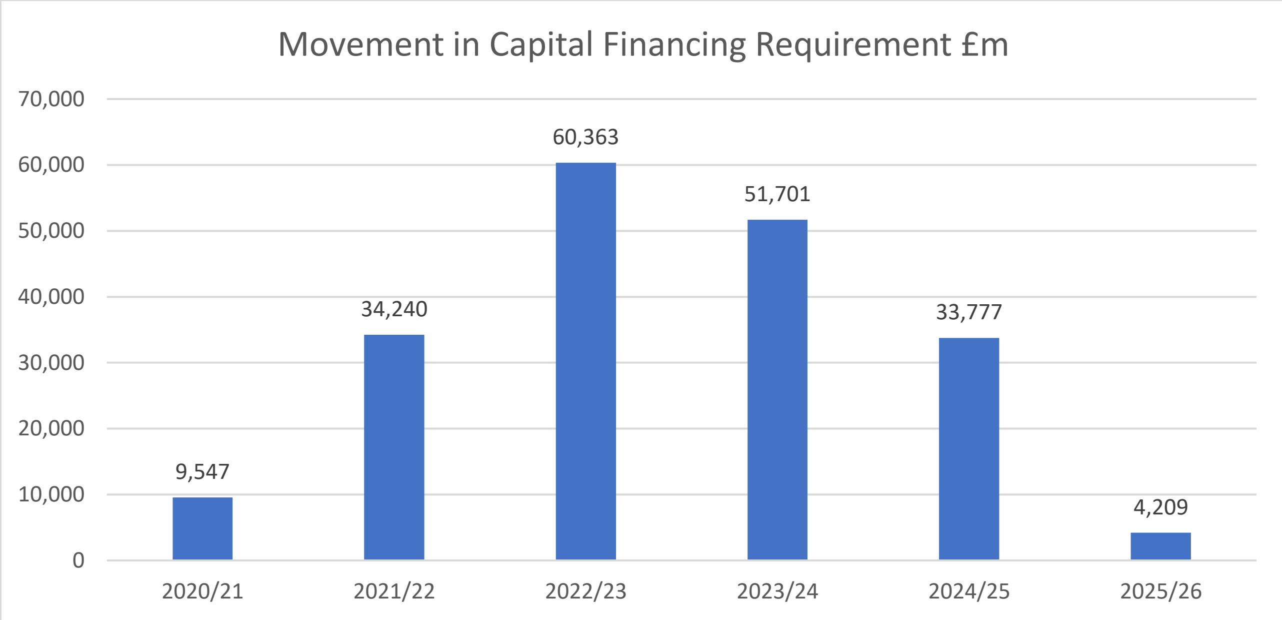
2.3 The second prudential indicator is the Council's Capital Financing Requirement. The Capital Financing Requirement is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so of its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the Capital Financing Requirement.

2.4 The Capital Financing Requirement does not increase indefinitely, as the minimum revenue provision is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

2.5 The Capital Financing Requirement includes any other long-term liabilities (for example finance leases). Whilst these increase the Capital Financing Requirement, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility by the lease provider and so the Council is not required to separately borrow for these schemes.

2.6 Capital Financing Requirement projections are set out below, with a breakdown of the annual movement.





Minimum Revenue Provision Policy Statement

2.7 The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision), although it is also allowed to undertake additional voluntary payments if required.

2.8 Government regulations require the full Council to approve a Minimum Revenue Provision Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following Minimum Revenue Provision Statement:

2.9 For capital expenditure incurred before 1 April 2008 and subsequent Supported Capital Expenditure, the policy will allow for the borrowing need to be repaid on an equal instalment basis over a period of 50 years. This has the benefits of reducing the amount payable for the first 17 years, introducing a consistent level of charge, and ensuring that this element of Minimum Revenue Provision is eventually completely repaid.

2.10 From all unsupported borrowing (including finance leases) the Minimum Revenue Provision policy will be the Asset Life Method. Minimum Revenue Provision will be based on the estimated life of the assets, in accordance with the regulations. This provides for a reduction in the borrowing need over the asset's life. Repayments included in finance leases are applied as Minimum Revenue Provision.

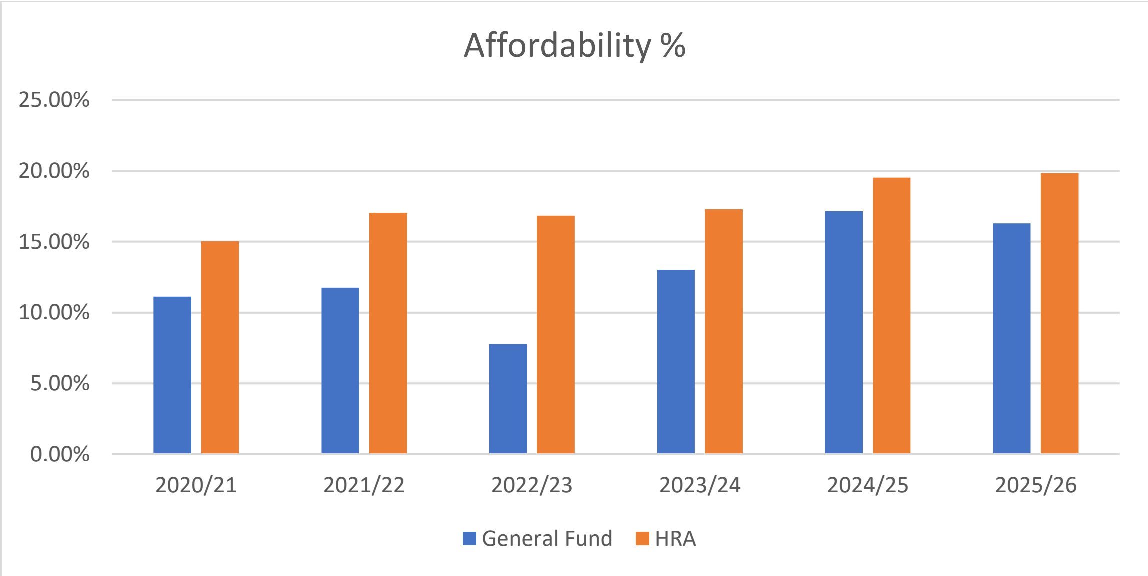
2.11 There is no requirement in the Housing Revenue Account to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

2.12 The Head of Finance in liaison with the Deputy Leader and Portfolio Holder for Resources will keep the Council's Minimum Revenue Provision Policy under review to ensure that it remains fit for purpose in relation to its borrowing requirements.

Affordability Prudential Indicators

2.13 The previous sections of this report cover the overall capital, and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

2.14 Ratio of financing costs to net revenue stream. This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.



The estimates of financing costs include current commitments and capital programme proposals on this agenda.

3 Economic Outlook provided by Link Asset Services

3.1 The Council has appointed Link Asset Services as its treasury advisor and part of the service is to assist the Council to formulate a view on interest rates. This section of the Strategy is provided by Link.

