COMBINED STRATEGIC SCRUTINY AND CUSTOMER FOCUS SCRUTINY COMMITTEES

Date: Wednesday 5 February 2025
Time: 5.30 pm
Venue: Rennes Room, Civic Centre, Paris Street, Exeter

Members are invited to attend the above meeting.

If you have an enquiry regarding any items on this agenda, please contact Pierre Doutreligne, Democratic Services Officer (Committees) on 01392 265 486.

Entry to the Civic Centre can be gained through the rear entrance, located at the back of the Customer Service Centre, Paris Street.

Membership -
Atkinson, Begley, Darling, Ellis-Jones, Fullam, Haigh, Harding, Holland, Hughes, Hussain, Jobson, Knott, Miller-Boam, Mitchell, M, Moore, Palmer, Parkhouse, Patrick, Pole, Read, Rees, Rolstone, Snow, Wardle and Williams, M

Agenda

1 **Appointment of Chair for the meeting**

The appointment for the meeting to be drawn from the Chair of the Strategic Scrutiny of Customer Focus Scrutiny Committee.

2 **Minutes**

To approve and sign the minutes of the Combined Strategic Scrutiny and Customer Focus Scrutiny Committee held on 7 February 2024.

3 **Declaration of Interests**

Councillors are reminded of the need to declare any disclosable pecuniary interests that relate to business on the agenda and which have not already been included in the register of interests, before any discussion takes place on the item. Unless the interest is sensitive, you must also disclose the nature of the interest. In accordance with the Council's Code of Conduct, you must then leave the room and must not participate in any further discussion of the item. Councillors requiring clarification should seek the advice of the Monitoring Officer prior to the day of the meeting.

4 **Local Government (Access to Information) Act - Exclusion of Press and Public**

It is considered that the Committee would be unlikely to exclude the press and public during the consideration of any of the items on this agenda but, if it should wish to do so, then the following resolution should be passed:-

"RESOLVED that, under Section 100A (4) of the Local Government Act 1972, the press and public be excluded from the meeting for the particular item(s) of business on the grounds that it (they) involve(s) the likely disclosure of exempt information as defined in the relevant paragraph(s) of Part I of Schedule 12A of the Act."

5 **General Fund HRA Estimates 2025/26** (Pages 3 - 48)

To receive the report of the Strategic Director for Corporate Resources.

6 **Capital Strategy 2025/26** (Pages 49 - 58)

To receive the report of the Strategic Director for Corporate Resources.

7 **Treasury Management Strategy Report 2025/26** (Pages 59 - 104)

To receive the report of the Strategic Director for Corporate Resources.

8 **The Prudential Code for Capital Finance in Local Authorities (Incorporating the Annual Statement of Minimum Revenue Provision)** (Pages 105 - 126)

To receive the report of the Strategic Director for Corporate Resources.

Individual reports on this agenda can be produced in large print on request to Democratic Services (Committees) on 01392 265425.

REPORT TO EXECUTIVE

Date of Meeting: 4 February 2025

REPORT TO COUNCIL

Date of Meeting: 25 February 2025

Report of: Strategic Director of Corporate Resources

Title: General Fund / HRA Estimates and Capital Programme 2025/26

Is this a Key Decision?

No

Is this an Executive or Council Function?

Council

1. What is the report about?

1.1 To propose the General Fund revenue estimates for 2025/26 and to recommend the Band D level of Council Tax for 2025/26. This report also includes the proposed Capital Programme for 2025/26 and future years, and the proposals in respect of the Housing Revenue Account for 2025/26.

2. Recommendations:

2.1 It is recommended that:

2.1.1 The Council's overall spending proposals in respect of its General Fund and HRA revenue are recommended to Council for approval.

2.1.2 Subject to the identification of sufficient capital receipts to finance the new General Fund Capital bids in respect of IT, recommend to Council the approval the General Fund and HRA Capital Programmes and delegate the final decision to the Director Finance, in consultation with the Leader and Chief Executive.

2.1.3 Members consider the budget assessment by the Section 151 Officer in 8.17 in agreeing the recommendations.

2.1.4 The General Fund minimum Balance be set at £3.100 million for 2025/26 and the HRA minimum Balance be set at £3.525 million for 2025/26.

2.1.5 The Council Tax for each Band be recommended to the Council as set out in section 8.20.3 subject to Devon County Council, OPCC Devon and Cornwall and the Devon and Somerset Fire Authority confirming their Band D levels respectively; and

2.1.6 When the actual Council Tax amounts for Devon County Council, Devon and Cornwall Police and Crime Commissioner and the Devon and Somerset Fire Authority are set then the revised council tax levels be submitted to Council on 25 February 2025 for approval.

3. Reasons for the recommendation:

3.1 To ensure that the Council is in a position to set a balanced budget and determine the Council Tax for the City of Exeter in line with the statutory timeframe.

4. What are the resource implications including non financial resources?

4.1 Section 8 of the report sets out the resource implications of the proposed budgets.

5. Section 151 Officer comments:

5.1 The proposed budget will achieve the requirement to maintain a minimum balance in excess of £3.020 million. This is based on the assumption that Council agrees the savings required.

5.2 The proposed capital programme aligns with the Medium-Term Financial Plan and the revenue implications have been built into both the General Fund and HRA budgets. Both the General Fund and HRA proposals reflect the challenging nature of the Council's finances. Only essential bids are being proposed and are unavoidable so the identification of resources to finance them is vital to ensure that further significant financial strain is not put on the Council.

5.4 The report also sets out the proposed HRA income and expenditure for 2025/26. There is a budgeted deficit of £0.561 million, which is in line with the HRA's medium Term Financial Plan.

5.5 It is important to remember that Council is legally responsible for setting a balanced budget each year and for taking action when there are adverse movements in the projected financial position during the year. Therefore, if a decision is taken to amend the budget in any way, then Council must identify how that will be funded.

5.6 The Government's proposal to reset Business Rates in 2025-26, will have a further detrimental impact on the financial position of the Council. This funding has been relied upon to balance the budget and even with transitional arrangements, it will significantly increase the further reductions required over the medium-term financial plan. It is not just the loss of business rates growth, but also the loss of income from the Business Rates Pool.

5.7 In order to maintain financial discipline and prepare for the reductions required, Council can no longer merely approve additional expenditure without identifying what will be cut to fund it. This is essential as Officers and Members prepare to identify ways to address the further gaps in funding over the life of the Medium-Term Financial Plan. Next year in particular requires £3.0 million of reductions to deliver a balanced budget.

6. What are the legal aspects?

6.1 As part of the budget and the Council Tax fixing process, the Council is required by the Local Government Finance Act 1992 to make various specific calculations and decisions:-

(a) it must calculate its budget requirement in accordance with Section 32 of the Act;

(b) it must calculate the City Council element of the Council Tax - first for Band D and then for all bands - in accordance with Sections 33 to 36;

(c) it must set the overall Council Tax for each band in accordance with Section 30.

7. Monitoring Officer's comments:

7.1 Legislation does not prescribe how much the minimum level of reserves should be. The section 151 officer is tasked with recommending the minimum level of reserves required as part of the budget setting process having regard to elements of risk in the Council's finances. Section 25 of the Local Government Act 2003 requires the section151 officer to report on the adequacy of the Council's financial resource.

7.2 The Monitoring Officer's comments are intended to assist members of the Council in consideration of the complex legal background to their budgetary and Council Tax decisions and to set out the legal factors and requirements which Members of the City Council need to consider in reaching decisions on the budget and Council Tax.

7.3 In coming to a decision in relation to the revenue budget and the council tax, the City Council and Councillors have the following legal duties:

a) To act in accordance with their statutory duties and responsibilities;
b) To act reasonably; and
c) To have careful regard to their fiduciary duty to its rate payers and Council taxpayers.

7.4 The City Council has a clear legal duty to set a balanced budget. A resolution not to set a Council tax would be unlawful. A resolution to set a Council tax which deliberately did not balance the budget would also be unlawful.

7.5 When reaching a decision, councillors have an obligation to act reasonably and in accordance with the principles set down in the Wednesbury case. This means that councillors are required to consider all relevant considerations and ignore any irrelevant considerations. Put simply, it would be unlawful for the Council to come to a view which is unreasonable in the sense that it is so irrational that no reasonable authority could have reached it.

7.6 The meaning of 'fiduciary duty' can be summarised as a duty to conduct administration in a business-like manner with reasonable care, skill, and caution and with due regard to the council's rate payers. When discharging their fiduciary duties councillors will need to consider the following:

a) Prudent use of the council's resources, including the raising of income and the control of expenditure;
b) Financial prudence both long and short term;
c) Striking a fair balance between the interest of the council tax payers on the one hand and the community interest and adequate and efficient services on the other hand; and
d) Acting in good faith with a view to complying with statutory duties and exercising its statutory powers for the benefit of the community.

7.7 The section 151 officer has given very clear advice in paragraphs 5. Members are obliged to have regard advice to this advice when making decisions about the Council's finances

7.8 Restriction on voting:

Members' attention is drawn to the provisions of S.106 of the Local Government Finance Act 1992 which applies to members where:

(a) They are present at a meeting of full Council, the Executive or Committee and at the time of the meeting an amount of Council tax and has remained unpaid for at least 2 months; and
(b) Any budget or Council tax calculation or recommendation or decision which might affect the making of any such calculation, is the subject of consideration at the meeting.

7.9 In these circumstances, any such members shall at the meeting and as soon as practical after its commencement disclose the fact that S.106 applies to them and shall not vote on any question concerning budget setting.

7.10 Failure to comply with these requirements is a criminal offence unless such member can prove that they did not know S.106 applied to them at the time of the meeting or that the matter in question was the subject of consideration at that meeting.

7.11 Members will also note the obligation imposed upon the section 151 Officer under section 25 of the Local Government Act 2003 concerning the robustness of the estimates made for the purposes of the calculation and on the adequacy of the financial reserves. This information is set out at paragraph 8.18.2 of this report. Member must have regard to this.

8. Report details:

8.1 **Local Government Provisional Finance Settlement 2025-26**

8.1.1 *1-year Settlement*

In terms of the settlement, the figures announced were for one year only. The underlying principle is that each Council will receive at least the same as last year and again Exeter has received the Funding Floor Grant totalling £0.290 million to ensure we reach the minimum allowed. In addition, the Council also received Recovery Grant of £0.271 million.

8.1.2 *National Insurance Increases*

The Government committed to fully funding directly employed Local Government staff in respect of the national insurance increases. The figure will not be known until the final settlement, but the methodology has been released. Early projections are that Exeter will receive around £138,000 against an actual increase of £669,000 for the General Fund and £91,000 for the HRA. This is woefully inadequate, and we will respond to the consultation highlighting this.

8.2 **Business Rates**

8.2.1 The Government have confirmed that the implementation of the Business Rates retention reform and the review of the formula that underpins it will not take intime for the 2025-26 Settlement. However, they have committed to resetting the Business Rates. The review is now expected to be implemented in 2026/27and will have a hugely detrimental impact on the Council as we are significantly above the business rates baseline.

8.3 **Council Tax**

8.3.1 The referendum threshold has remained this year at the higher of a less than 3% or £5 increase for District Councils. This is in line with the medium-term financial plan. As a result, Exeter's budget strategy for next year assumes that council tax will increase by 2.99%, which, along with the estimated surplus on the collection fund of £103,692 and increase in the taxbase will raise an extra £337,218.

8.4 **Key Assumptions**

8.4.1 An overall allowance of £0.662m has been set aside for inflation. The inflationary increases allowed in the budget are:

Pay Award	3.0%
Pay – Increments	0.5%
Electricity	0.0%
Gas	0.0%
Water	0.0%
Insurance	10.0% - 15.0%
Rates	2.5%
Motor Fuel	3.0%
General Inflation	0.0%
Income (excluding Car Parks)	3.0%

8.4.2 General inflation has again been held at zero; however, where there are contracts in place, inflation at around RPI has been added. Pay has been reduced to 3% although there is a risk that this again may be lower than the actual amount agreed.

8.4.3 Interest is based on the existing loans that have been taken out and the amounts available for investment. Future borrowing requirements are based on rates of around 3.5% and the Council will seek to internally finance borrowing until rates stabilise from the present highs of around 5.86%.

8.5 **Further Issues to be Considered**

8.5.1 Before the Council can finalise its revenue budget for next year there are a number of issues that require further consideration as follows: -

- Equality Impact Assessment
- New Homes Bonus
- Future spending pressures and review of the medium-term financial planning process
- The level of reserves and balances

8.6 **Equality Impact Assessment**

8.6.1 Equality Impact Assessments (EQIA) form part of the Council's decision-making process and are a tool to help the Council identify what effect or possible effects its work may have on different groups of people. All local authorities have a legal responsibility to assess their policies and functions, and to set out how they will monitor any possible negative impact on equality target groups. The Council needs to consider the impact on equalities of all new and reviewed Council strategies, policies, projects, services or functions, budget decisions and restructures. By anticipating the consequences of its actions on equality groups the Council can make sure that, as far as possible, any negative consequences are eliminated, minimised, or counterbalanced by other measures, and opportunities for promoting equality are maximised.

8.7 **New Homes Bonus**

8.7.1 The Government have again indicated that whilst New Homes Bonus will be payable again this year, like last year, the 2025/26 element of the allocation will be for one year only and there will be no payment in respect of the previous years. This gives an award of approximately £0.872 million for 2025/26. A new proposal to replace New Homes Bonus is again expected to be announced in the New Year.

8.7.2 To date the Council has received New Homes Bonus of £30.984 million over the period 2011/12 to 2025/26. It is proposed to use this year's allocation to support the revenue budget in its entirety:-

Year	Top Slice (revenue) £000's	Community Projects £000's	Major Projects /Debt Reduction £000's	Projects £000's	Revenue £000's	Total £000's
2011/12	-	-	-	389	-	389
2012/13	120	361	601	241	-	1,323
2013/14	120	286	1,757	42	-	2,205
2014/15	120	286	2,372	-	-	2,778
2015/16	120	286	3,123	-	-	3,529
2016/17	159	150	2,000	923	1,000	4,232
2017/18	164	150	1,500	783	1,000	3,597
2018/19	164	150	1,150	127	1,000	2,591
2019/20	25	150	1,000	149	1,194	2,518
2020/21	25	189	802	374	1,100	2,490
2021/22	-	-	-	-	1,941	1,941
2022/23	-	-	-	-	1,362	1,362
2023/24					672	672
2024/25					485	485
2025/26					872	872
Total	**1,017**	**2,008**	**14,305**	**3,028**	**10,626**	**30,984**

8.8 **Revised Medium Term Revenue Plan (Appendix 3)**

8.8.1 An updated Medium Term Financial Plan (MTFP) is set out in Appendix 3. The MTFP indicates that further reductions are required from 2026/27 to 2028/29 to fully address the loss of income from Business Rates as a result of the reset. The reductions required for future years total £5.737 million, of which proposals covering £1.287 million have been identified.

8.8.2 There are further uncertainties and factors that could affect the future financial position. These include potential costs arising from the review of service plans, the cost of any new statutory functions, the annual pay award and additional borrowing and revenue costs in respect of any new capital programme commitments.

8.8.3 The level of reductions required however, are such that members must focus on delivery. There needs to be a clear understanding of what the priorities of the Council are and a focus on ensuring that once our statutory services are funded, any available funds are allocated to deliver any non-statutory priorities.

8.9 **Balances and Reserves**

8.9.1 The Council's current policy is that the minimum level of the General Fund Balance will remain above £3.020 million. As the Council faces great uncertainty in the medium term over funding and is reliant on less secure forms of income such as car park income it is prudent to hold reserve levels at this level to offset sudden losses of income or unexpected expenditure. Section 8.17 below provides an assessment of the risk factors used to underpin the minimum level of reserves.

8.9.2 The latest estimated position of the General Fund Balance is that it will be £4.074 million as at 31 March 2026, equivalent to 18.6% of Exeter's net revenue budget. The Council's revised medium-term financial plan (Appendix 3) indicates that the General Fund Balance will reduce to £3.236 million by the end of 2028/29, if the proposed reductions are delivered. This is in line with the minimum level required.

8.9.3 The Council also has other reserves that have been earmarked for specific purposes. The Council's proposed revenue budget for 2024/25 includes a net transfer to earmarked reserves of £1.447 million (although this includes a large transfer in respect of the ring-fenced Guildhall Shopping Centre income. This is broken down as shown overleaf:-

Transfer to/(from) reserves:

	2025/26 **£'000**
Transfers to Reserves	
Devon Home Choice	28
Surplus Income from Guildhall Shopping Centre (ring-fenced)	629
Property Maintenance	334
Homelessness	577
Exeter Business against Crime	23
	1,591
Transfers from Reserves	
Vehicle Licensing	(20)
Net Zero Exeter	(208)
	(228)

8.9.4 Additionally, there is an earmarked reserve to control the impact of additional reliefs granted, and funded, by Government in respect of Business Rates. In order to provide consistency in the figures reported, these movements are shown in Business Rates income to allow Councillors to compare the impact on the Council's Business Rates funding to previous years.

8.10 **Revenue Estimates 2025/26**

8.10.1 Subject to the reductions being agreed, Service Committee Expenditure for 2025/26 is £16,170,240, which is £580,540 lower than the current year.

8.10.2 Once agreed by Council, Appendix 4 setting out the proposed reductions and additional income will be added to the published budget book.

8.10.3 In addition, there are other items to consider, referred to as 'below the line' as they do not form part of the individual service controllable budgets. These include an estimate of £1,475,000 for net interest payments in respect of the overall cash balances, £2,702,000 towards repaying debt in respect of the Council's capital programme and transfers in respect of balances and reserves. The Council's total General Fund Expenditure budget requirement for 2025/26 is proposed at £21,900,360, an increase of £2,888,990 compared to 2025/26 as shown in Appendix 5.

8.10.4 Attached at Appendix 6 is a breakdown of the movements for each management unit taking out the amounts that have been removed or added, but that don't actually impact on the Council Tax. This is either because they have been transferred to / from another part of the budget or because there is a statutory override, which means that the costs are removed elsewhere in the budget.

8.11 **Council Tax Budget Requirement 2025/26 (Appendix 7)**

8.11.1 As stated above, the Government is setting the referendum trigger for District Councils at above £5 or 3%, whichever is higher. The budget has been set based on a 2.99% increase, although this is ultimately a Member decision. A 2.99% increase generates around £15,666 more for the Council than an increase of £5.

8.11.2 When all the Government Grant and Business Rates funding is taken into account the resultant net expenditure to be financed from council tax is £7,506,790 (indicated in Appendix 7), an increase of £337,220 compared to 2024/25.

8.11.3 Each year the Council must estimate the likely surplus or deficit position on its Collection Fund and any such amounts must be taken into account when determining the band D Council Tax amount. For next year, it is estimated that the collection fund will have a surplus of £103,692 (Exeter's share), which will be used to fund part of the expenditure to be financed from Council Tax.

8.11.4 After taking into account the surplus and the taxbase of 39,852, the proposed band D council tax for 2025/26 is £185.76, which means that the council tax would increase annually by £5.39 or 2.99%.

8.12 **HOUSING REVENUE ACCOUNT (HRA) (APPENDIX 8 & 9)**

8.12.1 Since April 2012, the Council's HRA is expected to be self-financing. Thus, all income collected locally from rents, service charges and other sources are kept at a local level to deliver housing services to tenants and to maintain the housing stock.