Link Group Interest Rate View	8.11.21													
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.10	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.50	0.60	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.80	1.90	1.90	2.00	2.00
10 yr PWLB	1.80	1.90	1.90	2.00	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.40
25 yr PWLB	2.10	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70
50 yr PWLB	1.90	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50
Bank Rate														
Link	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
Capital Economics	0.25	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	-	-	-	-	-
5yr PWLB Rate														
Link	1.50	1.50	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.80	1.90	1.90	2.00	2.00
Capital Economics	1.60	1.70	1.70	1.80	2.10	2.10	2.10	2.10	2.10	-	-	-	-	-
10yr PWLB Rate														
Link	1.80	1.90	1.90	2.00	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.40
Capital Economics	1.80	1.90	2.00	2.20	2.30	2.30	2.30	2.30	2.30	-	-	-	-	-
25yr PWLB Rate														
Link	2.10	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70
Capital Economics	2.10	2.20	2.40	2.60	2.70	2.80	2.80	2.80	2.90	-	-	-	-	-
50yr PWLB Rate														
Link	1.90	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50
Capital Economics	1.90	2.00	2.20	2.40	2.50	2.60	2.60	2.60	2.70	-	-	-	-	-

MPC meeting 16th December 2021

- The Monetary Policy Committee (MPC) voted 8-1 to raise Bank Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.
- The MPC disappointed financial markets by not raising Bank Rate at its November meeting. Until Omicron burst on the scene, most forecasters, therefore, viewed a Bank Rate increase as being near certain at this December meeting due to the way that inflationary pressures have been comprehensively building in both producer and consumer prices, and in wage rates. However, at the November meeting, the MPC decided it wanted to have assurance that the labour market would get over the end of the furlough scheme on 30th September without unemployment increasing sharply; their decision was, therefore, to wait until statistics were available to show how the economy had fared at this time.

- After the Governor and other MPC members had made speeches prior to the MPC meeting in which they stressed concerns over inflation, (the Bank is now forecasting inflation to reach 5% in April when the next round of capped gas prices will go up), thus reinforcing the strong message from the September MPC meeting, financial markets had confidently built in an expectation that Bank Rate would go up from 0.10% to 0.25% at this meeting. However, these were not messages that the MPC would definitely increase Bank Rate at the <u>first</u> upcoming MPC meeting as no MPC member can commit the MPC to make that decision ahead of their discussions at the time. The MPC did comment, however, that Bank Rate would have to go up in the short term. It is, therefore, relatively evenly balanced as to whether Bank rate will be increased in December, February or May. Much will depend on how the statistical releases for the labour market after the end of furlough on 30th September 2021 turn out.

- **On 10th December we learnt of the disappointing 0.1% m/m rise in GDP** in October which suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November. Early evidence suggests growth in November might have been marginally better. Nonetheless, at such low rates of growth, the government's "Plan B" COVID-19 restrictions could cause the economy to contract in December.

- **On 14th December, the labour market statistics** for the three months to October and the single month of October were released. The fallout after the furlough scheme was smaller and shorter than the Bank of England had feared. The single-month data were more informative and showed that LFS employment fell by 240,000, unemployment increased by 75,000 and the unemployment rate rose from 3.9% in September to 4.2%. However, the weekly data suggested this didn't last long as unemployment was falling again by the end of October. What's more, the 49,700 fall in the claimant count and the 257,000 rise in the PAYE measure of company payrolls suggests that the labour market strengthened again in November. The other side of the coin was a further rise in the number of vacancies from 1.182m to a record 1.219m in the three months to November which suggests that the supply of labour is struggling to keep up with demand, although the single-month figure for November fell for the first time since February, from 1.307m to 1.227m.

- These figures by themselves, would probably have been enough to give the MPC the assurance that it could press ahead to raise Bank Rate at this December meeting. However, the advent of Omicron potentially threw a spanner into the works as it poses a major headwind to the economy which, of itself, will help to cool the economy. The financial markets, therefore, swung round to expecting no change in Bank Rate.

- **On 15th December we had the CPI inflation** figure for November which spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply. However, Omicron also caused a sharp fall in world oil and other commodity prices; (gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies).

- **Other elements of inflation are also transitory** e.g., prices of goods being forced up by supply shortages, and shortages of shipping containers due to ports being clogged have caused huge increases in shipping costs. But these issues are likely to clear during 2022, and then prices will subside back to more normal levels. Gas prices and electricity prices will also fall back once winter is passed and demand for these falls away.

- Although it is possible that the Government could step in with some **fiscal support for the economy**, the huge cost of such support to date is likely to pose a barrier to incurring further major expenditure unless it was very limited and targeted on narrow sectors like hospitality. The Government may well, therefore, effectively leave it to the MPC, and to monetary policy, to support economic growth – but at a time when the threat posed by rising inflation is near to peaking!

- This is the adverse set of factors against which the MPC had to decide on Bank Rate. For the second month in a row, the MPC blind-sided financial markets, this time with a **surprise increase in Bank Rate from 0.10% to 0.25%.** What's more, the hawkish tone of comments indicated that the MPC is now concerned that inflationary pressures are indeed building and need concerted action by the MPC to counter. This indicates that there will be more increases to come with financial markets predicting 1% by the end of 2022. The 8-1 vote to raise the rate shows that there is firm agreement that inflation now poses a threat, especially after the CPI figure hit a 10-year high this week. The MPC commented that "there has been significant upside news" and that "there were some signs of greater persistence in domestic costs and price pressures".

- On the other hand, it did also comment that **"the Omicron variant is likely to weigh on near-term activity".** But it stressed that at the November meeting it had said it would raise rates if the economy evolved as it expected and that now "these conditions had been met". It also appeared more worried about the possible boost to inflation form Omicron itself. It said that "the current position of the global and UK economies was materially different compared with prior to the onset of the pandemic, including elevated levels of consumer price inflation". It also noted the possibility that renewed social distancing would boost demand for goods again, (as demand for services would fall), meaning “global price pressures might persist for longer”. (Recent news is that the largest port in the world in China has come down with an Omicron outbreak which is not only affecting the port but also factories in the region.)

- On top of that, there were no references this month to inflation being expected to be below the **2% target in two years’ time,** which at November’s meeting the MPC referenced to suggest the markets had gone too far in expecting interest rates to rise to over 1.00% by the end of the year.

- These comments indicate that there has been a material reappraisal by the MPC of the inflationary pressures since their last meeting and the Bank also increased its forecast for inflation to peak at 6% next April, rather than at 5% as of a month ago. However, as the Bank retained its guidance that only **a “modest tightening”** in policy will be required, it cannot be thinking that it will need to increase interest rates that much more. A typical policy tightening cycle has usually involved rates rising by 0.25% four times in a year. “Modest” seems slower than that. As such, the Bank could be thinking about raising interest rates two or three times next year to 0.75% or 1.00%.

- In as much as a considerable part of the inflationary pressures at the current time are indeed **transitory,** and will naturally subside, and since economic growth is likely to be weak over the next few months, this would appear to indicate that this tightening cycle is likely to be comparatively short.

- As for the timing of the next increase in Bank Rate, the MPC dropped the comment from November’s statement that Bank Rate would be raised “in the coming months”. That may imply another rise is unlikely at the next meeting in February and that May is more likely. However, much could depend on how adversely, or not, the economy is affected by Omicron in the run up to the next meeting on 3rd February. Once 0.50% is reached, the Bank would act to start shrinking its stock of Quantitative Easing, (gilts purchased by the Bank would not be replaced when they mature).

- **The MPC’s forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -
    1. Raising Bank Rate as “the active instrument in most circumstances”.
    2. Raising Bank Rate to 0.50% before starting on reducing its holdings.
    3. Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
    4. Once Bank Rate had risen to at least 1%, it would start selling its holdings.

3.2

- **US.** Shortages of goods and intermediate goods like semi-conductors, have been fuelling increases in prices and reducing economic growth potential. In November, **CPI inflation hit a near 40-year record level of 6.8%** but with energy prices then falling sharply, this is probably the peak. The biggest problem for the Fed is the mounting evidence of a strong pick-up in cyclical price pressures e.g., in rent which has hit a decades high.
- **Shortages of labour** have also been driving up wage rates sharply; this also poses a considerable threat to feeding back into producer prices and then into consumer prices inflation. It now also appears that there has been a sustained drop in the labour force which suggests the pandemic has had a longer-term scarring effect in reducing potential GDP. Economic growth may therefore be reduced to between 2 and 3% in 2022 and 2023 while core inflation is likely to remain elevated at around 3% in both years instead of declining back to the Fed’s 2% central target.
- Inflation hitting 6.8% and the feed through into second round effects, meant that it was near certain that the **Fed’s meeting of 15th December** would take aggressive action against inflation. Accordingly, the rate of tapering of monthly $120bn Quantitative Easing purchases announced at its November 3rd meeting, was doubled so that all purchases would now finish in February 2022. In addition, Fed officials had started discussions on running down the stock of Quantitative Easing held by the Fed. Fed officials also expected three rate rises in 2022 of 0.25% from near

zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy. The first increase could come as soon as March 2022 as the chairman of the Fed stated his view that the economy had made rapid progress to achieving the other goal of the Fed – “maximum employment”. The Fed forecast that inflation would fall from an average of 5.3% in 2021 to 2.6% in 2023, still above its target of 2% and both figures significantly up from previous forecasts. What was also significant was that this month the Fed dropped its description of the current level of inflation as being “transitory” and instead referred to “elevated levels” of inflation: the statement also dropped most of the language around the flexible average inflation target, with inflation now described as having exceeded 2 percent “for some time”. It did not see Omicron as being a major impediment to the need to take action now to curtail the level of inflationary pressures that have built up, although Fed officials did note that it has the potential to exacerbate supply chain problems and add to price pressures.

- **EU.** The slow role out of vaccines initially delayed **economic recovery** in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Q1, Q2 came in with strong growth of 2%. With Q3 at 2.2%, the EU recovery was then within 0.5% of its pre Covid size. However, the arrival of Omicron is now a major headwind to growth in quarter 4 and the expected downturn into weak growth could well turn negative, with the outlook for the first two months of 2022 expected to continue to be very weak.
- **November’s inflation figures** breakdown shows that the increase in price pressures is not just due to high energy costs and global demand-supply imbalances for durable goods as services inflation also rose. Headline inflation reached 4.9% in November, with over half of that due to energy. However, oil and gas prices are expected to fall after the winter and so energy inflation is expected to plummet in 2022. Core goods inflation rose to 2.4% in November, its second highest ever level, and is likely to remain high for some time as it will take a long time for the inflationary impact of global imbalances in the demand and supply of durable goods to disappear. Price pressures also increased in the services sector, but wage growth remains subdued and there are no signs of a trend of faster wage growth which might lead to *persistently* higher services inflation - which would get the ECB concerned. The upshot is that the euro-zone is set for a prolonged period of inflation being above the ECB’s target of 2% and it is likely to average 3% in 2022, in line with the ECB’s latest projection.

ECB tapering. The ECB has joined with the Fed by also announcing at its meeting on 16th December that it will be reducing its Quantitative Easing purchases - by half from October 2022, i.e., it will still be providing significant stimulus via Quantitative Easing purchases for over half of next year. However, as inflation will fall back sharply during 2022, it is likely that it will leave its central rate below zero, (currently -0.50%), over the next two years. The main struggle that the ECB has had in recent years is that inflation has been doggedly anaemic in sticking below the ECB’s target rate despite all its major programmes of monetary easing by cutting rates into negative territory and providing Quantitative Easing support.

The ECB will now also need to consider the impact of **Omicron** on the economy, and it stated at its December meeting that it is prepared to provide further Quantitative Easing support if the pandemic causes bond yield spreads of peripheral countries, (compared to the yields of northern EU countries), to rise. However, that is the only reason it will support peripheral yields, so this support is limited in its scope.

- The EU has entered into a **period of political uncertainty** where a new German government formed of a coalition of three parties with Olaf Scholz replacing Angela Merkel as Chancellor in December 2021, will need to find its feet both within the EU and in the three parties successfully working together. In France there is a presidential election coming up in April 2022 followed by the legislative election in June. In addition, Italy needs to elect a new president in January with Prime Minister Draghi being a favourite due to having suitable gravitas for this post. However, if he switched office, there is a significant risk that the current government coalition could collapse. That could then cause differentials between Italian and German bonds to widen when 2022 will also see a gradual running down of ECB support for the bonds of weaker countries within the

EU. These political uncertainties could have repercussions on economies and on Brexit issues.

- **CHINA.** After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of **2020**; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021.

- However, the pace of economic growth has now fallen back in **2021** after this initial surge of recovery from the pandemic and looks likely to be particularly weak in 2022. China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. Chinese consumers are also being very wary about leaving home and so spending money on services. However, with Omicron having now spread to China, and being much more easily transmissible, this strategy of sharp local lockdowns to stop the virus may not prove so successful in future. In addition, the current pace of providing boosters at 100 billion per month will leave much of the 1.4 billion population exposed to Omicron, and any further mutations, for a considerable time. The **People's Bank of China** made a start in December 2021 on cutting its key interest rate marginally to stimulate economic growth. However, after credit has already expanded by around 25% in just the last two years, it will probably leave the heavy lifting in supporting growth to fiscal stimulus by central and local government.

- Supply shortages, especially of coal for power generation, were causing widespread power cuts to industry during the second half of 2021 and so a sharp disruptive impact on some sectors of the economy. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

- **JAPAN.** 2021 has been a patchy year in combating Covid. However, recent business surveys indicate that the economy has been rebounding rapidly in 2021 once the bulk of the population had been double vaccinated and new virus cases had plunged. However, Omicron could reverse this initial success in combating Covid.

- The Bank of Japan is continuing its **very loose monetary policy** but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was actually negative in July. New Prime Minister Kishida, having won the November general election, brought in a supplementary budget to boost growth, but it is unlikely to have a major effect.

WORLD GROWTH. World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum in the second half of the year, though overall growth for the year is expected to be about 6% and to be around 4-5% in 2022. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. While headline inflation will fall sharply, core inflation will probably not fall as quickly as central bankers would hope. It is likely that we are heading into a period where there will be a **reversal of world globalisation** and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

- **SUPPLY SHORTAGES**. The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains. Major queues of ships unable to unload their goods at ports in New York, California and China built up rapidly during quarters 2 and 3 of 2021 but then halved during quarter 4. Such issues have led to a misdistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. The latest additional disruption has been a shortage of coal in China leading to power cuts focused primarily on producers (rather than consumers), i.e., this will further aggravate shortages in meeting demand for goods. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods available to purchase.