8.12.2 Since April 2012 each local authority had a limit on the amount of borrowing it could have for the purposes of the HRA, called the 'debt cap'. For Exeter City Council, the debt cap was £57,882,413.

The HRA debt cap was formally removed on 29 October 2018, as a result local authorities are now able to borrow for housebuilding in accordance with the Prudential Code.

8.12.3 In October 2017, the government announced its intention to set a long-term rent policy in respect of annual rent increases on both social rent and affordable rent properties of up to CPI plus 1% from 2020, for a period of 5 years.

The policy on rents for social housing came into effect from 1 April 2020. The Council is permitted to apply the policy of increasing rents by CPI plus 1%, the September 2024 CPI figure was 1.7% so the increase for 2025/26 is 2.7%.

For 2025/26 this will result in an average increase of £2.51 per week, over 52 weeks, per property.

8.12.4 The proposed budgets for 2025/26 indicate that a total of £561,070 will need to be taken out of the HRA Working Balance in order to meet the budgeted deficit. The impact on the HRA Working Balance is set out below.

Movement on HRA Working Balance	**£**
Estimated HRA Working Balance, as at 1/4/25	£4,105,947
Budgeted Deficit for 2025-26	(561,070)
Balance resolved to be retained (HRA contingency)	(3,525,000)
Total Forecast Balance Available, as at 31/3/26	**£19,877**

8.13 **Capital Programme Resources (Appendix 10)**

8.13.1 Historically, the annual capital programme was financed from Government allocated grants together with money from the Council's own capital receipts and capital reserves. However, the funding from these sources has now reduced and as a result the Council has to use borrowing instead to fund a significant part of its proposed capital programme. This also has an ongoing impact on the Council's revenue budget. The Council must ensure that any borrowing decisions remain affordable and to this end, has to adopt a number of prudential indicators, which are set out in the Prudential Code for Capital Finance in Local Authorities developed by CIPFA. A separate report to this meeting of the Executive sets out the Council's Prudential Indicators for approval by

Members. Section 8.14.2 below sets out the current position, that without a robust, positive financial business case, the Council cannot afford to borrow any further than is already planned in the MTFP at this time.

8.13.2 The following capital resources are available for General Fund (£20.240m) and Housing (£23.004m) in 2025/26. The Capital Programme totals £41.876 million in respect of the General Fund and £16.344 million for the HRA. The borrowing requirement for the General Fund is £26.185 million and is £6.278 million for the HRA. Appendix 10 sets out the forecast use of the resources available for the General Fund and the Housing Revenue Account and the likely amounts of borrowing that will be necessary to fund the capital programme in the future.

8.14 **General Fund Capital Programme (Appendix 11)**

8.14.1 The proposed capital programme is set out in Appendix 11. The programme for 2025/26 totals £41.876 million. Other than £1.251 million for replacement vehicles under the fleet lease model, there are no new schemes being requested at this stage. The rest of the programme consists of schemes approved in 2024/25 or before, that have already been deferred to 2025/26 at the earliest. It is anticipated that the programme will increase substantially at year end when further schemes from the 2024/25 capital programme are deferred into the new year

8.14.2 As Members are aware, the costs of borrowing are prohibitive and the additional costs will simply require greater reductions in service provision, potentially in-year. The Council therefore needs to generate capital receipts and although there are some in the pipeline, the Council does not have sufficient at the moment to pay for these new schemes. These vehicles are unavoidable and therefore the need for capital receipts is even greater to ensure these costs do not fall on revenue.

8.15 **Housing Revenue Account Capital Programme (Appendix 12)**

8.15.1 For 2025/26, the HRA medium term financial plan provides for a capital programme of £16.344 million. This comprises capital investment of £14.731 million for improvements to the Council's existing housing stock and £1.613 million towards the provision of new council homes.

In terms of investment in existing stock, the proposed budgets for 2025/26 include the following:

- 185-bathroom replacements
- 135 whole property retrofit completions
- 285 heating upgrades – either boiler replacements or new heating installations
- 145 kitchen renewals
- 160 roof replacements
- 190 property window replacements

8.15.2 The HRA Capital Programme will be funded by:

HRA Capital Finance	£
Major Repairs Reserve	5,006,366
Revenue Contribution to Capital	1,000,000
Capital Receipts	4,060,109
Borrowing	6,278,000
Grants	0
Total HRA Capital Financing 2025/26	**16,344,475**

8.16 **Consultation**

8.16.1 The Council has undertaken a public consultation on priorities for investing and dis-investing to help inform the setting of the budget for 2025/26. The Consultation was undertaken by Enventure Research who also undertook the residents survey completed in September 2024 which informed members thinking on budget priorities . Both surveys were undertaken with Exeter City Council residents aged 16+ using a CATI methodology (Computer Aided Telephone Interviewing) with additional face-to-face on-street interviews carried out to balance quotas with hard-to-reach residents. Quotas were set to achieve a sample that was representative of the local population in terms of age group, gender, and area. 1,101 interviews on budget proposals were undertaken during November and December 2024.

8.16.2 Additionally the Council offered the same survey on its website to enable a wider audience of residents, visitors, and businesses to have their say. This was widely promoted and ran until 9 January 2025 resulting in 597 responses received.

8.16.3 The responses will be considered by members as part of the process of setting out proposals to deliver a balanced budget. The full results of the surveys will be published on the Council's website.

8.17 **Risk Assessment**

8.17.1 It has already been mentioned above in this report that our financial forecasts are based on a number of assumptions including the level of inflation, interest rates, income levels, support from the government and general prevailing economic conditions. The main risks to the Council's financial position are as follows:

- Economic volatility, higher interest rates and inflation have added substantial costs to running services. The Council's funding has not kept pace with the scale of increases seen. The UK economy is relatively weak and this could impact on future funding agreements. Whilst price inflation has settled, it still exceeds the increase in the Council's available resources.
- The Governments review of the future funding formula for Local Government, including a business rates reset, coupled with the potential loss of New Homes Bonus, would add a further significant gap in funding over the Medium-Term

Financial Plan. The overall impact of both streams of funding stopping in the next four years has been built into the medium-term financial plan;

- The Council collects, for itself, one of the lowest amounts of Council Tax in the Country. Indeed, it collects, per head of population far less than other district Cities and prominent towns. Council Tax is considered a more secure form of income as it is backed by statute and has high collection rates. In order to deliver the services, the Council operates, it is overly reliant on less secure forms of income such as car park income to balance its budget. Indeed, the cost of providing our statutory functions with associated support services and legal liabilities is well over £20 million, far in excess of the Government's Core Spending Power assessment of £14.6 million that they believe Exeter requires to deliver services (see below for explanation);
- The Council has a range of statutory obligations, which do not form part of a standard district council and for which it therefore receives no funding from Government. These include responsibility for the River Exe and Canal, the Roman Wall, a host of historic listed buildings and a number of bridges. These add significant pressure to the budget and require significant maintenance, which will add further pressure;
- The Council has experienced significant volatility in a number of its income budgets in the last 12 months. Whilst these have been addressed in the production of this budget, it does demonstrate the risk of reliance on less secure income streams.

8.17.2 Although the Council faces risks from the assumptions and uncertainties outlined above these have been mitigated by the following:

- Adopting a prudent approach to financial forecasting which involves obtaining information from external professional sources;
- Continuous monitoring and review of the key factors together with regular reports to Members on any key issues;
- Regular budget monitoring meetings with budget managers to ensure that budget pressures are identified at the earliest opportunity;
- The adoption of robust financial management arrangements including option appraisal, risk assessment and financial monitoring;
- Retaining a prudent level of reserves and balances.

8.17.3 As part of the general budget-setting process the Council needs to also consider the risks inherent in the budgets set and the adequacy of the measures put in place to manage the potential risks.

8.18 **Section 25 Statement Of The Robustness Of Estimates And Adequacy Of Reserves**

8.18.1 There is a requirement under Section 25 of the Local Government Act 2003 that requires the chief finance officer of a local authority to formally report to its members on the robustness of the estimates and the adequacy of its reserves when it is considering its budget and council tax.

8.18.2 **Robustness of Estimates**

I have already outlined above in this report the key assumptions that have been made in the budget proposals for next year including an assessment of the risks and mitigating factors. To assess the robustness of the estimates, the following have been considered:

- The strength of the medium-term financial planning process in operation including the identification of significant service pressures, both unavoidable and through policy decisions;
- The strength of the budget monitoring process in identifying weaknesses and pressures in the existing budgets;
- The use of an annual process of engagement with senior managers and members to test out the robustness of proposals;
- Finance staff providing advice throughout the process on robustness, including vacancy factors, increments, current demand, and income levels.

As the Section 151 Officer for this Council, I therefore consider that the budget estimates for 2025/26 that have been prepared are both robust and achievable.

8.18.3 **Adequacy of Reserves and Balances**

The Council's current policy is that the minimum level of the General Fund Balance will be £3.020 million. This equates to 13.8% of the net revenue budget, which is at the top end of what would normally be expected.

General Fund

The Council provides more Services than you would normally expect a District Council to provide. It also has some significant funding streams from fees and charges and historic commercial property leases that are fundamental to producing a balanced budget. These are reliant on a vibrant economy delivering the income required. An analysis of the Councils budget demonstrates that the cost of providing its statutory services, support services and payments to cover its legal liabilities (pension back funding and debt and interest payments) exceeds the amount provided for by Grant, Business Rates and Council Tax by around £6 million. Included in the above is the amount that the Council receives above the business rate baseline, which is another insecure form of funding. The Council is also reliant on fees and charges to meet its statutory obligations.

There are a range of risk factors that must be taken into account and the Section 151 Officer has taken a risk-based approach to assessing the level of reserves required. The framework for assessing the risks surrounding the budget needs to consider the following:

- Inflationary pressures;
- Planned savings measures;
- Reliance on income from fees & charges;
- Business Rates volatility;
- Insurance excesses;
- Risk of litigation (including Planning appeals);
- Volume variations on demand led services (e.g. Homelessness);
- Interest Rate variations.

Area of Risk	Explanation	Amount
Inflationary pressures	As set out above, the budget is based on a set of assumptions. In particular, the impact of the pay award is not known when budgets are set. As Local Government tries to stay ahead of the National Living Wage, pay awards have outstripped estimates over recent years. A 1% increase would add £300,000 to costs. Similarly, a 1% variation in inflation on premises, supplies, services & transport £320,000 to costs.	620,000
Planned savings	There is a risk that for a number of reasons some proposed savings will not be achieved or will be achieved later than planned. This is particularly true in respect of additional income targets. The Council has a good track record of delivering over 90% of planned savings. A 7.5% reduction would add £180,000 to costs	180,000
Income from fees & charges	The Council is reliant on significant income from fees & charges to balance the budget. In 2023/24 the Council has missed those targets by a cumulative £2 million. Whilst this is reflected in the budgets, a further 5% reduction would add £1.5 million to the budget	1,500,000
Business Rates volatility	The Council generates Business Rate income in excess of the Baseline to a value of around £3 million. A 5% reduction would cost the Council £150,000.	150,000
Insurance excesses	The Council does not budget for insurance excesses. The property insurance excess is £100,000 each claim and therefore 2 claims in a year would potentially cost £200,000	200,000
Risk of litigation	Planning appeals are expensive. It can cost the Council around £100,000 to defend an appeal.	100,000
Volume variations	Volume variations can impact on the Council's budget in services which are demand led. A cushion is therefore held to protect the financial position.	150,000
Interest Rates	A 0.5% variation in interest rates would cost the Council £200,000	200,000
		3,100,000

It is therefore proposed to increase minimum reserves to £3.1 million. The latest estimated position of the General Fund Balance is that it will be £4.074 million as at 31 March 2026, equivalent to 18.6% of Exeter's net revenue budget. The Council's revised medium-term financial plan (Appendix 3) indicates that the General Fund Balance will reduce to £3.236 million by the end of 2028/29, if the proposed reductions are delivered, although further savings of £5.737 million are required to deliver this.

HRA

The HRA manages 4,800 Council Homes on behalf of tenants. It currently has a policy of maintaining a minimum level of reserves at £3.525 million. Like the General Fund, there are a range of risk factors that must be taken into account and the Section 151 Officer has taken a risk-based approach to assessing the level of reserves required. The framework for assessing the risks surrounding the budget needs to consider the following:

- Inflationary pressures;

- Income volatility;
- Insurance excesses;
- Increased repairs & maintenance costs (particularly from voids);
- Interest Rate variations.

Area of Risk	Explanation	Amount
Inflationary pressures	The impact of the pay award is not known when budgets are set. As Local Government tries to stay ahead of the National Living Wage, pay awards have outstripped estimates over recent years. A 1% increase would add £40,000 to costs. Similarly, a 1% variation in inflation on premises, supplies, services & transport would add £140,000 to costs.	180,000
Income volatility	The HRA is reliant on Rental income to deliver its Services. These are in line with Government policy and the Council has very little room to address unexpected pressures. The Council makes provision for voids at 2.1%. An allowance of 1.5% is therefore held to protect against bad debt movements in year.	345,000
Insurance excess	The Council does not budget for insurance excesses. The property insurance excess is £100,000 each claim and therefore 5 claims in a year would potentially cost £500,000	500,000
Repairs & Maintenance	The Council holds a standard £500 per property in respect of unexpected repairs & maintenance	2,400,000
Interest Rate variations	A 0.5% variation in interest rates would cost the HRA £100,000 on the interest paid by the General Fund	100,000
		£3,525,000

It is therefore proposed to maintain minimum reserves at this level.

8.18.4 The Council's estimated General Fund revenue reserves are as follows: -

Earmarked	**31/03/2024 £'000**	**31/03/2025 £'000**	**31/03/2026 £'000**
Total Earmarked Reserves*	11,909	6,248	7,695
Non-Earmarked			
General Fund Balance	5,882	4,057	4,074

* Excludes Business Rates earmarked reserve to cover the deficit on the Collection Fund.

8.19 **Precepts**

8.19.1 Devon County Council, the Office of the Police and Crime Commissioner Devon and Cornwall (OPCC Devon and Cornwall) and the Devon and Somerset Fire Authority will all precept separately upon the council taxpayers in Exeter. The County Council, Devon and Cornwall OPCC and Devon & Somerset Fire Authority will meet on the 20th February 31st January and 17th February respectively. The precepts will be tabled at the Council meeting for approval.

	2024/25 £	2025/26 £	Change £ %
Devon County Council	1,468.08	x,xxx.xx	xx.xx x.xx
DCC Adult Social Care	247.59	xxx.xx	xx.xx x.xx
OPCC Devon and Cornwall	274.50	xxx.xx	xx.xx x.xx
Devon and Somerset Fire Authority	99.68	xx.xx	x.xx x.xx
Total Precept	2,089.85p	x,xxx.xx	xx.xx x.xx

8.20 **Final Position**

8.20.1 Based upon the recommendations above the aggregate requirements of Exeter City Council, Devon County Council, OPCC Devon and Cornwall and the Devon and Somerset Fire Authority will result in a council tax for the City of Exeter for 2025/26 of £x,xxx.xx per Band D property.

8.20.2 This is an overall increase of £xxx.xx (x.xx%) on the amount of £2,270.22 levied for 2024/25.

8.20.3 The detailed figures are: -

Band	Exeter £	DCC £	Police £	Fire £	Total £
A	123.84	xxx.xx	xxx.xx	xx.xx	x,xxx.xx
B	144.48	xxx.xx	xxx.xx	xx.xx	x,xxx.xx
C	165.12	x,xxx.xx	xxx.xx	xx.xx	x,xxx.xx
D	185.76	x,xxx.xx	xxx.xx	xx.xx	x,xxx.xx
E	227.04	x,xxx.xx	xxx.xx	xx.xx	x,xxx.xx
F	268.32	x,xxx.xx	xxx.xx	xxx.xx	x,xxx.xx
G	309.60	x,xxx.xx	xxx.xx	xxx.xx	x,xxx.xx
H	371.52	x,xxx.xx	xxx.xx	xxx.xx	x,xxx.xx

9. How does the decision contribute to the Council's Corporate Plan?

9.1 The budget underpins the Corporate Plan by determining the amount of funds available to the Council to deliver its priorities.

10. What risks are there and how can they be reduced?

10.1 The key risks are set out in section 8.16 above.

11. Equality Act 2010 (The Act)

11.1 Under the Act's Public Sector Equalities Duty, decision makers are required to consider the need to:

- eliminate discrimination, harassment, victimisation, and any other prohibited conduct;
- advance equality by encouraging participation, removing disadvantage, taking account of disabilities and meeting people's needs; and
- foster good relations between people by tackling prejudice and promoting understanding.

11.2 In order to comply with the general duty authorities must assess the impact on equality of decisions, policies, and practices. These duties do not prevent the authority from reducing services where necessary, but they offer a way of developing proposals that consider the impacts on all members of the community.

11.3 In making decisions the authority must take into account the potential impact of that decision in relation to age, disability, race/ethnicity (includes Gypsies and Travellers), sex and gender, gender identity, religion and belief, sexual orientation, pregnant women and new and breastfeeding mothers, marriage, and civil partnership status in coming to a decision.

11.4 Any proposals made that require an EQIA will need to address this prior to implementation.

12. Carbon Footprint (Environmental) Implications:

12.1 The report allocates resources and therefore does not in itself have carbon footprint implications. The impact of the Council's overall carbon footprint is reported separately.