4 Investment and borrowing rates

4.1 The policy of avoiding the interest cost of new borrowing by using available cash balances has served well over the last few years. However, this needs to be kept under review to avoid incurring high borrowing costs in the future when the Council may require new external borrowing to finance capital expenditure or for the refinancing of maturing debt.

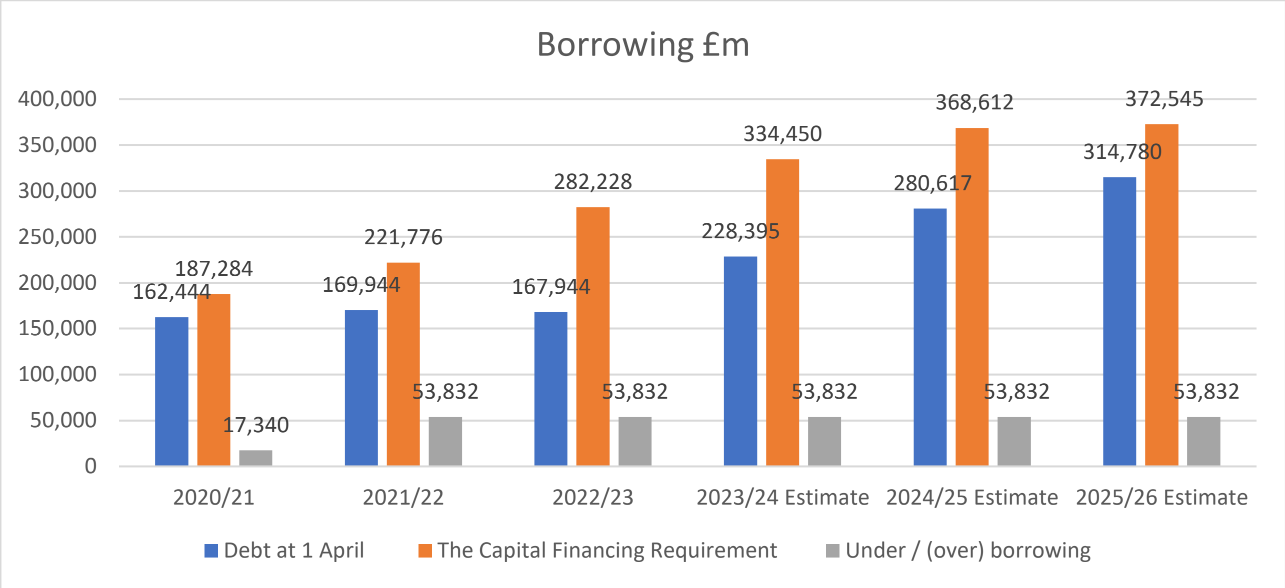
4.2 There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost - the difference between borrowing costs and investment returns.

Capital Financing Requirement

4.3 Resetting the Capital Programme and the Capital Strategy on this Cabinet agenda provides details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt position and the annual investment strategy.

Current portfolio position

4.4 The Council's treasury portfolio position at 31 March 2021, with forward projections are summarised below. The table shows the actual external debt against the underlying capital borrowing need (the Capital Financing Requirement), highlighting any over or under borrowing.

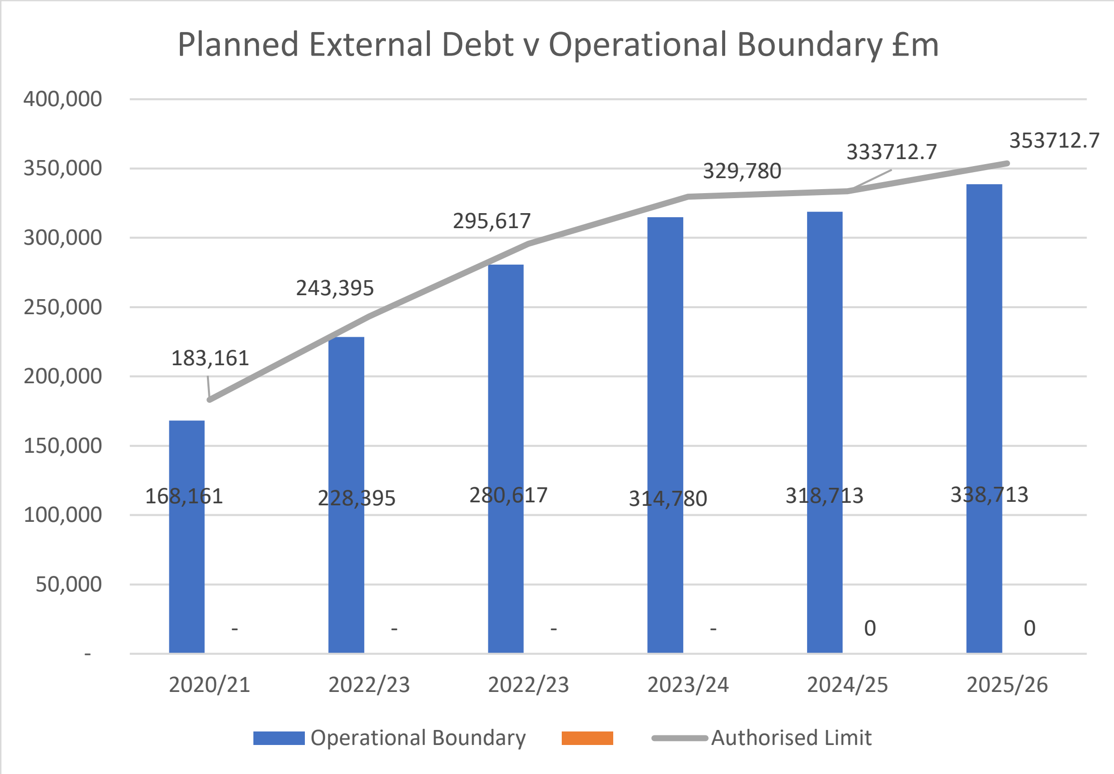


4.5 Within the prudential indicators there are key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short-term, exceed the total of the Capital Financing Requirement in the preceding year plus the estimates of any additional Capital Financing Requirement for 2022/23 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

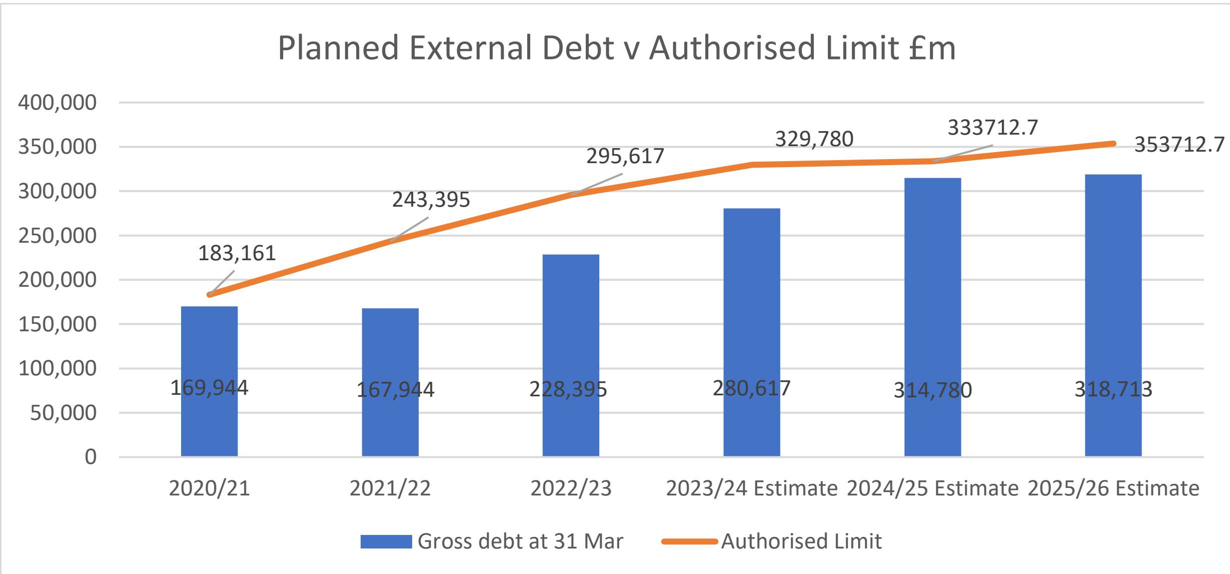
4.6 The Head of Finance and S151 Officer confirms that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future allowing for current commitments and the reset capital programme.

Treasury Indicators: Limits to Borrowing Activity

4.7 The Operational Boundary is the limit beyond which external debt is not normally expected to exceed. Planned external debt is well within the operational boundary limit.



The **Authorised Limit** for external debt represents a control on the maximum level of borrowing. This is a statutory limit determined under section 3(1) of the Local Government Act 2003. This limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short-term, but is not sustainable in the longer term. The chart shows that planned external debt is well within the authorised limit sought. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.



Borrowing Strategy

4.8 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is avoided.

4.9 Against this background and the risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Head of Finance and S151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in long and short-term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long-term borrowing will be postponed, and potential rescheduling from fixed rate funding into short-term borrowing will be considered.
- if it was felt that there was a significant risk of a much sharper RISE in long and short-term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

4.10 Any major long term borrowing activity will be reported to the Governance and Audit Committee at the next available opportunity.

Treasury Management Limits on Activity

4.11 There are three debt-related treasury activity limits. The purpose of these is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments.
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates.

4.12 Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Maturity structure of fixed interest rate borrowing 2021/22		
	Lower	**Upper**
Under 12 months	0%	15%
12 months to 2 years	0%	15%
2 years to 5 years	0%	15%
5 years to 10 years	0%	15%
10 years to 20 years	0%	40%
20 years to 30 years	0%	40%
30 years to 40 years	0%	40%
40 years to 50 years	0%	10%

Policy on Borrowing in Advance of Need

4.13 The Council will not borrow more than or in advance of its needs purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Debt Rescheduling

4.14 Where short-term borrowing rates become considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long-term debt to short-term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred). The reasons for any rescheduling to take place will include:

- the generation of cash savings or discounted cash flow savings.
- helping to fulfil the treasury strategy.
- enhance the balance of the portfolio by amending the maturity profile or the balance of volatility).

4.15 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short-term rates on investments are likely to be lower than rates paid on current debt.

4.16 Any rescheduling will be reported to the Scrutiny Panel or the Governance and Audit Committee at the earliest meeting following its action.

Municipal Bond Agency

4.17 It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board. The Council will consider making use of this new source of borrowing as and when appropriate.

Housing Revenue Account borrowing

4.18 As part of the Housing Revenue Account reform arrangements in April 2012, the Council decided to follow the 'two pool' approach to allocating existing debt, considering those loans that were originally raised for a specific purpose. This assumed that the Housing Revenue Account would be fully borrowed, however the Housing Revenue Account is now in a position where it may need to borrow to fund the Housing Investment Programme.

4.19 As the Council is maintaining an under-borrowed position, the HRA will be recharged for the cost of any new borrowing requirement based on the average balance of unfinanced Housing Revenue Account borrowing during the year, using the Public Works Loan Board variable rate as at 31 March of the previous year. In an environment of low investment returns and relatively stable borrowing rates, this provides a recharge that is beneficial to both the Housing Revenue Account and General Fund and can be reasonably forecast from early in the financial year. This approach will be reviewed annually in conjunction with the Treasury Management Strategy Statement and projected investment returns.

5 Annual Investment Strategy

Investment Policy

5.1 The Department of Levelling Up, Housing and Communities and Local Government and the Chartered Institute of Public Finance and Accountancy have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy elsewhere on this agenda.

5.2 In accordance with the above guidance, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short-term and Long-term ratings.

5.3 Ratings will not be the sole determinant of the quality of an institution, and it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this the Council will engage with its advisors to maintain a monitor on market pricing such as Credit Default Swaps and overlay that information on top of the credit ratings.

5.4 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector to establish the most robust scrutiny process on the suitability of potential investment counterparties.

5.5 Investment instruments identified for use in the financial year are listed in the Appendix, which includes Counterparty, time and monetary limits. These will cover both ‘Specified’ and ‘Non-Specified’ Investments.

5.6 Such investments are treated as expenditure for treasury management and prudential borrowing purposes even though they do not create physical assets in the Council's accounts. Appropriate budgets in respect of these activities are agreed as part of the Council's budget setting and ongoing monitoring processes and considered as part of the Investment Strategy.

5.7 Specified Investments are sterling denominated investments of not more than one-year maturity, meeting the minimum 'high' criteria where applicable. These are considered low risk assets where the possibility of loss of principal or investment income is small. Non-Specified Investments are those that do not meet the specified investment criteria. A limit of £20m will be applied to the use of Non-Specified Investments (this will partially be driven by the long-term investment limits).

Creditworthiness policy

5.8 This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's, and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- "watches" and "outlooks" from credit rating agencies.
- Credit Default Swap spreads that may give early warning of likely changes in credit ratings.
- sovereign ratings to select counterparties from only the most creditworthy countries.

5.9 This modelling approach combines credit ratings, and any assigned Watches and Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will, therefore, use counterparties within the following durational bands

- Yellow 5 years *
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

5.10 The creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

5.11 Typically, the minimum credit ratings criteria the Council uses will be a Short-term rating (Fitch or equivalents) of F1, and a Long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

5.12 All credit ratings will be monitored monthly. The Council is alerted to changes to ratings of all three agencies through its use of the creditworthiness service. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer-term change) are provided to officers almost immediately after they occur and this information is considered before dealing.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

5.13 Sole reliance will not be placed on the use of this external service. In addition, the Council will also use market data and market information, and information on any external support for banks to help support its decision-making process.