13. Are there any other options?

13.1 Not applicable.

Strategic Director for Corporate Resources, Dave Hodgson

Author: Strategic Director for Corporate Resources, Dave Hodgson

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

None

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APPENDIX 1

FORMULA GRANT DECREASES - DEVON AUTHORITIES
(Provisional Settlement - does not include further announced funding)

Authority	Grant 2023/24 £m	Grant 2024/25 £m	Yearly Decrease %	Grant 2025/26 £m	Yearly Decrease %	Grant Decrease 2023/24 - 2025/26 £m	Grant Decrease 2023/24 - 2025/26 %
Devon	107.161	111.059	3.6%	113.346	2.1%	6.185	5.8%
Plymouth	72.080	75.578	4.9%	76.636	1.4%	4.556	6.3%
Torbay	41.467	43.187	4.1%	43.746	1.3%	2.279	5.5%
East Devon	3.027	3.137	3.6%	3.204	2.1%	0.177	5.8%
Exeter	**4.847**	**5.092**	**5.1%**	**5.197**	**2.1%**	**0.350**	**7.2%**
Mid Devon	2.394	2.472	3.3%	2.526	2.2%	0.132	5.5%
North Devon	3.336	3.455	3.6%	3.504	1.4%	0.168	5.0%
South Hams	2.138	2.210	3.4%	2.248	1.7%	0.110	5.1%
Teignbridge	3.766	3.896	3.5%	3.952	1.4%	0.186	4.9%
Torridge	2.780	2.868	3.2%	2.906	1.3%	0.126	4.5%
West Devon	1.798	1.853	3.1%	1.885	1.7%	0.087	4.8%

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APPENDIX 2

REVENUE SPENDING POWER CHANGES - DEVON AUTHORITIES
(Provisional Settlement - does not include further announced funding)

Authority	Core Spending Power 2021/22 £m	Core Spending Power 2022/23 £m	Core Spending Power 2023/24 £m	Core Spending Power 2024/25 £m	Core Spending Power 2025/26 £m	Core Spending Power Change £m	Core Spending Power Change %
Devon	621.0	649.7	723.0	794.4	831.4	210.4	33.9%
Plymouth	221.0	232.1	254.4	277.7	299.6	78.6	35.6%
Torbay	133.5	140.2	157.3	172.4	184.0	50.5	37.8%
East Devon	15.5	15.3	16.4	17.5	17.5	2.0	12.9%
Exeter	**13.2**	**13.1**	**13.9**	**14.9**	**14.9**	1.7	**13.1%**
Mid Devon	10.2	10.2	11.0	11.7	11.7	1.5	14.7%
North Devon	11.8	12.3	13.1	13.9	13.9	2.1	17.8%
South Hams	10.4	10.7	11.5	12.4	12.4	2.0	19.2%
Teignbridge	14.5	14.4	15.6	16.7	16.7	2.2	15.2%
Torridge	8.1	8.1	8.7	9.3	9.6	1.5	18.5%
West Devon	7.5	7.8	8.4	9.1	9.1	1.6	21.3%

MEDIUM TERM REVENUE PLAN (2021/22 - 2026/27)

	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	
Resources						
Revenue Support Grant	1,975	1,384	1,652	1,685	1,719	
Business Rates Income	8,784	9,929	6,932	6,541	6,119	
CIL income	907	798	793	793	793	
New Homes Bonus	486	872	0	0	0	
EPR	0	1,410	1,000	1,000	1,000	
Council Tax	7,170	7,507	7,701	8,010	8,332	
Likely resources	**19,322**	**21,900**	**18,078**	**18,029**	**17,963**	
Expenditure						
Service expenditure						
Committee expenditure	23,498	18,570	17,041	14,821	13,958	
Net Interest	1,386	1,475	1,557	1,591	1,591	
Repayment of debt	1,726	2,702	2,803	2,630	2,739	
RCCO	198	89	0	0	0	
	26,808	22,836	21,401	19,042	18,288	
Other funding						
Contribution to/ (from) earmarked reserves	(5,661)	1,447	384	765	765	
Contribution to/ (from) balances - Other	(1,825)	17	(720)	(128)	10	
	(7,486)	1,464	(336)	637	775	
Further reductions required		**0**	**(2,100)**	**(1,250)**	**(1,100)**	**(4,450)**
Potential reductions identified		**(2,400)**	**(887)**	**(400)**	**0**	**(1,287)**
Total Net Budget	**19,322**	**21,900**	**18,078**	**18,029**	**17,963**	
						(5,737)
Opening General Fund Balance	5,882	4,057	4,074	3,354	3,226	
Closing General Fund Balance	4,057	4,074	3,354	3,226	3,236	
Balance as a percentage of budget	21.0%	18.6%	18.6%	17.9%	18.0%	

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ONE EXETER
ONE COUNCIL · ONE TEAM

Proposed Reductions - 2025/26

Appendix to be published once budget is approved

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APPENDIX 5

	2024/25 Budget £	2025/26 Budget £	Change £
Chief Executive	827,800	1,139,480	311,680
Operations	11,934,600	12,591,810	657,210
Corporate	(6,063,790)	(6,753,370)	(689,580)
People and Communities	6,719,430	6,401,250	(318,180)
Place	8,472,940	8,167,790	(305,150)
less Notional capital charges	(5,140,200)	(5,376,720)	(236,520)
Service Committee Net Expenditure	16,750,780	16,170,240	(580,540)
Net Interest	1,406,000	1,475,000	69,000
Revenue Contribution to Capital	0	88,760	88,760
Minimum Revenue Provision	1,831,020	2,702,000	870,980
General Fund Expenditure	19,987,800	20,436,000	448,200
Transfer To/(From) Working Balance	(1,313,430)	16,370	1,329,800
Transfer To/(From) Earmarked Reserves	337,000	1,447,780	1,110,780
General Fund Net Expenditure	19,011,370	21,900,150	2,888,780
Formula Grant	(6,291,000)	(5,931,000)	360,000
CIL income	(781,000)	(798,360)	(17,360)
Business Rates Growth	(4,283,880)	(5,382,000)	(1,098,120)
Extended Producer Responsibility	0	(1,410,000)	(1,410,000)
New Homes Bonus	(485,920)	(872,000)	(386,080)
Council Tax	(7,169,570)	(7,506,790)	(337,220)
	0	0	0

Working Balance	March 2025	March 2026
	4,057,560	4,073,930

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Appendix to be published once budget is approved

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APPENDIX 7

EXETER CITY COUNCIL
2025/26 COUNCIL TAX - SUMMARY

	2024/25		**2025/26**	
Council Tax Base	39,045		39,852	
	Total Expenditure £	Band D Council Tax £	Total Expenditure £	Band D Council Tax £
General Fund Budget	7,169,560	183.62	7,506,790	188.37
Collection Fund (Council Tax) Surplus	(127,014)	(3.25)	(103,692)	(2.60)
TOTAL	**7,042,546**	**180.37**	**7,403,098**	**185.76**

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2025/26 HRA ESTIMATES

	2024/25 BUDGET £	2025/26 BUDGET £	CHANGE £
Management	8,218,470	8,414,530	196,060
Sundry Land Maintenance	664,060	641,700	(22,360)
Repair & Maintenance Programme	7,587,680	9,505,410	1,917,730
HRA SERVICE PROVISION EXPENDITURE	**16,470,210**	**18,561,640**	**2,091,430**
Revenue Contribution to Capital	2,500,000	1,000,000	(1,500,000)
Capital Charges	3,745,650	3,724,680	(20,970)
Net Interest	1,446,580	1,714,090	267,510
HRA EXPENDITURE	**24,162,440**	**25,000,410**	**837,970**
Dwelling Rents	(21,680,400)	(22,119,330)	(438,930)
Service Charges	(1,572,940)	(1,656,590)	(83,650)
Other	(700,740)	(663,420)	37,320
HRA NET EXPENDITURE	**208,360**	**561,070**	**352,710**
Transfer to / (from) HRA Working Balance	(208,360)	(561,070)	(352,710)
TOTAL NET HRA BUDGET	**0**	**0**	**0**
		0	

APPENDIX 9

MEDIUM TERM REVENUE PLAN - HOUSING REVENUE ACCOUNT (2024/25 - 2028/29)

	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Resources				
Rents	21,229	21,229	21,654	22,304
Service Charges	1,573	1,573	1,657	1,678
Other	1,124	1,124	1,220	1,249
Inflation on income	-	605	700	721
Likely resources	**23,926**	**24,530**	**25,230**	**25,951**
Expenditure				
HRA expenditure base budget	17,772	16,612	18,663	18,487
Inflation on expenditure	-	209	143	146
Repairs & Maintenance Programme	-	1,806	(46)	(79)
Savings	-	-	(311)	-
Depreciation	3,746	3,725	3,725	3,725
Revenue Contribution to Capital Outlay	2,500	1,000	1,000	2,100
Net interest	1,471	1,739	1,787	1,837
	25,489	25,091	24,961	26,216
Other Funding				
Contribution to / (from) HRA Working Balance	(1,563)	(561)	269	(265)
Total Net budget	**-**	**-**	**-**	**-**
Opening HRA Working Balance	5,669	4,106	3,545	3,814
Closing HRA Working Balance	4,106	3,545	3,814	3,549

APPENDIX 10

GENERAL FUND AVAILABLE RESOURCES

GENERAL FUND	2024-25 £	2025-26 £	2026-27 £	2026-27 £	FUTURE YEARS £	TOTAL £
CAPITAL RESOURCES AVAILABLE						
Capital Receipts Brought Forward	851	0				851
GF Capital Receipts	1,300,613	7,000,000	0	0	0	8,300,613
Revenue Contributions to Capital Outlay	163,470	88,756	0	0	0	252,226
Disabled Facility Grant	1,580,390	800,000	800,000	800,000	800,000	4,780,390
Community Infrastructure Levy	1,077,389	7,626,024	166,904	0	0	8,870,317
Other - Grants/External Funding/Reserves/S106	1,258,730	4,725,210	767,380	0	0	6,751,320
Total Resources Available	**5,381,443**	**20,239,990**	**1,734,284**	**800,000**	**800,000**	**28,955,717**
GENERAL FUND CAPITAL PROGRAMME						
Capital Programme	12,197,590	41,875,860	7,436,660	3,330,430	1,263,910	66,104,450
						0
Total General Fund	**12,197,590**	**41,875,860**	**7,436,660**	**3,330,430**	**1,263,910**	**66,104,450**

BORROWING REQUIREMENT:						
Spend in Year	12,197,590	41,875,860	7,436,660	3,330,430	1,263,910	66,104,450
Less Other Resources applied in Year	(4,079,979)	(13,239,990)	(1,734,284)	(800,000)	(800,000)	(20,654,253)
Less Capital Receipts applied	(652,506)	(2,451,180)	(2,643,820)	(1,905,000)	0	(7,652,506)
Borrowing Requirement	**7,465,105**	**26,184,690**	**3,058,556**	**625,430**	**463,910**	**37,797,691**

UNCOMMITTED CAPITAL RESOURCES:						
Capital Receipts Brought Forward	851	0	4,548,820	1,905,000	0	851
Capital Receipts Received in Year	1,300,613	7,000,000	0	0	0	8,300,613
Less Capital Receipts used to finance past debt	(648,958)	0	0	0	0	(648,958)
Less Capital Receipts applied in year	(652,506)	(2,451,180)	(2,643,820)	(1,905,000)	0	(7,652,506)
Capital Receipts available	**0**	**4,548,820**	**1,905,000**	**0**	**0**	**0**

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APPENDIX 10

HRA AVAILABLE RESOURCES

HOUSING REVENUE ACCOUNT	2024-25 £	2025-26 £	2026-27 £	2027-28 £	2028-29 £	TOTAL £
CAPITAL RESOURCES AVAILABLE						
Usable Receipts Brought Forward						7,745,744
Major Repairs Reserve Brought Forward						12,455,749
Other HRA Sales	234,000	1,266,000				1,500,000
RTB sales	1,600,000	875,000				2,475,000
Major Repairs Reserve	3,724,680	3,724,680	3,724,680	3,724,680	3,724,680	18,623,400
Revenue Contributions to Capital	2,500,000	1,000,000	1,000,000	2,100,000	1,900,000	8,500,000
External contributions	1,812,405					1,812,405
Borrowing		6,278,000				6,278,000
Total In-Year Resources	**9,871,085**	**13,143,680**	**4,724,680**	**5,824,680**	**5,624,680**	**59,390,298**
CAPITAL PROGRAMME						
HRA Capital Programme	20,211,706	16,344,475	10,093,253	7,086,569	5,645,867	59,381,870
Total Housing Revenue Account	**20,211,706**	**16,344,475**	**10,093,253**	**7,086,569**	**5,645,867**	**59,381,870**

UNCOMMITTED CAPITAL RESOURCES:						
Usable Receipts Brought Forward	7,745,744	1,919,109	0	0	0	7,745,744
Major Repairs Reserve Brought Forward	12,455,749	7,941,763	6,660,077	1,291,504	29,615	12,455,749
Resources in Year	9,871,085	13,143,680	4,724,680	5,824,680	5,624,680	39,188,805
Less Estimated Spend	(20,211,706)	(16,344,475)	(10,093,253)	(7,086,569)	(5,645,867)	(59,381,870)
Uncommitted Capital Resources	**9,860,872**	**6,660,077**	**1,291,504**	**29,615**	**8,428**	**8,428**

WORKING BALANCE RESOURCES:						
Balance Brought Forward	5,669,065	4,105,948	3,544,878	3,813,879	3,549,399	5,669,065
HRA Balance Transfer - to/(from) Working Balance	(258,360)	(561,070)	269,001	(264,480)	416,144	(398,765)
Cumulative forecast under/(over)spend 2024-25	(1,304,757)					(1,304,757)
Balance Carried Forward	4,105,948	3,544,878	3,813,879	3,549,399	3,965,543	3,965,543
Balance Resolved to be Retained	(3,525,000)	(3,525,000)	(3,525,000)	(3,525,000)	(3,525,000)	(3,525,000)
Uncommitted HRA Working Balance (after balance resolved to be retained of £3.525m)	**580,948**	**19,878**	**288,879**	**24,399**	**440,543**	**440,543**

TOTAL AVAILABLE CAPITAL RESOURCES (after balance resolved to be retained of £3.525m)	**10,441,820**	**6,679,955**	**1,580,383**	**54,014**	**448,971**	**448,971**

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APPENDIX 11

GENERAL FUND - CAPITAL PROGRAMME 2025/26 AND FUTURE YEARS							
SCHEMES	**NEW BID**	**2025/26**	**2026/27**	**2027/28**	**Future Years**	**Financed by**	**What the scheme is trying to achieve**
		£	**£**	**£**	**£**		
Operations							
Waste Infrastructure		250,000				Borrowing	
Improved recycling containers		50,000				Borrowing	
Depot Improvement Works		7,175,000				CIL	
Food Waste Collections		857,140				Grant	
Capitalised Staff Costs - Engineering / Property		150,000	150,000	150,000	150,000	Borrowing	To provide for the cost of certain Council employees, which will be directly involved in the construction or acquisition of assets and qualify as capital expenditure, including engineers and surveyors.

SCHEMES	NEW BID	2025/26	2026/27	2027/28	Future Years	Financed by	What the scheme is trying to achieve
		£	£	£	£		
Bowling Green Marshes Coastal Defence Scheme		200,000	217,870			Grant	To repair the coastal defences to retain the level of protection to the freshwater marshes. The scheme is entirely funded by the Environment Agency.
Parks Infrastructure		231,970				Borrowing	To ensure public safety in parks and open spaces. Works include resurfacing parking areas and repairs to steps, railings and gates.
Cemeteries & Churchyards infrastructure improvements		109,790				Borrowing	
Bank Repairs & Stabilisation to Watercourses		19,000				Borrowing	
Cricklepit Bridge		83,750				Grant	Full Repair (specification dependent upon PI Report findings) & redecoration. Last full paint coat was 15 years ago and is due for renewal
Trews Weir refurb		300,000	3,099,510			Grant / borrowing	Stabilise and refurbish damaged weir
District Street Lighting		796,140				Capital receipt	Complete stock replacement of aging lighting columns to drop-down type and to LED lamps over 5 year programme.
Piazza Terracina			158,560			Borrowing	Repaving and landscaping Terracina, with new service points to imprve suitability for events. Could include spaces for street food and pop-up stalls similar to Guildhall. Potential income from stalls and events which would help to offset some of the costs
Ash Die Back Tree Replacement		147,910				Borrowing	Tree Removal & Replacement
Fleet Lease costs		1,251,280	2,329,910	2,066,520		Capital receipt	
Bromhams Farm Playing Fields		14,480				Borrowing	
Longbrook Street wall behind 30-38		5,000				Borrowing	
Farm Hill Retaining Walls (23 no.)		761,040				Borrowing	Stabilising works and other remedial actions (specification dependent upon PI Report findings)
Bonhay Rd/Andlaw House Footpath		69,810				Borrowing	Remedial works to replace existing gabion baskets or shore up existing gabion baskets - plus resurfacing of path with tarmac
St James' Weir & Ducks Marsh Meadow banks		75,000				Borrowing	Following the collapse of St James Weir, works are required to protect Council owned public open space from erosion and further loss. This cost is a likely maximum as other contributions will be sought.
Heavitree Paddling Pools		500,000				CIL	Redesign and rebuild paddling pools, add new splash pad and replace dated plant and plant room.
Play Areas		200,000	166,900			CIL / S106	Supply & Installation of new play equipment at multiple play areas across the city to replace old, end of life equipment. Cost includes 2 potential full redesigns where all equipment is old and the site could provide better play value and more accessible play in areas of multiple indices of deprivation (Lakeside Avenue & Chestnut Avenue)
Landfill Gas Extraction Systens		206,100				Borrowing	Significant upgrade or replacement of all three extraction systems.
Mincinglake Valley Park Reed Beds & Pipe Inlet		156,510				Borrowing	Re-lining of the lagoon to minimise leaks, coupled with design and construction of new debris screens to minimise blockage risks.
ECC Bridge repair programme		300,000	200,000			Borrowing	Due to number of required repairs identified in Principal Inspections, create new project for all bridge repairs
Oxford Road Car Park Retaining Wall		200,000				Grant	
Canal basin bridge refurbishment		50,000				Borrowing	
Outdoor Leisure Facilities - Newcourt		121,270				CIL / S106	To provide facilities at Newcourt
Riverside Walls at Quay		50,000				Borrowing	Underpinning or sheet piling existing Quay walls. Potential opportunity to deliver alongside Trews Weir
Leisure Complex - Build Project		650,000				Borrowing	
Civic Centre Air Conditioning Replacement		25,000				Borrowing	
Fire Risk Assessment Works		1,624,510				Borrowing	
Exmouth Buoy Store		212,720				Borrowing	
Guildhall MSCP		883,400				Borrowing	Condition survey highest priorities
John Lewis MSCP		357,760				Borrowing	
Princesshay 2 MSCP		424,400				Borrowing	
Leighton Terra & KW St MSCP		618,000				Borrowing	
City Wall		477,740				Borrowing	

SCHEMES	NEW BID	2025/26	2026/27	2027/28	Future Years	Financed by	What the scheme is trying to achieve
		£	£	£	£		
Backlog Maintenance		523,020				Borrowing	
BLRF - Exeter Canal Basin		591,240				Grant	
BLRF - Mary Arches Car Park		1,289,460				Grant	
BLRF - Belle Isle		663,940				Grant	
BLRF - Clifton Hill		225,000				Grant	
Green Space Depot Site (Belle Isle)		2,875,970				Grant / borrowing	
BLRF - Lower Wear Road		293,390				Borrowing	
Cathedral Green Display Cases		35,000				Revenue	
Leisure Property enhancements		1,000,000				Borrowing	
Commercial Property Ancillary Accommodation flat roof recovering		46,720				Borrowing	
TOTAL		**27,148,460**	**6,322,750**	**2,216,520**	**150,000**		
Corporate							
Wat Tyler House		272,270				Borrowing	
Commercial Properties - capital improvements to enable ongoing income (compliance with EPC legislation)		120,000				Borrowing	
Guildhall Shopping Centre Enhancements		10,866,630				Borrowing	
St Nicholas Priory Roof		88,120				Borrowing	
TOTAL		**11,347,020**	**0**	**0**	**0**		
People & Communities							
Annual Contribution to Strata		53,910	53,910	53,910	53,910	All Capital Receipts	
Datacentre Relocation		35,940					
NCSC Zero Trust		53,910					
IT Replacement Programme		10,000	10,000	10,000	10,000		
EUC model equipment (replacement laptops)		150,000	150,000	150,000	150,000		
Disabled Facility Grants		800,000	800,000	800,000	800,000	Grant	To meet the legal duty to pay grants to enable disabled people to remain in their homes.
TOTAL		**1,103,760**	**1,013,910**	**1,013,910**	**1,013,910**		
Place							
Riverside & RAMM Decarbonisation Projects		900,150				Borrowing	
Leisure Equipment replacement Programme		100,000	100,000	100,000	100,000	Capital Receipts	To ensure there is a pot available to replace equipment that is damaged or at the end of its useful life
Pinhoe Community Hub		1,276,470				CIL / Revenue	
TOTAL		**2,276,620**	**100,000**	**100,000**	**100,000**		
GENERAL FUND SERVICES TOTAL		**41,875,860**	**7,436,660**	**3,330,430**	**1,263,910**		