Country limits

5.14 The Council will only use approved counterparties from countries with a minimum sovereign credit rating of AA-, based on the lowest available rating. However, this policy excludes UK counterparties. The list of countries that qualify using this credit criteria as at the date of this report are shown in the Appendix. This list will be amended by officers should ratings change in accordance with this policy.

5.15 In addition:

- no more than £15m will be placed with any non-UK country at any time.
- the limits will apply to a group of companies.
- sector limits will be monitored regularly for appropriateness.

Investment strategy

5.16 The Council will manage all its investments in-house. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short to medium term interest rates.

5.17 The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year, (based on a first increase in Bank Rate in quarter 2 of 2022), are as follows from our treasury advisors Link.

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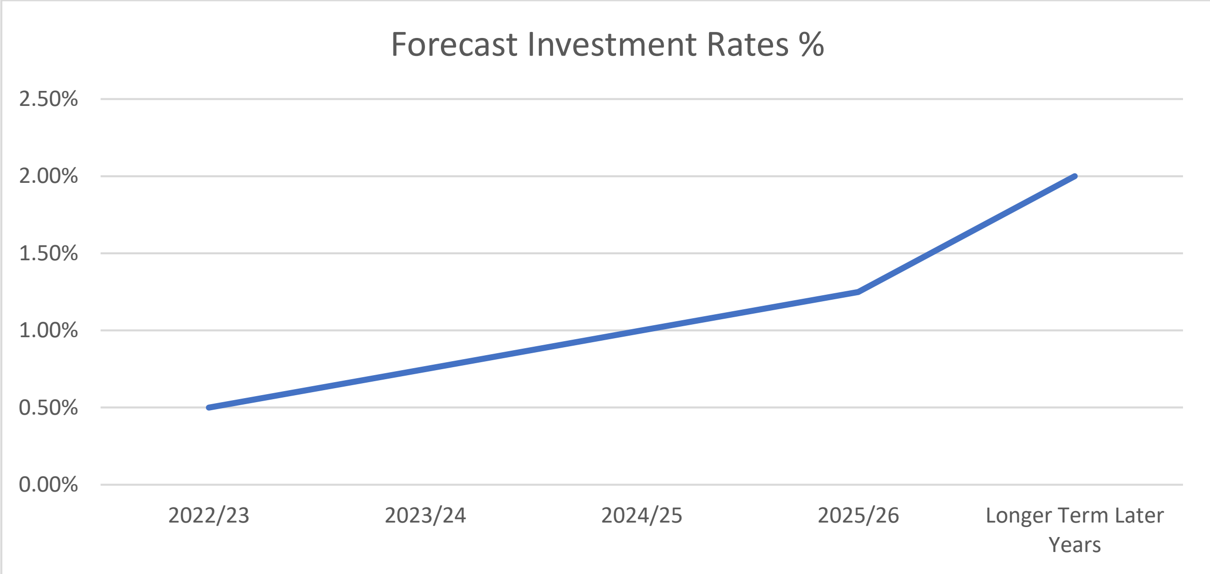

The overall balance of risks to economic growth in the UK is probably relatively even but is subject to major uncertainty due to the virus and the practical issues of the UK leaving the EU.

Investment treasury indicator and limit

5.18 The limit for the total principal funds invested for greater than 365 days is set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end. The Council is asked to approve a limit of £10m for 2021/22 and subsequent years.

£000	2022/23	2023/24	2024/25
Max. principal sums invested> 365 days	£10,000	10,000	10,000

End of year investment report

5.19 At the end of the financial year, the Council will report on its investment activity to the Governance & Audit Committee as part of its Annual Treasury Report.

Link Group Interest Rate View	8.11.21													
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.10	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.50	0.60	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.80	1.90	1.90	2.00	2.00
10 yr PWLB	1.80	1.90	1.90	2.00	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.40
25 yr PWLB	2.10	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70
50 yr PWLB	1.90	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50
Bank Rate														
Link	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
Capital Economics	0.25	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	-	-	-	-	-
5yr PWLB Rate														
Link	1.50	1.50	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.80	1.90	1.90	2.00	2.00
Capital Economics	1.60	1.70	1.70	1.80	2.10	2.10	2.10	2.10	2.10	-	-	-	-	-
10yr PWLB Rate														
Link	1.80	1.90	1.90	2.00	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.40
Capital Economics	1.80	1.90	2.00	2.20	2.30	2.30	2.30	2.30	2.30	-	-	-	-	-
25yr PWLB Rate														
Link	2.10	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70
Capital Economics	2.10	2.20	2.40	2.60	2.70	2.80	2.80	2.80	2.90	-	-	-	-	-
50yr PWLB Rate														
Link	1.90	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50
Capital Economics	1.90	2.00	2.20	2.40	2.50	2.60	2.60	2.60	2.70	-	-	-	-	-

Specified Investments – These investments are sterling investments of not more that one year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small.

Organisation	Min. Credit Criteria	Money Limit	Maturity Limit
Banks and Building Societies (including term deposits, CDs or corporate bonds)	Yellow	£10m	1 years
	Purple	£10m	1 years
	Orange	£10m	1 year
	Blue	£10m	1 year
	Red	£7.5m	6 months
	Green	£5m	100 days
	No colour	Not to be used	
UK Government Gilts	UK sovereign rating	£10m	1 year
UK Government Treasury Bills	UK sovereign rating	£10m	1 year
UK Local & Police Authorities	N/A	Unlimited	1 years
Debt Management Agency Deposit Facility	AAA	Unlimited	6 months
Money Market Funds	AAA	£10m	Liquid
Enhanced Money Market Funds	Dark Pink / Light Pink / AAA	£10m	Liquid
Bonds issued by Multilateral Development Banks	AAA	£3m	6 months

Non-Specified Investments – These are investments that do not meet the specified investment criteria. A limit of the lesser of £20m or 50% of the portfolio will be held in aggregate in non-specified investments.

Organisation	Min. Credit Criteria	Money Limit	Maturity Limit
UK Local & Police Authorities	N/A	£10m	5 years
Banks and Building Societies (including term deposits, CDs or corporate bonds)	Yellow / Purple	£10m	5 years
UK Government Gilts	UK sovereign rating	£10m	5 years
UK Government Treasury Bills	UK sovereign rating	£10m	5 years
Property fund	AAA	£5m	5 years

Notes:

- Non U.K. country limit of £15m
- Limit in all Building Societies of £10m

The use of property funds can be deemed capital expenditure, and as such will be an application of capital resources. The Council will seek guidance on the status of any fund it may consider using. Appropriate due diligence will also be undertaken before investment of this type is undertaken.

The criteria in this appendix are intended to be the operational criteria in normal times. At times of heightened volatility, risk and concern in financial markets, this strategy may be amended by temporary operational criteria further limiting investments to counterparties of a higher creditworthiness and / or restricted time limits.

This list is based on those countries that have sovereign ratings of AA- or higher and also have banks operating in sterling markets, which have credit ratings of green or above in the Link Asset Services credit worthiness service.

AAA	Australia
	Denmark
	Germany
	Luxembourg
	Netherlands
	Norway
	Singapore
	Sweden
	Switzerland
AA+	Finland
	Canada
	U.S.A.
AA	Abu Dhabi (UAE)
	France
AA-	Belgium
	Hong Kong
	Qatar
	UK

Appendix D – Technical reconciliations of budget requirement 2022/23

Table D1 – Technical reconciliation of budget requirement		
	Element	£'000
1	Revenue expenditure requirement for 2022/23	21,875
2	Collection fund deficit (business rates and Council Tax)	5,809
3	New Homes Bonus	(1,954)
4	Use of balances / reserves for pensions payment	935
5	Use of Business Rates Reserve	(5,809)
6	Use of Business Rates Pooling gain	(200)
7	Use of balances	(575)
8	**Budget Requirement**	**20,081**
9	Funded by:	
10	Government Grant (Services and Lower-Tier services)	(568)
11	Business Rates Baseline Funding	(4,343)
12	Business Rates Improvement	(1,870)
13	Council Taxpayers requirement (before Parish element)	(13,300)
14	**Total Funding**	**(20,081)**

Table D2 – Technical reconciliation of Band D Council Tax		
1	Council Taxpayers requirement (before Parish element)	13,300
2	Council Tax Base – Band D Properties	64,731
3	**Council Tax at Band D**	**205.47**

Table D3 – Technical reconciliation of 2022/23 Base Budget		
1	Base Budget	25,028
2	One-off items	(3,281)
3	Cost Pressures	2,035
4	Growth Items	134
5	Change in use of New Homes Bonus for one off investment	4
6	Savings	(2,045)
7	**Forecast Base Budget**	**21,875**

Table D4 – Technical reconciliation of 2022/23 savings		
1	Council Tax sharing agreement	(370)
2	Sport and Leisure improved performance	(320)
3	Savings from budgets repeatedly underspending in recent financial years	(250)
4	21/22 Pay Award Non-Consolidated 1%	(207)
5	Reduction in the use of the earmarked parking reserve due to changes in the way Traffic Regulation Work is funded within NEPP	(185)
6	Fees and charges generated over and above average council tax increase	(145)
7	Savings against salary budget costs by sharing the cost of staff in HR, Finance, Governance, and ICT with partner organisations (21/22 budget setting)	(100)
8	Reduction in overall housing benefit subsidy claim as claimants migrate from Housing Benefit to Universal Credit	(87)
9	Savings against current budgeted cost for external contracts (21/22 budget setting)	(50)
10	Digital services use of revenues and benefits new burdens funding from Department for Work and Pensions	(50)
11	Amphora extra dividend (Memoirs)	(37)
12	Shared services	(30)
13	Extension of market and public events	(30)
14	CCHL SLA income from triennial review	(29)
15	Electoral Services Team resource reduction – Elections Officer (21/22 budget setting)	(25)
16	Efficient use of Anti-Social Behaviour resources	(25)
17	Digital Communications enabling a reduction in print and post	(20)
18	Digital service delivery enabling a reduction in mileage claims	(20)
19	Healthy Homes – Disabled Facilities Grant covering more of the cost of delivering the service	(20)
20	Grounds Maintenance Contract Inflation	(18)
21	Parks & Countryside Sites Strategy	(10)
22	Digital Office enabling a reduction in central stationery	(7)
23	Car park markets and events (21/22 budget setting)	(5)
24	North Essex Parking Partnership Agreement beyond 2022 including Service Level Agreements	(5)
25	**Total Savings**	**(2,045)**

Table D5 – Technical reconciliation of 2022-23 cost pressures and growth items		
1	General Inflation (pay, contractual, utilities etc)	906
2	1.25% National Insurance Increase (Employer’s Rate)	200
3	Commercial & Investment properties reduced income (primarily Culver Centre)	178
4	Contractor Payments (net of recyclable sales income)	150
5	Digital Roadmap	100
6	Fuel	100
7	Gosbecks Road loss of rental income and short-term running costs prior to sale	100
8	Executive Management Team staff changes	91
9	Local Fast Fibre Network reduced income assumptions	60
10	Locality Budgets	51
11	Market income reduced assumptions	50
12	Corporate Asset Management cost pressures	46
13	General Fund and Housing Revenue Account contingency	38
14	Woodland Project Officer	34
15	Virtual Committee Meetings	30
16	Audit Fees	25
17	Asset Valuations	6
18	Subscription Costs	4
19	**Total cost pressures and growth items**	**2,169**

Appendix E - Summary Budget 2022/23

	Adjusted Base Budget	One-Off Items	Cost Pressures	Growth Items	Technical Items	Total Savings	Detailed 22/23 Budgets
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Corporate & Democratic Core	(106)	0	28	0		(370)	(448)
Executive Management Team	687	0	111	0		(8)	790
Corporate & Improvement	6,117	0	200	0		(178)	6,139
Community	1,604	0	176	0		(245)	1,535
Customer	2,800	0	119	0		(257)	2,662
Environmental (excl NEPP)	6,477	(926)	554	34		(314)	5,825
Place & Client	5,049	(1,650)	578	(119)		(509)	3,349
Total General Fund Services	**22,628**	**(2,576)**	**1,766**	**(85)**	**0**	**(1,881)**	**19,852**
Technical Items							
Corporate Items / sums to be allocated to services							
Procurement Savings	(58)		0			(50)	(108)
Social Lottery	50	(50)	0	0			0
Investment Allowance funded by New Homes Bonus	1,200	0	0	123		0	1,323
Previously agreed funding for Strategic Priorities	(94)		0	0		0	(94)
Digital Roadmap	0		0	100			100
Fees & Charges increase in excess of inflation	0		0			(67)	(67)
Local Council Tax Support Care Leavers Scheme	15		(15)				0
Inflation yet to be allocated	0		244			(18)	226
Transformation & Recovery	500	(500)	0				0
Improved Establishment Control	(10)		0				(10)

Rowan House	120	(55)	0	0			65
CCHL SLA	29		0			(29)	0
Non-Service Budgets							
CLIA (net interest)	1,187	(100)	0			0	1,087
R&R Contribution	300		0				300
Min Revenue Provision	2,123		0			0	2,123
Pensions	366	0	0				366
Contribution to Bad Debts Provision	20		0				20
GF/HRA/NEPP Adjustment	(3,348)		40		0		(3,308)
Sub-Total	**2,400**	**(705)**	**269**	**223**	**0**	**(164)**	**2,023**
Total incl Below the line	**25,028**	**(3,281)**	**2,035**	**138**	**0**	**(2,045)**	**21,875**
Funded by:-							
Use of balances	(125)	125	0		(125)		(125)
Contribution to balances	935	(935)	0		935		935
Use of other Earmarked Reserves	(185)	185	0		0		0
Use of Reserves - Covid 19	(2,400)	2,400	0		(450)		(450)
Use of NNDR reserve	(12,824)	12,824	0		0		0
Govt - Covid 19 Support Grant	(1,493)	1,493	0				0
Govt - Lower Tier Grant	(622)	622	0		(270)		(270)
Govt - Services Grant	0	0	0		(298)		(298)
Business Rates Baseline	(4,300)		(43)				(4,343)
NNDR Growth above Baseline	(1,620)		0		(250)		(1,870)
Business Rates Pooling	(200)		0		0		(200)
Council Tax	(12,588)		0		(712)		(13,300)
Collection fund Transfer	12,824	(12,824)	0		0		0
New Homes Bonus	(2,430)		0		476		(1,954)
Total	**(25,028)**	**3,890**	**(43)**	**0**	**(694)**	**0**	**(21,875)**