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APPENDIX 12

HOUSING - CAPITAL PROGRAMME 2025/26 AND FUTURE YEARS

DESCRIPTION	2025-26	2026-27	2027-28	2028-29	Total
	£	£	£	£	£
INVESTMENT IN EXISTING STOCK					
Adaptations	360,000	360,000	360,000	360,000	1,440,000
Balcony Walkway Improvements	108,000	108,000	108,000	108,000	432,000
Bathroom Replacements (inc. Communal)	600,000	600,000	350,000	500,000	2,050,000
Boiler Replacement Programme & Central Heating	455,875	381,375	331,375	331,375	1,500,000
Common Area Footpath & Wall Improvements	97,000	125,000	92,000	92,000	406,000
Communal Area Improvements - New Flooring	40,614	17,178	12,936	25,662	96,390
Communal Door Entry System Instals - NEW	500,000	500,000	100,000	500,000	1,600,000
Fire Door Entry System Instals - NEW	150,000	0	0	0	150,000
Electrical Central Heating	10,000	10,000	10,000	10,000	40,000
Electrical Rewires - Communal	200,000	200,000	200,000	0	600,000
Electrical Rewires - Domestic	426,126	450,000	450,000	450,000	1,776,126
Energy retrofit	1,496,478	1,471,478	1,471,478	0	4,439,434
Fire Risk Assessment Works	1,210,000	1,235,000	835,000	383,000	3,663,000
Fire Safety Storage Facilities	109,462	109,462	0	0	218,924
Fire Alarm Systems Replacement - NEW	172,500	172,500	0	0	345,000
Kitchen Replacements (inc. Communal)	947,000	800,000	500,000	647,000	2,894,000
LAINGS Refurbishments	2,150,000	0	0	0	2,150,000
Lift Upgrades	350,000	80,000	80,000	80,000	590,000
Reroofing - Flats	670,250	319,900	430,500	403,550	1,824,200
Reroofing - Houses (outbuildings, chimney, gutters, downpipes, fascia)	930,000	930,000	600,000	600,000	3,060,000
Porch Canopies	94,200	94,200	81,600	81,600	351,600
Rennes House Structural Works	1,000,000	0	0	0	1,000,000
Structural Repairs	609,160	609,160	342,680	342,680	1,903,680
Window and Door Replacements	1,400,000	1,395,000	606,000	606,000	4,007,000
Plastering	125,000	125,000	125,000	125,000	500,000
Heating Abbeville & Hamlin - NEW	520,000	0	0	0	520,000
Sub total - Investment in Existing Stock	**14,731,665**	**10,093,253**	**7,086,569**	**5,645,867**	**37,557,354**
PROVISION OF NEW COUNCIL HOMES					
Council House Building Programme - Vaughan Road Phase A	1,612,810	0	0	0	1,612,810
Sub total - Investment in the Provision of New Homes	**1,612,810**	**0**	**0**	**0**	**1,612,810**
Total HRA Capital Programme	**16,344,475**	**10,093,253**	**7,086,569**	**5,645,867**	**39,170,164**

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REPORT TO EXECUTIVE

Date of Meeting: 4 February 2025

REPORT TO COUNCIL

Date of Meeting: 25 February 2025

Report of: Strategic Director Corporate Resources & S151 Officer

Title: Capital Strategy 2025-26

Is this a Key Decision?

No

Is this an Executive or Council Function?

Council

1. What is the report about?

1.1 To approve the Capital Strategy.

2. Recommendations:

2.1 It is recommended that Council approve the Capital Strategy as set out in Appendix A.

3. Reasons for the recommendation:

3.1 The aim of the capital strategy is to ensure all elected members fully understand the long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

4. What are the resource implications including non financial resources.

4.1 The financial resources required are set out in the body of this report.

5. Section 151 Officer comments:

5.1 There are no significant changes to the strategy this year. A lack of capital receipts means the Council is reliant on borrowing to fund additional schemes, which will have a negative impact on the already financially challenged position of both the General Fund and HRA. As such, neither is in a position to take on further schemes without a fundamental improvement in interest rates or additional capital resources being realised.

6. What are the legal aspects?

6.1 The capital expenditure system is framed by the Local Government and Housing Act 1989 and the Local Government Act 2003. The CIPFA Prudential Code for Capital Finance in Local Authorities (Prudential Code) and the Treasury management in the Public Services Code of Practice and Cross-Sectoral Guidance notes (the Treasury Management Code) were updated in December 2021. The Codes set out the obligation on all local authorities to prepare a Capital Strategy report and the requirements of the report. The proposed Capital Strategy for Exeter City Council for 2025-2026 is set out at Appendix A.

7. Monitoring Officer's comments:

7.1 This report raises no issues for the Monitoring Officer.

8. Report details:

8.1 The Capital Strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset.

The proposed Capital Strategy is attached at Appendix A.

9. How does the decision contribute to the Council's Corporate Plan?

9.1 The Capital Strategy contributes to all of the key purposes, as set out in the Corporate Plan.

10. What risks are there and how can they be reduced?

10.1 Areas of budgetary risk are highlighted to committee as part of the quarterly budget monitoring updates.

11. Equality Act 2010 (The Act)

11.1 Under the Act's Public Sector Equalities Duty, decision makers are required to consider the need to:

- eliminate discrimination, harassment, victimisation, and any other prohibited conduct;
- advance equality by encouraging participation, removing disadvantage, taking account of disabilities and meeting people's needs; and
- foster good relations between people by tackling prejudice and promoting understanding.

11.2 In order to comply with the general duty authorities must assess the impact on equality of decisions, policies, and practices. These duties do not prevent the authority from reducing services where necessary, but they offer a way of developing proposals that consider the impacts on all members of the community.

11.3 In making decisions the authority must take into account the potential impact of that decision in relation to age, disability, race/ethnicity (includes Gypsies and Travellers), sex and gender, gender identity, religion and belief, sexual orientation, pregnant women and new and breastfeeding mothers, marriage, and civil partnership status in coming to a decision.

11.4 In recommending this proposal no potential impact has been identified on people with protected characteristics as determined by the Act because the report is for information only

12. Carbon Footprint (Environmental) Implications:

12.1 No direct carbon/environmental impacts arising from the recommendations.

13. Are there any other options?

13.1 No

Strategic Director Corporate Resources & s151 Officer, David Hodgson

Author: Claire Hodgson, Finance Manager – Corporate

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

None

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APPENDIX A

EXETER CITY COUNCIL

CAPITAL STRATEGY 2025/26

1. Introduction

1.1. This Capital Strategy sets out how, when the City Council considers often competing demands for investments, it takes account of stewardship, value for money, prudence, sustainability and affordability in a long-term context, and gives due consideration to both risk and reward and impact on the achievement of the Council's priority outcomes. It is part of the Council's integrated operational, revenue, capital and balance sheet planning.

1.2. As local authorities become increasingly complex and diverse, it is vital that Councillors and Senior Officers are fully informed about the long-term context in which investment decisions are made and about all the financial and operational risks to which the authority is exposed. With local authorities having increasingly wide powers around commercialisation and being part of group arrangements or combined authorities, it is increasingly important for Councils to take into account the residual risks and liabilities all around them.

1.3. This Capital Strategy covers both the General Fund and the Housing Revenue Account, supporting service provision and linking with the Council's Corporate Plan and Medium Term Financial Strategy. It provides a framework for the development of the three-year capital programme.

2. Purpose and Aims

The Prudential Code for Capital Finance in Local Authorities (the Prudential Code) and the Treasury management in the Public Services Code of Practice and Cross-Sectoral Guidance notes (the Treasury Management Code) were updated by CIPFA in December 2021. The 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report which will provide the following:

- A high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- An overview of how the associated risk is managed
- The implications for future financial sustainability

The aim of the strategy is to ensure that all the Authority's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

2.1. The purpose of this Capital Strategy is to help achieve the Council's five strategic priorities set out in the Corporate Plan 2022-2026:

a. Prosperous local economy
b. Healthy and active city
c. Housing and building great neighbourhoods and communities
d. Net zero carbon city
e. Thriving culture and heritage

These priorities contribute to the Exeter Vision 2040:

"By the time they are an adult, a child born in Exeter today will live in a city that is inclusive, healthy and sustainable – a city where the opportunities and benefits of prosperity are shared and all citizens are able to participate fully in the city's economic, social, cultural and civic life."

3. What is Capital Expenditure?

3.1. An understanding of what constitutes capital expenditure is fundamental to realising the benefits that an authority can obtain under the Prudential framework. Unless expenditure qualifies as capital it will normally fall outside the scope of the framework and be charged to revenue in the period that the expenditure is incurred. If expenditure meets the definition of capital, there may be opportunities to finance the outlay from capital receipts or by spreading the cost over future years' revenues.

There are three ways in which expenditure can qualify as capital under the framework:-

- The expenditure results in the acquisition, construction or enhancement of fixed assets (tangible and intangible) in accordance with 'proper practices'.
- The expenditure meets one of the definitions specified in regulations made under the 2003 Local Government Act.
- The Secretary of State makes a direction that the expenditure can be treated as capital expenditure.

4. Approach to Capital Investment

4.1. The Council's approach to capital investment is fundamental to the Council's financial planning processes. It aims to ensure that:

- Capital expenditure contributes to the achievement of the Council's strategic plan.
- An affordable and sustainable capital programme is delivered.
- Use of resources and value for money is maximised.
- A clear framework for making capital expenditure decisions is provided.
- A corporate approach to generating capital resources is established.
- Access to sufficient long term assets to provide services are acquired and retained.
- Invest to save initiatives to make efficiencies within the Council's revenue budget are encouraged.
- An appraisal and prioritisation process for new schemes is robust.

5. Governance Arrangements

5.1. **Capital Programme Approvals**

The Authority's constitution and financial regulations govern the capital programme as set out below:

- All capital expenditure must be carried out in accordance with the financial regulations and the Council's Constitution.
- The expenditure must comply with the statutory definition of capital purposes as defined within this document and wider financial standards.
- The Capital Programme approved by Full Council as part of the Council's annual budget report sets the capital funding availability for the Council, the prioritisation of funding and the schemes receiving entry into the Capital Programme.
- Officers are not authorised to commit expenditure without prior formal approval as set out in the financial regulations.
- Each scheme must be under the control of a responsible person / project manager.
- Any agreements (such as section 106) which contractually commit to procure capital schemes will need to follow the same approval process as other capital expenditure before it can be formally incorporated into the capital programme.

Full Council:

- Approves the capital programme as part of the Annual Budget Report within the strategic boundaries set by the Council.
- Approves capital schemes into the approved capital programme to enable commencement of delivery and schemes to start to incur expenditure.

6. Funding Streams

Exeter City Council's Capital Programme is funded from a mix of sources including:

- **Prudential Borrowing** – The introduction of the Prudential Code in 2004 allowed the Council to undertake unsupported borrowing. This borrowing is subject to the requirements of the Prudential Code for Capital Expenditure for Local Authorities. The Council must ensure that unsupported borrowing is affordable, prudent and cost effective. This funding can also be used as an option to front fund development to stimulate growth. This has provided the Council with the flexibility to raise capital funding as demand and business need have dictated. This type of borrowing has revenue implications for the Council in the form of financing costs. An authority must not borrow to invest primarily for financial return.
- **External Grants** – such as disabled facilities grant funding.
- **Section 106, Community Infrastructure Levy (CIL) and External Contributions** – Elements of the capital programme are funded by contributions from private sector developers and partners.
- **Revenue Funding –** The Council can use revenue resources to fund capital projects on a direct basis and this funding avenue has been used in the past. However, pressures on the Council's revenue budget has reduced options in this area and therefore the preference is for Invest to Save options to be adopted where feasible.

- **Capital Receipts –** The Council is able to generate capital receipts through the sale of surplus assets such as land and buildings. The Council seeks to maximise the level of these resources which will be available to support the Council's plans.

International Financial Reporting Standard (IFRS) 16 – Leases

From 1 April 2024 IFRS 16 replaced the previous lease accounting standard as the method to account for leases in the Council's annual accounts.

The main impact was to remove the traditional distinction between finance leases and operating leases. Now all leased-in agreements result in a 'Right of Use' asset on the Balance Sheet and a corresponding debt (lease liability) in the Council's accounts. Leases for items of low value and leases that expire on or before 31 March 2025 are exempt from the new arrangements. The de minimis limit for IFRS 16 has been set at £10,000, in line with the Council's capital expenditure de minimis.

Future leases in (unless exempt) will constitute capital expenditure, and assets will be accounted for in the same way as if they had been acquired.

Capital Programme and Minimum Revenue Provision

The size of the Capital Programme will be influenced by funding sources and financing costs. The main limiting factor on the Council's ability to undertake capital investment is whether the revenue resource is available to support in full the implications of capital expenditure, both borrowing costs and running costs, after allowing for any support provided by central government, now mainly through capital grants.

The Council is required to set aside a Minimum Revenue Provision (MRP) in respect of capital expenditure previously financed by borrowing. The Annual Statement of Minimum Revenue Provision is set out in the Prudential Code for Capital Finance report. To reduce risk and minimise costs in light of elevated interest rates, it has been decided to defer borrowing where possible, or where necessary borrow for shorter periods with the intention of re-financing when rates are more favourable. However some targeted long term borrowing may be undertaken in 2025-26, where the costs will be offset against future income streams.

Revenue Implications

The revenue implications of capital investment must always be considered in investment decisions and prioritisation of projects. These include costs and savings implications.
Costs to consider include:

- Cost of borrowing (including Minimum Revenue Provision)
- Loss of investment income if reserves or useable capital receipts are used
- Running costs associated with the asset.

Savings, including benefits, to identify in the proposal include:

- Any positive impact of investment and economic growth on the Council's council tax base and business rates income
- Capital projects that generate income, revenue savings or efficiencies.

7. Stewardship of Assets

The Council's Asset Management Plan sets out the condition of its assets and the arrangements for managing these effectively. The Council's Corporate Property Strategy enhances these arrangements, including increasing the awareness that efficient use of property is an important element of maximising the value obtained from the Council's overall resources.

An extensive stock condition survey has been carried out on the majority of the Council's assets. This underpins the capital programme and has been updated to include the impact of our leisure portfolio of assets. As noted above however, the impact of rising costs and interest rates have caused the full capital programme to become unaffordable in the short-term and therefore the programme has been reduced to prioritise those assets which are considered highest risk. The other works have been removed from the approved capital programme pending a review of the portfolio.

8. Service Objectives

The option appraisal of proposed capital schemes overseen considers, amongst other factors, the following:

- How the proposal help achieve the objectives and priorities set out in the Council's Corporate Plan 2022-2026.
- How the proposal will help achieve objectives set out in Service Plans.
- The service improvements and other anticipated benefits expected to be delivered from the investment.

9. Monitoring

- Capital budget holders are responsible for providing quarterly forecasts to the Finance Team. Any slippage, acceleration, underspends or overspends on schemes is identified as soon as possible.
- All forecasts are collated by the Finance Team and reported to the Executive and Council on a quarterly basis.

STRATEGIC DIRECTOR – CORPORATE RESOURCES & S151 OFFICER
JANUARY 2025

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REPORT TO EXECUTIVE

Date of Meeting: 4 February 2025

REPORT TO COUNCIL

Date of Meeting: 25 February 2025

Report of: Strategic Director Corporate Resources & S151 Officer

Title: Treasury Management Strategy Report 2025/26

Is this a Key Decision?

No

Is this an Executive or Council Function?

Council

1. What is the report about?

1.1 To seek adoption by the Council of the Treasury Management Strategy Report, incorporating the Annual Investment Strategy 2025/26, and revised supporting Treasury Management Practices, as required under section 15(1)(a) of the Local Government Act 2003.

2. Recommendations:

2.1 That Executive recommend to Council the adoption of the Treasury Management Strategy and Treasury Management Practices and the delegations contained therein.

3. Reasons for the recommendation:

3.1 The Council has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes which require the Council to approve a Treasury Management Strategy before the start of each financial year. The Code of Practice was adopted in February 2012. The Code was updated in December 2021.

In addition, the Ministry of Housing, Communities and Local Government (MHCLG) Guidance on Local Authority Investments requires the Council to approve an investment strategy before the start of each financial year.

MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments. Non-financial investments are covered in the Capital Strategy which is presented in a separate report to this Committee.

The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's Treasury Management Strategy.

4. What are the resource implications including non financial resources

4.1 Treasury Management is carried out by the Finance team of the Council, with advice procured from a specialist advisor. Prudent Treasury Management supports the Council's financial position by generating interest on investments / deposits and seeking to minimise the amount of interest paid on borrowing.

5. Section 151 Officer comments:

5.1 The Treasury Management Strategy sets the Councils strategy for both borrowing and lending money. It is critical therefore that members are familiar and comfortable with the range of institutions included within the Strategy. The Treasury Management Practices set the parameters for the day-to-day implementation of the strategy.

6. What are the legal aspects?

6.1 In February 2012 the Council adopted the updated *CIPFA Treasury Management in the Public Services: Code of Practice*, which requires the Council to approve a Treasury Management Strategy before the start of each financial year. Adoption of the Code is required by regulations made under the Local Government Act 2003

7. Monitoring Officer's comments:

7.1 This report raises no issues for the Monitoring Officer.

8. Report details:

8.1 This is a statutory Strategy recommended for adoption by full Council. The key issues to be considered are:

- Investments in the CCLA – LAMIT fund have been made and details of the dividend yield are included in paragraph 3.1 of Appendix A attached to this report.
- Section 4.4 sets the limits on the value of investments to be held by any one institution and the type of institution that can be used.
- The maximum limit to be lent to any one organisation in respect of Property Funds was approved in December 2017, the maximum to be lent to any one organisation for this type of investment is £10m.
- All other limits on the value of investments to be held by one institution remains at £5m (other than the UK Government and money market funds).
- Section 3 of Appendix A attached to this report, sets out the current levels of borrowing and investments, along with the estimated changes and the financial impact for the year on both the General Fund and HRA.
- Sections 5 and 6 set out the planned strategy for the year, which Council must be satisfied meets their objectives and is in line with the level of risk they are comfortable to take.

Appendix B attached to this report is updated Treasury Management Practices for approval which support the Strategy.

9. How does the decision contribute to the Council's Corporate Plan?

9.1 Treasury Management supports the Council in generating additional funds for investing in Services, whilst minimising the amount of interest paid on borrowings. It does not in itself contribute to the Council's Corporate Plan.

10. What risks are there and how can they be reduced?

10.1 The investment limits are designed to reduce risk as far as possible, however with any investments there is a risk of default. The Council minimises this risk by imposing limits on where cash can be invested based on credit ratings from the two main rating agencies and setting monetary and time limits on investments. Investments tend to be in immediate access accounts, or short term (less than three months).

11. Equality Act 2010 (The Act)

11.1 Under the Act's Public Sector Equalities Duty, decision makers are required to consider the need to:

- eliminate discrimination, harassment, victimisation, and any other prohibited conduct;
- advance equality by encouraging participation, removing disadvantage, taking account of disabilities and meeting people's needs; and
- foster good relations between people by tackling prejudice and promoting understanding.

11.2 In order to comply with the general duty authorities must assess the impact on equality of decisions, policies, and practices. These duties do not prevent the authority from reducing services where necessary, but they offer a way of developing proposals that consider the impacts on all members of the community.

11.3 In making decisions the authority must take into account the potential impact of that decision in relation to age, disability, race/ethnicity (includes Gypsies and Travellers), sex and gender, gender identity, religion and belief, sexual orientation, pregnant women and new and breastfeeding mothers, marriage, and civil partnership status in coming to a decision.