Appendix F - 2022/23 General Fund Budgets

	Direct Budgets			Non-Direct Budgets	
Area	**Spend**	**Income**	**Net**	***Net***	**Total**
	£'000	**£'000**	**£'000**	***£'000***	**£'000**
Corporate & Democratic Core	322	(770)	(448)	*2,631*	2,183
Total	**322**	**(770)**	**(448)**	***2,631***	**2,183**
Executive Management Team					
EMT	790	-	790	*(790)*	-
Total	**790**	**-**	**790**	***(790)***	**-**
Community					
Assistant Director	165	-	165	*(165)*	-
Licencing, Food & Safety	528	(576)	(48)	*376*	328
Community Safety	94	-	94	*15*	109
Environmental Health Services	465	(67)	398	*144*	542
Building Control	426	(501)	(75)	*302*	227
Community Initiatives	392	-	392	*143*	535
Private Sector Housing	517	(223)	294	*175*	469
Bereavement Services	947	(1,773)	(826)	*266*	(560)
Cultural Services	633	(108)	525	*977*	1,502
Colchester Museums	49	(526)	(477)	*34*	(443)
Subtotal	**4,216**	**(3,774)**	**442**	***2,267***	**2,709**
Colchester & Ipswich Museums	2,258	(1,165)	1,093	*725*	1,818
Total	**6,474**	**(4,939)**	**1,535**	***2,992***	**4,527**
Customer					
Assistant Director	161	-	161	*(161)*	-
Accounts & Debt	751	(148)	603	*(603)*	-
Local Taxation & NNDR	561	(713)	(152)	*569*	417
Benefits & Hub	909	(185)	724	*(724)*	-
Contact & Support Centre	1,083	(29)	1,054	*(1,053)*	1
Electoral Services	391	(3)	388	*71*	459
Customer Digital & Systems	954	(45)	909	*(910)*	(1)
Land Charges	139	(285)	(146)	*146*	-
Subtotal	**4,949**	**(1,408)**	**3,541**	***(2,665)***	**876**
Benefits - Payments & Subsidy	35,565	(36,444)	(879)	*594*	(285)
Total	**40,514**	**(37,852)**	**2,662**	***(2,071)***	**591**
Environment					
Assistant Director	159	-	159	*(159)*	-
Neighbourhood Services	12,496	(4,422)	8,074	*2,823*	10,897
Car Parking	981	(3,389)	(2,408)	*947*	(1,461)
Subtotal	**13,636**	**(7,811)**	**5,825**	***3,611***	**9,436**

		Direct Budgets				*Non-Direct Budgets*	
	Parking Partnership (NEPP)	3,909	(3,949)	(40)		*86*	46
	Total	**17,545**	**(11,760)**	**5,785**		***3,697***	**9,482**
	Place & Client						
	Assistant Director	152	-	152		*(152)*	-
	Place Strategy	698	-	698		*81*	779
	Housing	2,795	(1,335)	1,460		*(219)*	1,241
	Planning	1,165	(1,352)	(187)		*973*	786
	Sustainability & Climate Change	211	(16)	195		*44*	239
	Subtotal	**5,021**	**(2,703)**	**2,318**		***727***	**3,045**
	Company Related:-						
	Client - Commercial Company	2,028	(287)	1,741		*(2,028)*	(287)
	Corporate Asset Management	1,866	(324)	1,542		*(1,486)*	56
	Commercial & Investment	303	(2,980)	(2,677)		*2,581*	(96)
	Sport & Leisure	5,693	(5,268)	425		*1,898*	2,323
	Total	**14,911**	**(11,562)**	**3,349**		***1,692***	**5,041**
	Corporate & Improvement						
	Assistant Director	144	(129)	15		*(144)*	(129)
	Finance	1,057	(200)	857		*(857)*	-
	ICT	2,030	(404)	1,626		*(1,627)*	(1)
	People and Performance	813	(186)	627		*(693)*	(66)
	Governance	2,970	(381)	2,589		*(2,531)*	58
	Communications	601	(176)	425		*(425)*	-
	Total	**7,615**	**(1,476)**	**6,139**		***(6,277)***	**(138)**
	Total (excl. NEPP)	**84,262**	**(64,410)**	**19,852**		***1,788***	**21,640**

* Non-direct budgets reflect recharges between service areas and technical accounting charges. These are shown to present the full cost of services

Appendix G - Reserves, Provisions and Balances

	2020/21 Actual £'000	2021/22 Forecast £'000	2022/23 Forecast £'000
General Fund Balance	2,030	2,030	2,030
Future Years Budget Support Reserve - Carry-forwards etc	6,937	1,672	1,297
Future Years Budget Support Reserve - Risk Allocation	515	515	515
Redundancy, North Essex Parking Partnership, Colchester & Ipswich Museum Service etc	1,444	1,444	1,444
Pension Reserve	1,344	2,279	3,214
Renewals and Repairs Reserve	2,845	3,298	3,944
Insurance Reserve	652	652	652
Capital Expenditure Reserve	437	601	601
Gosbecks Reserve	134	134	134
Revenue Grants unapplied	3,173	3,173	2,973
Decriminalisation Parking Reserve	1,087	902	902
Business Rates Reserve	15,875	3,051	2,851
Revolving Investment Fund Reserve	1,596	1,096	1,096
Other reserves	237	237	237
TOTAL General Fund	**38,306**	**21,084**	**21,890**
Housing Revenue Account Balance	4,489	4,090	4,090
Housing Revenue Account Retained Right To Buy Receipts – Replacement	4,819	2,544	1,440
Housing Revenue Account Retained Right To Buy Receipts – Debt	251	921	1,592
TOTAL Housing Revenue Account	**9,559**	**7,555**	**7,122**
Total	**47,865**	**28,639**	**29,012**

Appendix H – Allocation of New Homes Bonus

	Allocation of New Homes Bonus	2022/23	2023/24	2024/25	2025/26	2026/27
		£'000	£'000	£'000	£'000	£'000
1	New Homes Bonus	1,954	950	950	950	950
2	Allocated to:-					
3	Feasibility costs	250	250	250	250	250
4	Affordable housing allocation	31	150	150	150	150
5	To support the Council's Revenue Budget	600	300	0	0	0
6	Savings Implementation Costs	200				
7	Support to Tendring Colchester Borders & Local Plan	250	250	250	250	250
8	Transfer to Reserves	0	0	300	300	300
9	Support for one-off schemes (see below)	623	0	0	0	0
10	**Total allocation**	**1,954**	**950**	**950**	**950**	**950**
	Use of NHB allocation for one-off schemes					
11	Support for one-off schemes	623	0	0	0	0
12	Allocated to:					
13	Support for the Transformation Programme	250	0	0	0	0
14	Restoration of affordable housing allocation	119	0	0	0	0
15	**Balance for future allocation**	254	0	0	0	0