11.4 In recommending this proposal no potential impact has been identified on people with protected characteristics as determined by the Act because the report is for information only.

12. Carbon Footprint (Environmental) Implications:

12.1 No direct carbon/environmental impacts arising from the recommendations.

13. Are there any other options?

13.1 No

Strategic Director, Corporate Resources & s151 Officer, David Hodgson

Author: Claire Hodgson, Finance Manager – Corporate

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

None

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APPENDIX A

EXETER CITY COUNCIL

TREASURY MANAGEMENT STRATEGY 2025/26

1. Introduction

1.1. The Council's Treasury Management Strategy (TMS) is based on the requirements of the MHCLG's Guidance on Local Government Investments ("the Guidance"), and CIPFA's Treasury Management Code and Prudential Codes as updated in December 2021. This Authority must have regard to these Codes of Practice when preparing the Treasury Management Strategy Statement including the Annual Investment Strategy, and also related reports during the financial year.

The revised Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes: -

Treasury management

Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery

Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

Commercial return

Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to an authority's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

2. Economic Context

The third quarter of 2024/25 (October to December) saw:

- GDP growth contracting by 0.1% m/m in October following no growth in the quarter ending September;
- The 3myy rate of average earnings growth increase from 4.4% in September to 5.2% in October;
- CPI inflation increase to 2.6% in November;
- Core CPI inflation increase from 3.3% in October to 3.5% in November;
- The Bank of England cut interest rates from 5.0% to 4.75% in November and hold them steady in December.

- 10-year gilt yields starting October at 3.94% before finishing up at 4.57% at the end of December (peaking at 4.64%).

The Government's October budget outlined plans for a significant £41.5bn (1.2% of GDP) increase in taxes by 2029/30, with £25bn derived from a 1.2% rise in employers' national insurance contributions. The taxes are more than offset by a £47bn (1.4% of GDP) rise in current (day-to-day) spending by 2029/30 and a £24.6bn (0.7% of GDP) rise in public investment, with the latter being more than funded by a £32.5bn (1.0% of GDP) rise in public borrowing. The result is that the Budget loosens fiscal policy relative to the previous government's plans - although fiscal policy is still being tightened over the next five years – and that GDP growth is somewhat stronger over the coming years than had previously been forecasted. By way of comparison, the Bank of England forecasts four-quarter GDP growth to pick up to almost 1¾% through 2025 (previously forecast to be 0.9%) before falling back to just over 1% in 2026.

Interest rate forecasts

The Council has appointed MUFG Corporate Markets (formerly Link Group) as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives MUFG Corporate Markets forecast to December 2027.

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

3. Current and Expected Treasury Portfolios

3.1. Investments

The Council's fixed term deposits held at 31 December 2024 were:

Property Funds

Amount	Investment	Dividend Yield as at Q2
£5,000,000	CCLA – LAMIT Property Fund	5.20%

Money Market Funds

Amount	Investment	Interest rate*
£7,000,000	Federated Investors	5.07%
£0	CCLA - The Public Sector Deposit Fund	5.08%
£4,000,000	Black Rock Asset Management	5.01%
£10,000,000	Aberdeen Standard Investments	5.06%
£21,000,000		

* Interest rate is variable (therefore rates quoted are an average to 31st December 2024)

3.2. Borrowings

The Council's long term borrowing is currently £163.680m (£91.436m General Fund and £72.244m HRA) and there is no short-term borrowing. Details of loans are set out below:

Principal Amount outstanding as at 31 December 2024	Lender	Interest rate	Loan type	Date of repayment
£56,884,000	PWLB maturity (HRA)	3.48%	Maturity	28/03/2062
£1,819,348	PWLB 25 year annuity	2.34%	Annuity	11/01/2044
£1,767,489	PWLB 25 year annuity	2.08%	Annuity	04/04/2044
£4,021,672	PWLB 30 year annuity	1.61%	Annuity	26/09/2049
£7,840,191	PWLB 35 year annuity	1.71%	Annuity	26/09/2054
£33,672,366	PWLB 50 year annuity	1.80%	Annuity	26/09/2069
£15,360,000	PWLB maturity (HRA)	1.31%	Maturity	14/04/2070
£42,314,696	PWLB 50 year annuity	1.78%	Annuity	24/12/2071

3.3. Expected changes

The current capital programme 2025/26 to 2027/28 indicates a further borrowing requirement of £29.393 million for the General Fund and £6.278 million for the HRA.

The decision of whether to take external long-term borrowing will be made in light of current and forecast interest rates and the decision is delegated to the Section 151 Officer and Leader of the Council.

3.4. Budget implications

The tables below show the expected interest payments on existing PWLB debt and fleet and other lease arrangements, and budgeted interest on balances for both General Fund and HRA for 2025/26.

If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will differ correspondingly.

General fund interest	2025/26 Estimate
Interest payable	£2,334,390
Total Interest receivable	(£1,439,000)
Less interest to HRA and other	£805,000
Net interest payable	**£1,700,390**
CCLA LAPF dividend	(£225,000)
Net interest after dividends	**£1,475,390**

HRA interest (including COB)	2025/26 Estimate
Interest payable	£2,543,940
Interest receivable	(£800,000)
Net interest payable	**£1,743,940**

The expected Minimum Revenue Provision for repayment of debt for 2025/26 is £2.702 million, which includes £63k in respect of leases under IFRS16.

4. Investment Strategy

4.1. The Council holds surplus funds, which represent income received in advance of expenditure plus balances and reserves held. Both the CIPFA Code and the MHCLG Guidance require the Council to invest its funds prudently, and to have regard to the **security** and **liquidity** of its investments before seeking the highest rate of return, or **yield**.

4.2. Council approved a Treasury Management Environmental, Social and Governance policy in December 2024 which includes consideration of ESG issues as part of its Treasury Management activity, provided that the key priorities of security, liquidity and yield are met.

4.3. <u>Specified Investments</u>

Specified investments are those expected to offer relatively high security and liquidity, and can be entered into with the minimum of formalities. The MHCLG Guidance defines specified investments as those:

- denominated in pounds sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
    - the UK Government,
    - a UK local authority, parish council or community council, or
    - a body or investment scheme of "high credit quality".

4.4. The Council defines the following as being of "high credit quality" for making specified investments, subject to the monetary and time limits shown.

In-house investment	Monetary limit[1]	Time limit
UK owned banks and building societies holding short-term credit ratings no lower than F1+ and P-1	£4m each	12 months
Foreign owned banks that deal in sterling holding short-term credit ratings no lower than F1+ and P-1	£3m each	9 months
UK owned banks and building societies holding short-term credit ratings no lower than F1 and P-1	£3m each	6 months

Money market funds[2] and similar pooled vehicles holding the highest possible credit ratings (AAA)	£10m each	3 months
Property Funds	£10m each	3 months
UK Central Government	no limit	12 months
UK Local Authorities[3] Upper Tier Lower Tier	 £5m each £5m each	 12 months 12 months

[1] banks within the same group ownership are treated as one bank for limit purposes
[2] as defined in the Local Authorities (Capital Finance and Accounting) Regulations 2003
[3] as defined in the Local Government Act 2003

4.5. The maximum that will be lent to any one organisation (other than the UK Government) will be £5 million, with the exception of Property Funds and Money Market Funds where the limit is £10m. For an individual bank, the limit is £4 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes.

4.6. <u>Non specified Investments</u>

No non specified investments will be made by the Council.

4.7. <u>Foreign countries</u>

Investments in foreign countries will be limited to those that hold a AAA or AA+ sovereign credit rating from all three major credit rating agencies, and to a maximum of £3 million per country. Only banks that are domiciled in the UK but are owned in another country will be used and need to meet the rating criteria of and will count against the limit for both countries. There is no limit on investments in the UK.

<u>Liquidity management</u>

The Council uses purpose-built cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments.

Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.

4.8. <u>Credit ratings</u>

The Council uses credit ratings from two main rating agencies Fitch Ratings Ltd and Moody's Investors Service to assess the risk of loss of investments. The lowest available credit rating will be used to determine credit quality.

Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an institution has its credit rating downgraded so that it fails to meet the above criteria then:

- no new investments will be made,
- any existing investments that can be recalled at no cost will be recalled, and
- full consideration will be given to the recall of any other existing investments

Where a credit rating agency announces that it is actively reviewing an organisation's credit ratings with a view to downgrading it so that it is likely to fall below the above criteria, then no further investments will be made until the outcome of the review is announced.

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

4.9. Other information on the security of investments

Full regard will be given to other available information on the credit quality of banks and building societies, including credit default swap prices, financial statements and rating agency reports. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the above criteria.

4.10. Other information on the security of investments

Full regard will be given to other available information on the credit quality of banks and building societies, including credit default swap prices, financial statements and rating agency reports. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the above criteria.

4.11. Investment instruments

Investments may be made using any of the following instruments:

- interest paying bank accounts
- fixed term deposits
- call or notice deposits (where the Council can demand repayment)
- certificates of deposit
- treasury bills and gilts issued by the UK Government
- bonds issued by multilateral development banks
- shares in money market funds

5. Planned investment strategy for 2025/26 – In-House

5.1. The cash flow forecast will be used to divide surplus funds into three categories:

- Short-term – cash required to meet known cash outflows in the next month, plus a contingency to cover unexpected cash flows over the same period.
- Medium-term – cash required to manage the annual seasonal cash flow cycle, including amounts to cover forecast shortages, planned uses of reserves, and a longer-term contingency.
- Long-term – cash not required to meet cash flows, and used primarily to generate investment income.

5.2. The Council's in-house managed funds are based on the likely cash flow position. Investments will be made to ensure that cash flow is protected and borrowing is minimised. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider investments for a longer period up to

12 months. These are funds which are not required for day-to-day cash management purposes.

5.3. The Council will seek to utilise money market funds (Aberdeen, Blackrock, Federated, and CCLA) and use short-dated deposits to ensure liquidity of assets for day-to-day cash flow. Although these are essentially cash, a monetary limit in line with the banks credit rating is retained on the accounts. The Council can also make use of the Government's Debt Management Office to ensure the highest possible security for cash. Additionally, the Council will hold a balance on its general account to cover any payments due. On occasion, to facilitate cash flow requirements, there may be in excess of £3 million in this account.

6. Borrowing Strategy

6.1. The Council's capital financing requirement (CFR, or underlying need to borrow) as at 31 March 2025 is expected to be £225.381 million and is forecast to rise to £240.957 million by March 2026 as capital expenditure is incurred.

6.2. The maximum expected long-term borrowing requirement for 2025/26 is:

	£m
Borrowed in prior years (GF)	90.988
Long term borrowing (HRA)	72.244
Not borrowed in previous years	62.479
Forecast increase in CFR	15.576
TOTAL	**240.957**

6.3. The Council is expected to be in an under-borrowed position as at 31 March 2025. 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 borrowing costs remain elevated and to mitigate exposure to counterparty risk.

Against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 treasury operations. The Section 151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to any change in circumstances.

6.4. To reduce risk and minimise cost on the General Fund, it has been decided to defer borrowing where possible, however some targeted long term borrowing may be undertaken in 2025/26, where the costs will be offset against future income streams.

6.5. In addition, the Council may borrow for short periods of time (normally up to two years) to cover cash flow shortages.

6.6. If borrowing is required advice will be sought from the treasury management advisors in order that the most cost effective form of borrowing can be secured.

6.7. <u>Sources of borrowing</u>

The approved sources of long-term and short-term borrowing will be:

- Public Works Loan Board
- any institution approved for investments above
- any other bank or building society on the Financial Services Authority list.

6.8. Debt instruments

Loans will be arranged by one of the following debt instruments:

- fixed term loans at fixed or variable rates of interest
- lender's option borrower's option (LOBO) loans.

As an alternative to borrowing loans, the Council may also finance capital expenditure and incur long-term liabilities by means of:

- leases
- Private Finance Initiative.

6.9. Borrowing strategy to be followed

With high levels of uncertainty and short-term interest rates currently lower than long-term rates, it continues to be more cost effective in the short-term to not borrow and reduce the level of investments held instead, or to borrow short-term loans. However, with long-term rates not forecast to reduce in the near future, any such short-term savings will need to be balanced against potential longer-term costs.

If required, the council may arrange forward starting loans during 2025/26, where the interest rate is fixed in advance, but the cash is received in a later period.

7. Policy on Use of Financial Derivatives

7.1. Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans).

7.2. The Localism Bill 2011 includes a general power competence that removes the uncertain legal position over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The latest CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

7.3. The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

7.4. Derivative counterparties

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

7.5. In reality, whilst the Council is required to include the above policy, the only type of transaction that might be used is the forward deal, which means the Council agrees to borrow funds at a set price for a set period, in advance of the date the loan is actually taken. This is done to ensure the availability of funds at the time that they are needed.

8. Treasury Management Prudential Indicators

8.1. The Council sets each year, in February, prudential indicators for Treasury Management, to ensure that proper control of borrowing and investing is maintained. These indicators have been updated to reflect the requirements in the 2021 Code and can be found in the Council's budget book.

8.2. To support the risk management of the capital financing requirement a graphical indication of the Council's borrowing liability and actual loans as a whole and for the General Fund and HRA is shown in Appendix C to this report.

9. Other Matters

The revised MHCLG Investment Guidance also requires the Council to approve the following matters each year as part of the investment strategy:

9.1. Investment consultants

The Council uses MUFG Corporate Markets as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers. The services received include:

- advice and guidance on relevant policies, strategies and reports,
- advice on investment decisions,
- notification of credit ratings and changes,
- other information on credit quality,
- advice on debt management decisions,
- accounting advice,
- reports on treasury performance,
- forecasts of interest rates, and
- training courses.

The quality of the advisory service is monitored by the Strategic Director Corporate Resources.

9.2. Training

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. A knowledge and skills register for officers and members involved in the treasury management function should be maintained.

Furthermore, the Code states that they expect "all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

The scale and nature of this will depend on the size and complexity of the organisation's treasury management needs. Organisations should consider how to assess whether treasury management staff and board/ council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/council members.
- Require treasury management officers and board/council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis."

In further support of the revised training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management', which is available from the CIPFA website to download.

The Strategic Director Corporate Resources covers treasury management as part of the induction process. The needs of the Council's members and treasury management staff for training in investment management are assessed annually as part of the appraisal process, and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences provided by MUFG Corporate Markets and CIPFA.

A formal record of the training received by officers central to the Treasury function will be maintained by the Section 151 Office. Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained by the Section 151 Office .

9.3. <u>Investment of money borrowed in advance of need</u>

The Council may, from time to time, borrow in advance of spending need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit. The maximum periods between borrowing and expenditure is expected to be two years, although the Council does not link particular loans with particular items of expenditure.

9.4. The Treasury Management Role of the Section 151 Office

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and knowledge and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe (say 20+ years)
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices (as attached in Appendix B) which specifically deal with how non treasury investments will be carried out and managed, to include the following
    - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;

- Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
- Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
- Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;
- Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

10. Investment Reports

10.1. The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. Prudential and treasury indicators and treasury strategy (in budget book) - The first, and most important report is forward looking and covers:

- the capital plans, (including prudential indicators);
- a Minimum Revenue Provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
- an Annual Investment Strategy, (the parameters on how investments are to be managed).

b. A mid-year treasury management report – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c. An annual treasury report – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

d. Quarterly Treasury Management updates – reports on progress and performance are not required to be reported to full Council and are included in the Scrutiny Bulletin.

Scrutiny

The above reports a) to c) are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Executive Committee.

Quarterly reports

In addition to the three major reports detailed above quarterly reports are not required to be reported to Full Council so are circulated in the Councillors' Information Bulletin.

STRATEGIC DIRECTOR – CORPORATE RESOURCES & S151 OFFICER
JANUARY 2025

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TREASURY MANAGEMENT PRACTICES

The Treasury Management Practices (TMP's), set out below, prescribe the manner in which the Council will seek to achieve its Treasury Management policies and objectives.

TMP 1 RISK MANAGEMENT

General Statement

This organisation regards a key objective of its treasury management and other investment activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investment including investment properties.

The responsible officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP 6 Reporting Requirements and Management Information Arrangements. In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

The Council have adopted a Risk Management Policy, whereby a systematic framework and process for managing risk is maintained. The Council's Risk Register is reviewed annually and will encompass any risks associated with Treasury Management activities.

1.1 Credit and Counter-party Risk Management

Credit and counter-party risk is the risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or revenue resources.

This organisation regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP 4 Approved Instruments Methods and Techniques. It also recognises the need to maintain a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements. The policy on use of credit risk analysis is set out in the Treasury Management Strategy and Annual Investment Strategy.

1.1.1. Policy on environmental, social and governance (ESG) considerations

The Council approved a policy on Environmental, Social and Governance investment considerations in December 2024.

1.2 Liquidity Risk Management

This is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's objectives will be thereby compromised.

The Council will ensure it has adequate, though not excessive, cash resources, borrowing arrangements or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its objectives.

This organisation will only **borrow in advance of need** where there is a clear business case for doing so and will only do so for the following reasons: -

- to fund the current capital programme
- to finance future debt maturities, or
- to ensure an adequate level of short-term investments to provide liquidity for the organisation.

1.2.1. Amounts of approved minimum cash balances and short-term investments

The Treasury Management team shall seek to minimise the balance held in the Council's main bank accounts at the close of each working day. Borrowing or lending shall be arranged in order to achieve this aim.

1.2.2. Details of:

a. Standby facilities:-
There is the facility to transfer any unexpected surplus funds to a treasury call account which is available from the Council's main bank. The balance on this account is instantly accessible if the general bank account becomes overdrawn.

b. Bank overdraft arrangements:-
The Council has no agreed overdraft facility within its current banking services contract. Any unauthorised overdraft would be charged at 22.5% over base rate.

c. Short-term borrowing facilities:-
The Council accesses temporary loans through approved brokers on the London money market.

d. Insurance/guarantee facilities:-
There are no specific insurance or guarantee facilities as the above arrangements are regarded as being adequate to cover all unforeseen occurrences.

e. Special payments:-
Advance notice is required to be given to the officer responsible for treasury management for all special payments above £100,000.

1.3 Interest Rate Risk Management

The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs or securing its interest revenues, in accordance with TMP 6 Reporting Requirements and Management Information Arrangements.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

1.4 Exchange Rate Risk Management

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

The Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

1.5 Inflation Risk Management

The organisation will keep under review the sensitivity of its treasury assets and liabilities to inflation and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

1.6 Refinancing Risk Management

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancing, both capital and revenue, and/or that the terms are inconsistent with prevailing market conditions at the time.

The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the money so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable as can reasonably be achieved in the light of market conditions prevailing at the time.

The Council will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above.

1.6.1. Debt/Other Capital Financing, Maturity Profiling, Policies and Practices

The Council will establish through its Prudential and Treasury Indicators the amount of debt maturing in any year/period.

Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous, and the situation will be regularly monitored. The reasons for any rescheduling to take place will include:

a) the generation of cash savings at minimum risk;
b) to reduce the average interest rate;
c) to amend the maturity profile and / or the balance of volatility of the debt portfolio.

Any rescheduling will be reported to the Council in the half year update or year-end report.

1.6.2. Projected Capital Investment Requirements

A three-year plan for capital expenditure will be prepared for the Council. This capital plan will be used to prepare a three-year revenue budget for all forms of financing charges.

In addition, the annual Capital Strategy report will give a longer-term view.

The definition of capital expenditure and long-term liabilities used in the Code will follow recommended accounting practice as per the Code of Practice on Local Authority Accounting.

1.6.3. Policy on Affordability and Revenue Consequences of Capital Financing

In considering the affordability of its capital plans, the Council will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the next three years and the impact these will have on council tax and housing rent levels.

It will also consider affordability in the longer term beyond this three-year period and assess the risks and rewards of significant investments to ensure the long-term financial sustainability of the authority.

1.7 Legal and Regulatory Risk Management

The risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP 1, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and will seek to minimise the risk of these impacting adversely on the organisation.

1.7.1 Monitoring Officer

The Monitoring Officer is the Head of Service - Legal and Democratic Services; the duty of this officer is to ensure that the treasury management activities of the Council are lawful.

1.7.2 Chief Finance Officer

The s.151 Officer is the Strategic Director Corporate Resources; the duty of this officer is to ensure that the financial affairs of the Council are conducted in a prudent manner and to make a report to the Council if there are concerns as to the financial prudence of its actions or its expected financial position.

1.8 Operational risk, including fraud, error and corruption

The risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

The Council will ensure that it has identified the circumstances that may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

The Council will therefore: -

a) Seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.
b) Fully document all its treasury management activities so that there can be no confusion as to what proper procedures are.
c) Staff will not be allowed to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.
d) Records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

1.8.1. Details of Systems and Procedures to be followed

The Scheme of Delegation to Officers sets out the delegation of duties to officers.

All loans and investments are negotiated by the responsible officer or authorised persons.

Loan procedures are defined in the Council's Financial Regulations.

Procedures

- The Council uses Commercial Banking Online (CBO) provided by Lloyds Bank for its electronic banking. Transactions are input by Finance Technicians and authorised by accountants. CBO access rights are arranged by Administrators who are not involved in input or authorisation of transactions.
- CHAPS payments are input by one of the Finance Technicians and authorised by an accountant. CHAPS authorisation will not be requested from the same individual that originally requested the payment.

Investment and borrowing transactions

- A record of all loans and investments is maintained each year.
- A written acknowledgement of each deal is sent promptly to the lending or borrowing institution where transactions are done directly with the organisation.
- Written confirmation is received and checked against the dealer's records for the transaction.
- All transactions placed through brokers are confirmed by a broker note showing details of the loan arranged. Written confirmation is received and checked against the dealer's records for the transaction. Any discrepancies are immediately reported to officer responsible for treasury management for resolution.

Regularity and security

- Lending is only made to institutions on the Approved List of Counterparties.
- A cash flow spreadsheet is updated to include all details of payments and repayments.
- All loans raised and repayments made go directly to and from the bank account of approved counterparties.
- Counterparty limits are set for every institution that the Council invests with.
- Brokers have a list of named officials authorised to agree deals.
- There is a separation of duties in the section between dealers and the checking and authorisation of all deals.
- The Council's bank holds a list of Council officials who are authorised signatories for treasury management transactions.

- Payments can only be authorised by an authorised signatory, the list of signatories having previously been agreed with the current provider of our banking services.
- There is adequate insurance cover for employees involved in loans management and accounting.

Checks

- The bank reconciliation is carried out daily from the bank statement to the financial ledger by a Finance Technician.
- The finance system balances are proved to the balance sheet ledger codes at the end of each month and at the financial year end by a Finance Officer.
- A debt charge/investment income listing is produced every quarter and at year end when a review is undertaken against the budget for interest earnings and debt costs.
- We have complied with the requirements of the Code of Practice on Local Authority Accounting and will account for the fund as Fair Value through Profit or Loss. As a result, all gains and losses and interest (accrued and received) will be taken to the Comprehensive Income and Expenditure Statement.

1.9 Price Risk Management

The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

This organisation will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations.

TMP 2 PERFORMANCE MEASUREMENT

2.1 Evaluation and Review of Treasury Management Decisions

The Council has a number of approaches to evaluating treasury management decisions.

2.1.1 Reviews with our treasury management consultants

The treasury management team holds reviews with our consultants on an ad hoc basis to review the performance of the investment and debt portfolios.

2.1.2 Review reports on treasury management

An Annual Treasury Report is submitted to the Council each year after the close of the financial year. This report contains the following: -

a. Total external debt (gross external borrowing plus other long-term liabilities such as finance leases) and average interest rates at the beginning and close of the financial year compared to the Capital Financing Requirement (CFR)
b. Borrowing strategy for the year compared to actual strategy
c. Details of any decisions to either to defer borrowing or to borrow in advance
d. Comment on the level of internal borrowing throughout the year
e. Assumptions about interest rates
f. Investment strategy for the year compared to actual strategy
g. Explanations for any variances between original borrowing and investment strategies and actual
h. Details of any debt rescheduling done in the year
i. Actual borrowing and investment rates available through the year
j. Identify any investments where specific risks have materialised during the year and report on any financial consequences of that risk; together will details of any remedial action taken. Any short-term borrowing costs incurred to remediate any liquidity problems
k. Details of any review of long-term investments held by the authority undertaken in the year in accordance with the Annual Investment Strategy
l. Compliance with Prudential and Treasury Indicators.

In addition a half yearly report is submitted to Council each year to provide updates on the above, and quarterly reports are included in Scrutiny bulletins.

TMP 3 DECISION-MAKING AND ANALYSIS

3.1 Funding, Borrowing, Lending, and New Instruments/Techniques:

3.1.1 Records to be kept

The Treasury Management team retain the following records: -

- Daily cash balance forecasts
- Money market rates obtained from brokers
- Dealing slips for all money market transactions
- Brokers' confirmations for investment and temporary borrowing transactions
- PWLB loan confirmations
- PWLB debt portfolio schedules.
- Certificates for market loans, local bonds and other loans
- Contract notes received from fund manager(s)
- Fund manager(s) valuation statements.

3.1.2 Procedures to be followed

- Cash flow analysis
- Debt and investment maturity analysis
- Ledger reconciliation
- Review of opportunities for debt restructuring
- Review of borrowing requirement to finance capital expenditure (and other forms of financing where those offer value for money)
- Performance information (e.g., monitoring of actuals against budget for debt charges, interest earned, debt management etc).

3.1.3 Issues to be addressed.

3.1.3.1. In respect of treasury management decisions the Council will:

a) Above all be clear about the nature and extent of the risks to which the Council may become exposed
b) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained
c) Be content that the documentation is adequate both to deliver the Council's objectives and protect the Council's interests
d) Ensure that third parties are judged satisfactory in the context of the Council's creditworthiness policies, and that limits have not been exceeded
e) Be content that the terms of any transactions have been fully checked against the market and have been found to be competitive.

3.1.3.2 In respect of borrowing and other funding decisions, the Council will:

a) consider the ongoing revenue liabilities created, and the implications for the organisation's future plans and budgets to ensure that its capital plans and investment plans are affordable, proportionate to the Council's overall financial capacity, and are within prudent and sustainable levels. This evaluation will be carried out in detail for three budget years ahead.
b) Less detailed evaluation will also be carried out over a longer period of at least 10 years to ensure that plans continue to be affordable, proportionate, prudent and sustainable in the longer term.
c) not borrow to invest primarily for financial return.
d) not borrow earlier than required to meet cash flow needs unless there is a clear business case for doing so.
e) not borrow unless it is to finance the current capital programme or to fund future debt maturities, or to ensure an adequate level of short-term investments to provide liquidity for the Council.
f) increase its CFR and borrowing solely for purposes directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.
g) undertake an annual review of any investments in commercial (debt for yield) schemes with a view to identify whether such assets should be sold to provide resources to finance capital expenditure plans or refinance maturing debt.
h) evaluate the economic and market factors that might influence the manner and timing of any decision to fund.
i) consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships.
j) consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use and, if relevant, the opportunities for foreign currency funding.
k) ensure that treasury management decisions are made in accordance with good professional practice.

3.1.3.3 In respect of investment decisions, the Council will:

a) Consider the optimum period, in the light of cash flow availability and prevailing market conditions;
b) Consider the alternative investment products and techniques available, especially the implications of using any which may expose the Council to changes in the value of its capital;
c) ensure that any long-term treasury investment is supported by a business case.

TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES

4.1 Approved Activities of the Treasury Management Operation

- borrowing;
- lending;
- debt repayment and rescheduling;
- consideration, approval and use of new financial instruments and treasury management techniques;
- managing the underlying risk associated with the Council's capital financing and surplus funds activities;
- managing cash flow;
- banking activities;
- the use of external fund managers (other than Pension Fund)
- leasing.

4.2 Approved Instruments for Investments

These are set out in the Annual Investment Strategy within the Treasury Management Strategy.

4.3 Approved Techniques

- Forward dealing
- LOBOs – lenders option, borrower's option borrowing instrument
- The use of structured products such as callable deposits

4.4 Approved Methods and Sources of Raising Capital Finance

Finance will only be raised in accordance with the Local Government Act 2003, and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

On Balance Sheet	**Fixed**	**Variable**
PWLB	●	●
Municipal bond agency	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Leasing (not operating leases)	●	●
Deferred Purchase	●	●

Other Methods of Financing

- Government and EC Capital Grants
- Lottery monies
- PFI/PPP
- Operating leases

Borrowing will only be done in Sterling. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The responsible officer has delegated powers in accordance with Financial Regulations, Standing Orders, the Scheme of Delegation to Officers Policy and the Treasury Management Strategy to take the most appropriate form of borrowing from the approved sources.

4.5 Investment Limits

The Annual Investment Strategy sets out the limits and the guidelines for use of each type of investment instrument.

4.6 Borrowing Limits

See the Treasury Management Strategy Statement and Prudential and Treasury Indicators.

TMP 5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

5.1 Allocation of responsibilities

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual Treasury Management Strategy, including the Annual Investment Strategy
- approval of the prudential indicators including the annual statement of minimum revenue provision
- approval of Capital Strategy
- approval of amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations

5.2 Principles and Practices Concerning Segregation of Duties

The following duties must be undertaken by separate officers:

Dealing	Negotiation and approval of deal Reconciliation of cash control account Bank reconciliation
Accounting Entry	Processing of accounting entry
Authorisation / Payment of Deal	Input onto system Approval and payment

5.3 Treasury Management Organisation Chart

Head of Service, Finance
↓
Accountancy Services Manager
↓
Capital Lead
↓
Finance Officers
↓
Finance Technicians

5.4 Statement of the treasury management duties and responsibilities

5.4.1. The responsible officer

The responsible officer is the person charged with professional responsibility for the treasury management function and in this Council is the Strategic Director Corporate Resources, the S151 officer. This person will carry out the following duties: -

a) recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
b) submitting regular treasury management policy reports
c) submitting budgets and budget variations
d) receiving and reviewing management information reports
e) reviewing the performance of the treasury management function
f) ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
g) ensuring the adequacy of internal audit, and liaising with external audit
h) recommending the appointment of external service providers.
i) The responsible officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.
j) The responsible officer may delegate his power to borrow and invest to members of his staff. The Capital Lead and Finance Technicians must conduct all dealing transactions, or staff authorised by the responsible officer to act as temporary cover for leave/sickness. All transactions must be authorised by at least two authorised signatories.
k) The responsible officer will ensure that treasury management policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.
l) Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the responsible officer to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations
m) It is also the responsibility of the responsible officer to ensure that the Council complies with the requirements of The UK Money Markets Code (formerly known as the Non-Investment Products Code) for principals and broking firms in the wholesale markets.

5.4.2. The Treasury Management Team

The responsibilities of the team will include: -

a) execution of transactions
b) adherence to agreed policies and practices on a day-to-day basis
c) maintaining relationships with counterparties and external service providers
d) monitoring performance on a day-to-day basis
e) submitting management information reports to the responsible officer
f) identifying and recommending opportunities for improved practices

5.4.3. The Head of the Paid Service – the Chief Executive

The responsibilities of this post will be: -

a) Ensuring that the system is specified and implemented
b) Ensuring that the responsible officer reports regularly to full Council on treasury policy, activity and performance.

5.4.4. The Monitoring Officer – Head of Service - Legal and Democratic Services

The responsibilities of this post will be: -

a) Ensuring compliance by the responsible officer with the treasury management policy statement and treasury management practices and that they comply with the law.
b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.
c) Giving advice to the responsible officer when advice is sought.

5.4.5. Internal Audit

The responsibilities of Internal Audit will be: -

a) Reviewing compliance with approved policy and treasury management practices.
b) Reviewing division of duties and operational practice.
c) Assessing value for money from treasury activities.
d) Undertaking probity audit of treasury function.

5.5 Absence Cover Arrangements

Cover for the Capital Lead is provided by one of the other Accounting Leads. The Treasury Management team is made up of four Finance Technicians who arrange the rota between them and can cover for leave and sickness for each other.

5.6 Dealing Limits

There are no dealing limits for individual posts

5.7 List of Approved Brokers

A list of approved brokers is maintained within the Treasury Team and a record of all transactions recorded against them. See TMP 11.1.2. It is this Council's policy to rotate business between brokers.

5.8 Direct Dealing Practices

The Council will consider dealing directly with counterparties if it is appropriate and the Council believes that better terms will be available. At present deals with other Local Authorities and banks are arranged through brokers. There are certain types of accounts and facilities, however, where direct dealing is required, as follows:-

- Business Reserve Accounts:
- Call Accounts:
- Money Market Funds.

5.9 Arrangements Concerning the Management of Third-Party Funds.

The Council holds a number of trust funds. The cash in respect of these funds is held in the Council's bank account but transactions are separately coded. Interest is given on credit balances at the average rate for internal balances for the year.

TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS

6.1 Annual programme of reporting

a) Annual reporting requirements before the start of the year: -
   - review of the organisation's approved clauses, treasury management policy statement and practices
   - **Treasury Management Strategy report** on proposed treasury management activities for the year comprising of the Treasury Management Strategy Statement and Annual Investment Strategy
   - **Minimum Revenue Provision Policy Statement** included in the Prudential Indicators report
   - **Capital Strategy** to cover the following: -
     i. give a long-term view of the capital programme and treasury management implications thereof beyond the three-year time horizon for detailed planning.
     ii. an overview of treasury and non-treasury investments to highlight the risks and returns involved in each and the balance, (proportionality), between both types of investments.
     iii. The authorities risk appetite and specific policies and arrangements for non-treasury investments
     iv. Schedule of any non-treasury investments

b) Mid-year review
c) Quarterly monitoring
d) Annual review report after the end of the year

6.2 Annual Treasury Management Strategy Statement

1. The Treasury Management Strategy Statement sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to the Executive and then to the full Council for approval before the commencement of each financial year.

2. The formulation of the annual Treasury Management Strategy Statement involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter-term variable interest rates. For instance, this Council may decide to postpone borrowing if fixed interest rates are expected to fall or borrow early if fixed interest rates are expected to rise.

3. The Treasury Management Strategy Statement is concerned with the following elements:
   a) Prudential and Treasury Indicators
   b) current Treasury portfolio position
   c) borrowing requirement
   d) prospects for interest rates
   e) borrowing strategy
   f) policy on borrowing in advance of need
   g) debt rescheduling
   h) investment strategy
   i) creditworthiness policy
   j) policy on the use of external service providers

k) the Minimum Revenue Provision strategy

4. The Treasury Management Strategy Statement will establish the expected move in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable) and highlight sensitivities to different scenarios.

6.3 The Annual Investment Strategy Statement

The Treasury Management Strategy Statement includes the Annual Investment Strategy which will set out the following: -

a) The Council's risk appetite in respect of security, liquidity and optimum performance
b) The definition of high credit quality to determine what are specified investments as distinct from non-specified investments
c) Which specified and non-specified instruments the Council will use
d) The Council's policy on the use of credit ratings and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list
e) Which credit rating agencies the Council will use
f) How the Council will deal with changes in ratings, rating watches and rating outlooks
g) Limits of value and time for individual counterparties and groups
h) Country limits
i) Maximum value and maximum periods for which funds may be prudently invested
j) Levels of cash balances and investments over the same time period (as a minimum) as the authority's capital investment plans and how the use of internal borrowing and borrowing in advance will influence those levels
k) Interest rate outlook
l) Budget for investment earnings
m) A review of the holding of longer-term investments

6.4 The Annual Minimum Revenue Provision Statement

This statement included in the Prudential Indicator report will set out how the Council will make revenue provision for repayment of its borrowing using the four options for so doing and will be submitted at the same time as the Annual Treasury Management Strategy Statement.

6.5 Policy on Prudential and Treasury Indicators

1. The Council approves before the beginning of each financial year a number of treasury limits which are set through Prudential and Treasury Indicators.
2. The responsible officer is responsible for incorporating these limits into the Prudential Indicator report, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the responsible officer shall submit the changes for approval to the full Council.

6.6 Quarterly and mid-year reviews

The Council will review its treasury management activities and strategy on a quarterly and six monthly basis. The mid-year review will go to Full Council. This review will consider the following: -

a) activities undertaken
b) variations (if any) from agreed policies/practices
c) interim performance report
d) regular monitoring
e) variances in investment income and borrowing costs compared with budget
f) monitoring of treasury management and prudential indicators

The quarterly reviews will monitor the treasury management and prudential indicators as part of the authority's general revenue and capital monitoring. These are included in the Scrutiny bulletins.

6.7 Annual Review Report on Treasury Management Activity

An annual report will be presented to the Executive and then to the full Council at the earliest practicable meeting after the end of the financial year, but in any case, by the end of September. This report will include the following: -

a) transactions executed and their revenue effects
b) report on risk implications of decisions taken and transactions executed
c) compliance report on agreed policies and practices, and on statutory/regulatory requirements
d) performance report
e) report on compliance with CIPFA Code recommendations, approved policies and practices, the member approved treasury management strategy and on statutory / regulatory requirements
f) monitoring of treasury management indicators

6.8 Publication of Treasury Management Reports

All of the reports above will be made available to the public on the Council website.

TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS

7.1 Statutory/Regulatory Requirements

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognised by statute as representing proper accounting practices. The Council has also adopted in full the principles set out in CIPFA's 'Treasury Management in the Public Services - Code of Practice' (the 'CIPFA Code'), together with those of its specific recommendations that are relevant to this Council's treasury management activities.

7.2 Sample Budgets / Accounts / Prudential and Treasury Indicators

The Head of Service, Finance will prepare a three-year medium term financial plan with Prudential and Treasury Indicators for treasury management which will incorporate the budget for the forthcoming year and provisional estimates for the following two years. This will bring together all the costs involved in running the function, together with associated income. The Head of Service, Finance will exercise effective controls over this budget and monitoring of performance against Prudential and Treasury Indicators and will report upon and recommend any changes required in accordance with TMP 6.

All treasury management transactions are recorded in the Council's finance system. Money market interest received is reconciled monthly, and PWLB repayments are reconciled quarterly.

7.3 List of Information Requirements of External Auditors

- Reconciliation of loans outstanding in the financial ledger to treasury management records
- Maturity analysis of loans outstanding
- Supporting evidence for any new long-term loans taken out in the year
- Reconciliation of loan interest, discounts received, and premiums paid to financial ledger by loan type
- Calculation of loans fund interest and debt management expenses
- Details of interest rates applied to internal investments
- Calculation of interest on working balances
- Interest accrual calculation
- Analysis of any deferred charges
- Calculation of loans fund creditors and debtors
- Annual Treasury Report
- Treasury Management Strategy Statement
- Prudential and Treasury Indicators
- Review of observance of limits set by Prudential and Treasury Indicators
- Calculation of the Minimum Revenue Provision

7.4 Budget Monitoring Report

Budget monitoring reports are produced for Executive and Full Council. The report is intended to highlight any variances between budgets and spend in order that the Council can assess its financial position. Details of treasury management activities are included within this report.

TMP 8 CASH AND CASH FLOW MANAGEMENT

8.1 Arrangements for Preparing/Submitting Cash Flow Statements

Cash flow projections are prepared annually and updated daily. The annual cash flow projections are prepared from the previous years' cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known.

A debt liability benchmark will be created and monitored on a quarterly basis to inform a long-term view of liquidity requirements.

8.2 Bank Statements Procedures

The Council receives daily bank statements from its bank. All amounts on the statement are checked to source data from Payroll, Creditors etc. A formal bank reconciliation is undertaken on a daily basis by a Finance Technician.

TMP 9 MONEY LAUNDERING

9.1 Proceeds of Crime Act 2002

Money laundering has the objective of concealing the origin of money generated through criminal activity. Legislation has given a higher profile to the need to report suspicions of money laundering. The Proceeds of Crime Act (POCA) 2002 established the main offences relating to money laundering. In summary, these are:

- concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland
- being concerned in an arrangement which a person knows, or suspects facilitates the acquisition, retention, use or control of criminal property
- acquiring, using or possessing criminal property.

These apply to all persons in the UK in a personal and professional capacity. Any person involved in any known or suspected money-laundering activity in the UK risks a criminal conviction. Other offences under the POCA include:

- failure to disclose money-laundering offences
- tipping off a suspect, either directly or indirectly
- doing something that might prejudice an investigation – for example, falsifying a document.

9.2 The Terrorism Act 2000

This act made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism or resulting from acts of terrorism. All individuals and businesses in the UK have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for, terrorism or its laundering, where it relates to information that comes to them in the course of their business or employment.

9.3 The Money Laundering Regulations 2012, 2015 and 2017

Organisations pursuing relevant business (especially those in the financial services industry regulated by the FCA) are required to do the following: -

- identify and assess the risks of money laundering and terrorist financing
- have policies, controls and procedures to mitigate and manage effectively the risks of money laundering and terrorist financing identified through the risk assessments
- appoint a nominated officer
- implement internal reporting procedures
- train relevant staff in the subject
- obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken
- report their suspicions.

9.4 Local authorities

Public service organisations and their staff are subject to the full provisions of the Terrorism Act 2000 and subsequent Terrorism Acts and may commit most of the principal offences under the POCA but are not legally obliged to apply the provisions of the Money Laundering Regulations 2012, 2015 and 2017. However, as responsible public bodies, they should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes. Accordingly, this Council will do the following: -

a) evaluate the prospect of laundered monies being handled by them
b) determine the appropriate safeguards to be put in place
c) require every person engaged in treasury management to make themselves aware of their personal and legal responsibilities for money laundering awareness
d) make all its staff aware of their responsibilities under POCA
e) appoint a member of staff to whom they can report any suspicions. The Money Laundering Reporting Officer is the Head of Service, Finance, or their nominated deputy.
f) in order to ensure compliance is appropriately managed, this Council will require senior management to give appropriate oversight, analysis and assessment of the risks of clients and work/product types, systems for monitoring compliance with procedures and methods of communicating procedures and other information to personnel.
g) The officer responsible for the creation and monitoring the implementation of a corporate anti money laundering policy and procedures is the Money Laundering Reporting Officer and it shall be a requirement that all services and departments implement this corporate policy and procedures.

9.5 Procedures for Establishing Identity / Authenticity of Lenders

It is not a requirement under POCA for local authorities to require identification from every person or organisation it deals with. However, in respect of treasury management transactions, there is a need for due diligence, and this will be effected by following the procedures below.

All loans are obtained from the PWLB, other local authorities or from authorised institutions under the Financial Services and Markets Act 2000. This register can be accessed through the FCA website on www.fca.gov.uk.

When repaying loans, the procedures in 9.6 will be followed to check the bank details of the recipient.

9.6 Methodologies for Identifying Deposit Takers

In the course of its Treasury activities, the Council will only lend money to or invest with those counterparties that are on its approved lending list. These will be local authorities, the PWLB, Bank of England and authorised deposit takers under the Financial Services and Markets Act 2000. The FCA register can be accessed through their website on www.fca.gov.uk).

All transactions will be carried out by BACS or CHAPS for making deposits or repaying loans.

TMP 10 STAFF TRAINING AND QUALIFICATIONS

This organisation recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The responsible officer will recommend and implement the necessary arrangements, including the specification of the expertise, knowledge and skills required by each role or member of staff.

The responsible officer will ensure that Council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The Council operates a Professional Development Review system which identifies the training requirements of individual members of staff engaged on treasury related activities.

Additionally, training may also be provided on the job, and it will be the responsibility of the Head of Service, Finance to ensure that all staff under his / her authority receive the level of training appropriate to their duties. This will also apply to those staff who from time-to-time cover for absences from the treasury management team. Detailed procedure notes are maintained.

10.1 Details of Approved Training Courses

Treasury management staff and members will go on courses provided by our treasury management consultants, CIPFA, money brokers etc.

10.2 Records of Training Received by Treasury Staff

The Head of Service, Finance will maintain records on all staff and the training they receive.

10.3 Statement of Professional Practice (SOPP)

1. Where the Chief Financial Officer is a member of CIPFA, there is a professional need for the CFO to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.

2. Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

10.4 Member training records

Records will be kept of all training in treasury management provided to members.

10.5 Members charged with governance

Members charged with diligence also have a personal responsibility to ensure that they have the appropriate skills and training for their role.

TMP 11 USE OF EXTERNAL SERVICE PROVIDERS

11.1 Details of Contracts with Service Providers, Including Bankers, Brokers, Consultants, Advisers

ECC will employ the services of other organisations to assist it in the field of treasury management. In particular, it will use external consultants to provide specialist advice in this ever more complex area. However, it will ensure that it fully understands what services are being provided and that they meet the needs of this organisation, especially in terms of being objective and free from conflicts of interest.

It will also ensure that the skills of the in-house treasury management team are maintained to a high enough level whereby they can provide appropriate challenge to external advice and can avoid undue reliance on such advice.

Treasury management staff and their senior management will therefore be required to allocate appropriate levels of time to using the following sources of information so that they are able to develop suitable levels of understanding to carry out their duties, especially in challenge and avoiding undue reliance.

- The quality financial press
- Market data
- Information on government support for banks and
- The credit ratings of that government support

11.1.1 Banking Services

a) Name of supplier of service is Lloyds Bank.
b) Regulatory status – banking institution authorised to undertake banking activities by the FCA
c) The Contract commenced 2024 and runs for 7 years with the option to extend for 3 further years.
d) Cost of service is variable depending on schedule of tariffs and volumes

11.1.2 Money-Broking Services

The Council will use money brokers for temporary borrowing and investment and long-term borrowing. It will seek to give an even spread of business amongst the approved brokers.
Name of brokers: Tradition (UK) Ltd and Martin Brokers

11.1.3 Consultants'/Advisers' Services

Treasury Consultancy Services
The Council will seek to take expert advice on interest rate forecasts, annual treasury management strategy, timing for borrowing and lending, debt rescheduling, use of various borrowing and investment instruments, how to select credit worthy counterparties to put on its approved lending list etc.

a) Name of supplier of service is MUFG Corporate Markets (formerly Link Group, Treasury solutions).
b) Regulatory status: investment adviser authorised by the FCA

c) Contract commenced 1st January 2024 and runs for three years with an option to extend for a further two years.

11.1.4 Credit Rating Agency

The Council receives a credit rating service through its treasury management consultants, the costs of which is included in the consultant's annual fee.

TMP 12 CORPORATE GOVERNANCE

12.1.1 List of Documents to be Made Available for Public Inspection

a. The Council is committed to the principle of openness and transparency in its treasury management function and in all its functions.

b. It has adopted the CIPFA Code of Practice on Treasury Management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code.

c. The following documents are available for public inspection: -

- Treasury Management Strategy Statement (including the Annual Investment Strategy)
- Prudential Indicators (including the Minimum Revenue provision policy statement)
- Annual Treasury Review Report
- Treasury Management monitoring reports (e.g. half yearly, quarterly)
- Annual accounts and financial instruments disclosure notes
- Annual budget
- Capital Programme
- Capital Strategy
- Minutes of Council / Executive / committee meetings
- Schedule of all external funds managed by the Council on behalf of others and the basis of attributing interest earned and costs of these investments.

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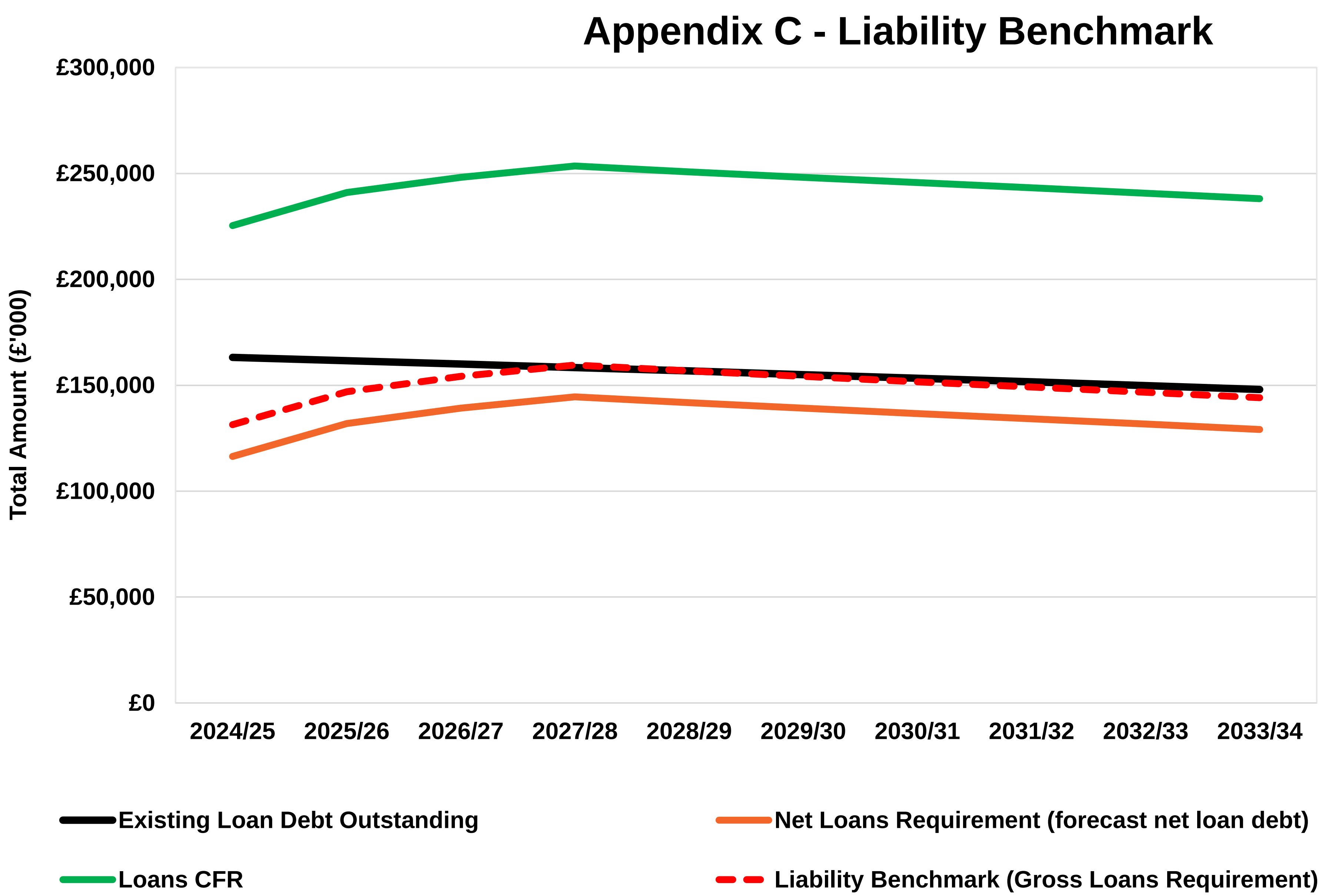
Appendix C - Liability Benchmark
£300,000
£250,000
£200,000
£150,000
£100,000
£50,000
£0
Total Amount (£'000)
2024/25
2025/26
2026/27
2027/28
2028/29
2029/30
2030/31
2031/32
2032/33
2033/34
Existing Loan Debt Outstanding
Net Loans Requirement (forecast net loan debt)
Loans CFR
Liability Benchmark (Gross Loans Requirement)

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REPORT TO EXECUTIVE

Date of Meeting: 4 February 2025

REPORT TO COUNCIL

Date of Meeting: 25 February 2025

Report of: Strategic Director – Corporate Resources & s151 Officer

Title: The Prudential Code for Capital Finance in Local Authorities (Incorporating the Annual Statement of Minimum Revenue Provision)

Is this a Key Decision?

No

Is this an Executive or Council Function?

Council

1. What is the report about?

1.1 To set out the proposed 2025/26 Prudential Indicators for capital finance for adoption by the Council and set the annual statement of Minimum Revenue Provision (MRP).

2. Recommendations:

2.1 That Executive recommends that Council approves the adoption of:

1) the Prudential Indicators set out in Appendices A-C; and
2) the Annual Statement of Minimum Revenue Provision for the Council

3. Reasons for the recommendation:

3.1 With effect from 1 April 2004, the Government abolished the capital finance legislation in Part 4 of the Local Government and Housing Act 1989 and the Local Authorities (Capital Finance) Regulations 1997 (Statutory Instrument 1997/319) and replaced it with a new prudential system based on self-regulation. This means that Councils are free to borrow for capital investment where the borrowing is affordable.

The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended require Full Council to approve an Annual Statement of Minimum Revenue Provision which is the amount set aside from revenue for the repayment of debt principal relating to the General Fund only. The Housing Revenue Account remains exempt from making MRP although it can make voluntary set asides if it wishes.

The Prudential Indicators / MRP report will be incorporated within the Budget Book for approval at the full Council meeting as per the statutory requirement.

4. What are the resource implications including non financial resources?

4.1 The financial resources required are set out in the body of this report.

5. Section 151 Officer comments:

5.1 These indicators reflect the impact on the revenue accounts of capital expenditure in both the General Fund and Housing as well as the impact across the Council as a whole. Members should pay particular attention to the Capital Financing Requirement (our underlying need to borrow), the Operational Boundary and the Authorised Limit (the maximum we can legally borrow).

6. What are the legal aspects?

6.1 With effect from 1 April 2004, the Government abolished the capital finance legislation in Part 4 of the Local Government and Housing Act 1989 and the Local Authorities (Capital Finance) Regulations 1997 (Statutory Instrument 1997/319) and replaced it with a new prudential system based on self-regulation. More detailed information is set out in paragraph 3 above.

7. Monitoring Officer's comments:

7.1 This report raises no issues for the Monitoring Officer.

8. Report details:

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

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

This Authority has to have regard to the CIPFA Prudential and Treasury Management Codes of Practice as updated in 2021 when preparing this report and the Treasury Management Strategy Statement which includes the Annual Investment Strategy.

8.2 **Key issues to consider**

Appendix C summarises the Prudential Code indicators for the Council and of particular importance are:

- The <u>Capital Financing Requirement</u> - demonstrates the amount that the Council has an underlying need to borrow, regardless of whether that amount has actually been borrowed.
- The <u>Operational Boundary</u> - this sets the amount of borrowing that the Council intends to keep within over the period covered by the indicators.
- The <u>Authorised Limit</u> - the maximum that the Section 151 Officer is allowed to borrow to cover the Operational Boundary and day to day cash flow needs. The Council is not allowed to exceed this amount of borrowing without first authorising an increase to the limit.

8.3 **Lifting of the HRA Borrowing Cap**

Since April 2012, each local authority had a limit on the amount of borrowing it could have for the purposes of the HRA, called the ‘debt cap’. For Exeter City Council, the debt cap was £57,882,413.

The HRA debt cap was formally removed on 29 October 2018, as a result local authorities are now able to borrow for housebuilding in accordance with the Prudential Code.

The HRA have borrowed an additional £15.3m for the development of new sites since the debt cap was lifted. Further sites are being identified for the development of new council housing in order to make use of this new flexibility and to contribute to local housing delivery and further investigations by officers for further new sites are ongoing. However, given the current borrowing costs and pressures on the HRA budget there is no provision in the current MTFP for new housing other than Vaughan Road Phase A.

8.4 **Capital Financing Requirement**

Within the range of prudential indicators there are a number of 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 CFR in the preceding year plus the estimates of any additional CFR for 2025/26 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.

The implementation of International Financial Reporting Standard 16 has resulted in more leases constituting capital expenditure. These assets will be accounted for in the same way as if they had been acquired and will increase the Capital Financing Requirement. It is important that the Council does not enter into any unauthorised leases or this may result in breaching the authorised limit.

The Strategic Director – Corporate Resources and s151 Officer reports that the Council complied with this Prudential Indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

8.5 **ANNUAL STATEMENT OF MINIMUM REVENUE PROVISION**

The Regulations require that "a local authority shall determine for the current financial year an amount of minimum revenue provision which it considers to be prudent".

Minimum Revenue Provision (MRP) is an amount set aside from revenue to meet the repayment of debt principal. It is in effect a replacement for depreciation that you would normally expect to see within a Company’s Accounts. Under the old Regulations this was 4% of principal outstanding for the General Fund and no requirement to set aside MRP in the Housing Revenue Account. In local government accounting depreciation is charged and then reversed out so it does not affect the level of Council Tax, however MRP is charged to the General Fund and therefore does affect levels of Council Tax.

The Secretary of State for Communities and Local Government has issued guidance under section 21(1A) of the Local Government Act 2003. This states that "the broad aim of prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of the grant."

The guidance notes detail five options which the Secretary of State considers prudent. These are described in section 10 below:

a) Regulatory Method;
b) Capital Financing Requirement Method;
c) Asset Life (Equal Instalment) Method;
d) Asset Life (Annuity) Method; and
e) Depreciation Method

8.6 **Key issue to consider**

Section 8.7 sets out the proposed policy for MRP, which matches the amount set aside against the useful life of the assets. The only exception to this is the writing off of historic debt which is being undertaken over 50 years.

8.7 **MRP OPTIONS**

Regulatory Method

MRP is equal to the amount determined in accordance with the former regulations 28 and 29 of the 2003 Regulations as if they had not been revoked. In effect this is 4% of the debt principal outstanding.

Capital Financing Requirement Method

MRP is equal to 4% of the non-housing Capital Financing Requirement, which is a Prudential Indicator.

Asset Life (Equal Instalment) Method

Where capital expenditure on an asset is financed wholly or partly by borrowing then MRP is determined by reference to the life of the asset and an equal amount charged in each year.

Asset Life (Annuity) Method

MRP is the principal element for the year of the annuity required to repay over the asset life the amount of capital expenditure financed by borrowing.

Depreciation Method

MRP is equal to the provision required in accordance with depreciation accounting in respect of the asset, including any amount of impairment chargeable to the Income and Expenditure Account. As standard depreciation rules are used where an asset is part financed by loan, e.g. 50% loan, 50% Capital Receipt, then the full 100% depreciation charge on the asset is required to be charged as MRP. MRP is required to be charged annually until the cumulative amount of the provision is equal to the original expenditure financed by borrowing. Should the asset be disposed of then the charge needs to continue as if the asset had not been disposed of unless the debt is repaid.

8.8 **MINIMUM REVENUE PROVISION POLICY 2025/26**

The Council's MRP policy is to match borrowing against specific capital investment and adopt either the Asset Life (Equal Instalment) or the Asset Life (Annuity) method for MRP. In this way the funding for the asset will be paid off over the useful life of that asset. This will ensure that loans are repaid over the asset life thus freeing financial resources for investment in other schemes or in asset renewal. They are also simple to operate and gives certainty in each year as to the level of charge for principal.

The other advantage is that it makes business cases and scheme appraisals easier to compile. As a general rule the Council will seek to borrow over the same period of the asset life up to a maximum of 50 years in line with the Regulations. The total capital financing requirement at the end of 2024/25 is likely to be approximately £225.381 million. The MRP for 2025/26 will be calculated based on the capital financing requirement at the end of 2024/25 using the varying periods of repayment. The MRP charge for 2025/26 will be approximately £2.702 million (including £63k in respect of leases under IFRS 16). For the avoidance of doubt, it is proposed to use both options from 2016/17 onwards, depending on the asset being financed. However, unless there is a good reason, for not doing so, all borrowing will adopt the Asset Life (Annuity) method.

8.9 **MRP Overpayments**

A change introduced by the revised MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision (VRP) or overpayments, can, if needed, be reclaimed in future years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. There are currently no VRP overpayments available to be used.

8.10 **Capital Financing Requirement**

Within the range of prudential indicators there are a number of 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 CFR in the preceding year plus the estimates of any additional CFR for 2025/26 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.

Where the authority has acquired assets under leases, an MRP charge will be made for the amount by which the liabilities recognised for rents due over the remaining terms of the leases have been reduced by payments of rent in the financial year. The overall impact of this policy is that the annual charge against the General Fund balance for leases will be the rents payable for each financial year.

The Strategic Director – Corporate Resources and s151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

9. How does the decision contribute to the Council's Corporate Plan?

9.1 The Capital Programme contributes to all of the key purposes, as set out in the Corporate Plan.

10. What risks are there and how can they be reduced?

10.1 Areas of budgetary risk are highlighted to committee as part of the quarterly budget monitoring updates.

11. Equality Act 2010 (The Act)

11.1 Under the Act's Public Sector Equalities Duty, decision makers are required to consider the need to:

- eliminate discrimination, harassment, victimisation, and any other prohibited conduct;
- advance equality by encouraging participation, removing disadvantage, taking account of disabilities and meeting people's needs; and
- foster good relations between people by tackling prejudice and promoting understanding.

11.2 In order to comply with the general duty authorities must assess the impact on equality of decisions, policies, and practices. These duties do not prevent the authority from reducing services where necessary, but they offer a way of developing proposals that consider the impacts on all members of the community.

11.3 In making decisions the authority must take into account the potential impact of that decision in relation to age, disability, race/ethnicity (includes Gypsies and Travellers), sex and gender, gender identity, religion and belief, sexual orientation, pregnant women and new and breastfeeding mothers, marriage, and civil partnership status in coming to a decision.

11.4 In recommending this proposal no potential impact has been identified on people with protected characteristics as determined by the Act because the report is for information only

12. Carbon Footprint (Environmental) Implications:

12.1 No direct carbon/environmental impacts arising from the recommendations.

13. Are there any other options?

13.1 No

Strategic Director Corporate Resources & S151 Officer, David Hodgson

Author: Claire Hodgson – Finance Manager – Corporate

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

None

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APPENDIX A

General Fund Prudential Indicator Calculations

The purpose of the prudential indicators is to demonstrate that the Council's financial plans meet the statutory requirement to be affordable, prudent and sustainable.

General Fund Capital Expenditure

The prudential indicator for capital expenditure should be based upon a capital programme that takes into account the Council's asset management and capital investment strategies.

Director	2023/24 Actual £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Operations	2,251	7,517	27,148	6,323	2,216
Corporate	175	245	11,347	0	0
People & Communities	2,261	2,735	1,104	1,014	1,014
Place	888	1,294	2,277	100	100
Total General Fund Capital Expenditure	**5,575**	**11,791**	**41,876**	**7,437**	**3,330**

General Fund Financing costs

The figures for the actual financing costs will be taken from the Council's financial statements using the definition of financing costs specified in the Prudential Code. Estimates for the current and future years should be calculated in a manner consistent with this definition.

Description	2023/24 Actual £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Interest payable with respect to short term borrowing	1,574	1,006	1,315	1,310	1,260
Interest payable under 'irredeemable' long term liabilities	1,848	1,829	1,824	1,811	1,795
Interest and investment income	(2,885)	(1,929)	(1,664)	(1,564)	(1,464)
Replacement for Minimum Revenue Provision (England and Wales)	2,465	2,426	2,702	2,803	2,630
Voluntary contribution to financing costs in respect of short-life assets	97	(700)	0	0	0
Total General Fund Financing Costs	**3,099**	**2,632**	**4,177**	**4,360**	**4,221**

General Fund Estimates of the ratio of financing costs to net revenue stream

The net revenue stream is the estimate of the amounts to be met from government grants and local taxpayers. An important theme of the Code is transparency. For this reason the authority's calculation of the net revenue stream should be consistent with the figure that can be identified in the Income and Expenditure Account for 'Net Operating Expenditure'.

Description	2023/24 Actual £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Financing costs	3,099	2,632	4,177	4,360	4,221
Net revenue stream	16,001	17,884	19,681	16,444	16,885
Ratio of financing costs to net revenue stream %	**19.4%**	**14.7%**	**21.2%**	**26.5%**	**25.0%**

General Fund Capital Financing Requirement

The Capital Financing Requirement will reflect the Council's underlying need to finance capital expenditure.

Actual General Fund Capital Financing Requirement at 31 March 2024

	£'000
Property, Plant and Equipment	190,873
Investment Properties	71,516
Heritage Assets	22,743
Intangible Assets / Other Long term Assets	3,758
Revaluation Reserve	(85,780)
Capital Adjustment Account	(54,545)
General Fund Capital Financing Requirement 31 March 2024	**148,565**

Estimated General Fund Capital Financing Requirement at 31 March 2025

Estimate of General Fund Capital Financing Requirement 31 March 2024	148,565
Estimate of change in Property, Plant and Equipment	11,791
Estimate of change in Investment Properties	0
Estimate of change in Intangible Assets / Other Long term Assets	0
Estimate of change in Revaluation Reserve	0
Estimate of change in Capital Adjustment Account	(8,967)
Estimate of General Fund Capital Financing Requirement 31 March 2025	**151,389**

Estimated General Fund Capital Financing Requirement at 31 March 2026

Estimate of General Fund Capital Financing Requirement 31 March 2025	151,389
Estimate of change in Property, Plant and Equipment	41,876
Estimate of change in Investment Properties	0
Estimate of change in Intangible Assets / Other Long term Assets	0
Estimate of change in Revaluation Reserve	0
Estimate of change in Capital Adjustment Account	(32,578)
Estimate of General Fund Capital Financing Requirement 31 March 2026	**160,687**

Estimated General Fund Capital Financing Requirement at 31 March 2027

Estimate of General Fund Capital Financing Requirement 31 March 2026	160,687
Estimate of change in Property, Plant and Equipment	7,437
Estimate of change in Investment Properties	0
Estimate of change in Intangible Assets / Other Long term Assets	0
Estimate of change in Revaluation Reserve	0
Estimate of change in Capital Adjustment Account	(241)
Estimate of General Fund Capital Financing Requirement 31 March 2027	**167,883**

Estimated General Fund Capital Financing Requirement at 31 March 2028

Estimate of General Fund Capital Financing Requirement 31 March 2027	167,883
Estimate of change in Property, Plant and Equipment	3,330
Estimate of change in Investment Properties	0
Estimate of change in Intangible Assets / Other Long term Assets	0
Estimate of change in Revaluation Reserve	0
Estimate of change in Capital Adjustment Account	2,040
Estimate of General Fund Capital Financing Requirement 31 March 2028	**173,253**

APPENDIX B

HRA Prudential Indicator Calculations

Local authorities that have a Housing Revenue Account (HRA) are required to prepare separate calculations for their HRA and non-HRA elements.

HRA Capital Expenditure

The prudential indicator for capital expenditure should be based upon a capital programme that takes into account the Council's asset management and capital investment strategies.

Description	2023/24 Actual £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
INVESTING IN EXISTING STOCK	10,292	14,939	14,731	10,093	7,087
PROVISION OF NEW COUNCIL HOMES	13,513	7,736	1,613	0	0
Total HRA Capital Expenditure	**23,805**	**22,675**	**16,344**	**10,093**	**7,087**

HRA Financing costs

Description	2023/24 Actual £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Interest payable with respect to short term borrowing	0	0	0	0	0
Interest payable under 'irredeemable' long term liabilities	2,181	2,181	2,544	2,544	2,544
Interest and investment income	(1,520)	(909)	(788)	(783)	(734)
Voluntary Revenue Provision (England and Wales)	0	0	0	0	0
Voluntary contribution to financing costs in respect of short-life assets	0	0	0	0	0
Total HRA Financing Costs	**661**	**1,272**	**1,756**	**1,761**	**1,810**

HRA Estimates of the ratio of financing costs to net revenue stream

For the Housing Revenue Account the net revenue stream, for the purposes of the Code, is the amount to be met from rent income.

Description	2023/24 Actual £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Financing costs	661	1,272	1,756	1,761	1,810
Net revenue stream	20,696	21,239	21,876	22,532	23,208
Ratio of financing costs to net revenue stream % Negative for a debt free authority	**3.2%**	**6.0%**	**8.0%**	**7.8%**	**7.8%**

HRA Capital Financing Requirement

The Capital Financing Requirement will reflect the Council's underlying need to finance capital expenditure.

Actual HRA Capital Financing Requirement at 31 March 2024

Description	£'000
Property, Plant and Equipment	314,009
Investment Properties	0
Intangible Assets / Other Long term Assets	0
Revaluation Reserve	75,015
Capital Adjustment Account	(315,032)
Actual HRA Capital Financing Requirement 31 March 2024	**73,992**

Estimated HRA Capital Financing Requirement at 31 March 2025

Estimate of HRA Capital Financing Requirement 31 March 2024	73,992
Estimate of change in Property, Plant and Equipment	22,675
Estimate of change in Investment Properties	0
Estimate of change in Intangible Assets / Other Long term Assets	0
Estimate of change in Revaluation Reserve	0
Estimate of change in Capital Adjustment Account	(16,397)
Estimate of HRA Capital Financing Requirement 31 March 2025	**80,270**

Estimated HRA Capital Financing Requirement at 31 March 2026

Estimate of HRA Capital Financing Requirement 31 March 2025	80,270
Estimate of change in Property, Plant and Equipment	16,344
Estimate of change in Investment Properties	0
Estimate of change in Intangible Assets / Other Long term Assets	0
Estimate of change in Revaluation Reserve	0
Estimate of change in Capital Adjustment Account	(16,344)
Estimate of HRA Capital Financing Requirement 31 March 2026	**80,270**

Estimated HRA Capital Financing Requirement at 31 March 2027

Estimate of HRA Capital Financing Requirement 31 March 2026	80,270
Estimate of change in Property, Plant and Equipment	10,093
Estimate of change in Investment Properties	0
Estimate of change in Intangible Assets / Other Long term Assets	0
Estimate of change in Revaluation Reserve	0
Estimate of change in Capital Adjustment Account	(10,093)
Estimate of HRA Capital Financing Requirement 31 March 2027	**80,270**

Estimated HRA Capital Financing Requirement at 31 March 2028

Estimate of HRA Capital Financing Requirement 31 March 2027	80,270
Estimate of change in Property, Plant and Equipment	7,087
Estimate of change in Investment Properties	0
Estimate of change in Intangible Assets / Other Long term Assets	0
Estimate of change in Revaluation Reserve	0
Estimate of change in Capital Adjustment Account	(7,087)
Estimate of HRA Capital Financing Requirement 31 March 2028	**80,270**

Limit on indebtedness

The HRA borrowing cap was limited to £57,882k, but the cap was formally removed on 29 October 2018 so Local Authorities can now borrow for housebuilding.

Prudential Indicator Calculations

PRUDENTIAL INDICATORS OF AFFORDABILITY

Total Actual / Estimates of Capital Expenditure

The prudential indicator for capital expenditure should be based upon a capital programme that takes into account the Council's asset management and capital investment strategies.

Description	2023/24 Actual £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Total General Fund Capital Expenditure	5,575	11,791	41,876	7,437	3,330
Total HRA Capital Expenditure	23,805	22,675	16,344	10,093	7,087
Total Actual / Estimates of Capital Expenditure	**29,380**	**34,466**	**58,220**	**17,530**	**10,417**

Total Actual / Estimates of Financing Costs

Description	2023/24 Actual £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Total General Fund Financing Costs	3,099	2,632	4,177	4,360	4,221
Total HRA Financing Costs	661	1,272	1,756	1,761	1,810
Total Actual / Estimates of Financing Costs	**3,760**	**3,904**	**5,933**	**6,121**	**6,031**

Actual / Estimates of Ratio of Financing Costs to Net Revenue Stream

The net revenue stream is the estimate of the amounts to be met from government grants and local taxpayers, and for the Housing Revenue Account, is the estimate of the amounts to be met from rent income.

Description	2023/24 Actual £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
General Fund Ratio of Financing Costs to Net Revenue Stream	0.2	0.1	0.2	0.3	0.2
HRA Ratio of Financing Costs to Net Revenue Stream	3.2	6.0	8.0	7.8	7.8

APPENDIX C

Prudential Indicator Calculations

The estimates of financing costs include current commitments and the proposals in this budget report.

Actual / Estimates of Capital Financing Requirement

The Capital Financing Requirement will reflect the Council's underlying need to finance capital expenditure.

Description	2023/24 Actual £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
General Fund Capital Financing Requirement	148,565	151,389	160,687	167,883	173,253
HRA Capital Financing Requirement	73,992	80,270	80,270	80,270	80,270
Total Actual / Estimates of Capital Financing Requirement	**222,557**	**231,659**	**240,957**	**248,153**	**253,523**

Authorised Limit

In England and Wales the prudential indicator for the Authorised Limit for external debt for the current year is the statutory limit determined under Section 3 (1) of the Local Government Act 2003: 'A local authority shall determine and keep under review how much money it can afford to borrow'

The Authorised Limit should not be set so high that it would never in any possible circumstances be breached. It should reflect a level of borrowing which, while not desired, could be afforded but may not be sustainable. The Authorised Limit must therefore be set to establish the outer boundary of the Council's borrowing, based on a realistic assessment of the risks.

Description	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Borrowing	305,000	305,000	305,000
Other long term liabilities	7,000	7,000	7,000
Authorised Limit	**312,000**	**312,000**	**312,000**

Prudential Indicator Calculations

Operational Boundary

The Operational Boundary is the focus of day-to-day treasury management activity within the authority. It is a means by which the authority manages its external debt to ensure that it remains within the self-imposed Authorised Limit. The Operational Boundary may be breached temporarily on occasions due to variations in cashflow. However, a sustained or regular trend above the Operational Boundary would be significant and should lead to further investigation.

Description	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Borrowing	285,000	285,000	285,000
Other long term liabilities	5,000	5,000	5,000
Operational Boundary	**290,000**	**290,000**	**290,000**

The Authorised Limit and the Operational Boundary have been increased to include capacity to enable the esatablishment of a HRA development programme following removal of the debt cap.

Actual External Debt

The prudential indicator for actual external debt will not be directly comparable to the authorised limit and operational boundary, since the actual external debt will reflect the actual position at one point in time.

Description	2023/24 Actual £'000	To be repaid	
		within 12 months	after 12 months
Actual borrowing as at 31 March 2023	165,155	1,564	163,591
Actual long term liabilities as at 31 March 2023	3,227	870	2,357
Actual External Debt as at 31 March 2023	**168,382**	**2,434**	**165,948**

APPENDIX C

Prudential Indicator Calculations
PRUDENTIAL INDICATORS OF PRUDENCE

Gross Debt and Capital Financing Requirement

The Code makes it necessary, if a financial strategy is to be prudent, that it is one in which in the medium term gross debt is only used for capital purposes. In the Code this requirement is to be demonstrated through a comparison of gross debt with the Capital Financing Requirement.

Description	£'000
Total Capital Financing Requirement at 31 March 2024	**222,557**

2024/25 Estimated Change in Capital Financing Requirement	
Capital expenditure	34,466
Application of useable capital receipts	(7,452)
Application of capital grants/contributions	(21,714)
The replacement for MRP	(2,426)
Additional voluntary contributions	700
Total Estimated Change in Capital Financing Requirement 2024/25	**3,574**

2025/26 Estimated Change in Capital Financing Requirement	
Capital expenditure	58,220
Application of useable capital receipts	(3,573)
Application of capital grants/contributions	(36,369)
The replacement for MRP	(2,702)
Additional voluntary contributions	0
Total Estimated Change in Capital Financing Requirement 2025/26	**15,576**

Prudential Indicator Calculations

2026/27 Estimated Change in Capital Financing Requirement	
Capital expenditure	17,530
Application of useable capital receipts	(2,630)
Application of capital grants/contributions	(4,900)
The replacement for MRP	(2,803)
Additional voluntary contributions	0
Total Estimated Change in Capital Financing Requirement 2026/27	**7,197**

Capital Financing Requirement:	
Opening Balance 2023/24	222,557
Estimated Closing Balance 2026/27	248,904
This is an increase over the three years of	26,347

Operational Boundaries to Exposure to Interest Rate Risks

Interest rate risk management is a top priority for local authority management. The setting of upper limits has the effect of setting ranges within which the Council will limit its exposure to both fixed and variable interest rate movements.

Description	2024/25 £'000	2025/26 £'000	2026/27 £'000
Total projected interest payable on borrowing	5,683	5,665	5,599
Total projected interest receivable on investments	(2,452)	(2,347)	(2,198)
Net Interest	**3,231**	**3,318**	**3,401**

Description	Upper Limit
Upper limit - fixed rates = 100%	100%
Upper limit - variable rates = 20%	20%

This means that the Chief Finance Officer will manage fixed interest rate exposure within the range 0% to 100% and variable interest rate exposure within the range 0% to 20%

APPENDIX C

Prudential Indicator Calculations

Operational Boundary to the Exposure Inherent in the Maturity Structure of Borrowings

This indicator is designed to be a control over the Council having a large concentration of fixed rate debt needing to be replaced at times of uncertainty over interest rates. The indicator is, in effect, a limit on longer term interest rate exposure and is set for the forthcoming year.

The analysis of borrowing by maturity used in the Code uses the same periods as that required in the local authority SORP.

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate.

Period	Upper Limit	Lower Limit	Estimated debt maturity %		
			2024/25	2025/26	2026/27
Under 12 months	100%	0%		5%	5%
12 months and within 24 months	20%	0%			
24 months and within 5 years	20%	0%			
5 years and within 10 years	20%	0%			
10 years and above	100%	0%	100%	95%	95%

Investments

Description	At 31/3/2024 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Long-term investments	5,462	5,000	5,000	5,000
Short-term investments	5,067	10,000	10,000	10,000
Cash and cash equivalents	22,690	33,000	25,000	20,000
Total Investments	**33,219**	**48,000**	**40,000**	**35,000**

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