

Agenda

Scrutiny Management Board

Date: **Tuesday 16 January 2024**

Time: **2.00 pm**

Place: **Herefordshire Council Offices, Plough Lane, Hereford,
HR4 0LE**

Notes: Please note the time, date and venue of the meeting.

For any further information please contact:

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If you would like help to understand this document, or would like it in another format, please call Danial Webb, Statutory Scrutiny Officer on 01432 260659 or e-mail Danial.Webb@herefordshire.gov.uk in advance of the meeting.

Agenda for the meeting of the Scrutiny Management Board

Membership

Chairperson **Councillor Liz Harvey**
Vice-chairperson **Councillor Jenny Bartlett**

Councillor Bruce Baker
Councillor Ellie Chowns
Councillor Simeon Cole
Councillor Frank Cornthwaite
Councillor Pauline Crockett
Councillor Toni Fagan
Councillor Peter Hamblin
Councillor Terry James
Councillor Bob Matthews
Councillor Rob Owens
Councillor Louis Stark
Councillor Richard Thomas
Councillor Rob Williams

Agenda

		Pages
1.	<p>APOLOGIES FOR ABSENCE</p> <p>To receive apologies for absence.</p>	
2.	<p>NAMED SUBSTITUTES</p> <p>To receive details of councillors nominated to attend the meeting in place of a member of the board.</p>	
3.	<p>DECLARATIONS OF INTEREST</p> <p>To receive declarations of interests in respect from members of the board in respect of items on the agenda.</p>	
4.	<p>MINUTES</p> <p>The minutes of the meeting held on 10 January 2024 will be submitted to the next scheduled meeting for approval.</p> <p>HOW TO SUBMIT QUESTIONS</p> <p>The deadline for the submission of questions for this meeting is Thursday 11 January 2024 at 9.30 am.</p> <p>Questions must be submitted to councillorservices@herefordshire.gov.uk. Questions sent to any other address may not be accepted.</p> <p>Accepted questions and the responses will be published as a supplement to the agenda papers prior to the meeting. Further information and guidance is available at www.herefordshire.gov.uk/getinvolved</p>	
5.	<p>QUESTIONS FROM MEMBERS OF THE PUBLIC</p> <p>To receive any written questions from members of the public.</p>	
6.	<p>QUESTIONS FROM COUNCILLORS</p> <p>To receive any written questions from councillors.</p>	
7.	<p>2024/25 DRAFT BUDGET - REVENUE</p> <p>Further to the report '2024/25 Draft Budget - Revenue' to be considered by Scrutiny Management Board on 10 January 2024 (link to the agenda), the purpose of this item is to seek the views of the Scrutiny Management Board on the budget proposals for 2024/25 in relation to:</p> <ul style="list-style-type: none"> • Medium Term Financial Strategy 2024/25 to 2027/28 <i>[to follow]</i> • Treasury Management Strategy 2024/25 <i>[attached]</i> • Earmarked Reserves and General Fund Balance forecasts to 31 March 2024 <i>[to follow]</i> 	9 - 36
8.	<p>CHILDREN AND YOUNG PEOPLE DIRECTORATE BUDGET TASK AND FINISH GROUP</p> <p>This report provides Scrutiny Management Board with the findings and recommendations of the board's task and finish group tasked with scrutinising the current expenditure and future budget of the children and young people directorate.</p>	To Follow

9. DATE OF THE NEXT MEETING

The date of the next scheduled meeting: [Tuesday 19 March 2024 2.00 pm](#)

The public's rights to information and attendance at meetings

In view of the continued prevalence of Covid, we have introduced changes to our usual procedures for accessing public meetings. These will help to keep our councillors, staff and members of the public safe.

Please take time to read the latest guidance on the council website by following the link at www.herefordshire.gov.uk/meetings and support us in promoting a safe environment for everyone. If you have any queries please contact the governance support team on 01432 261699 or at governancesupportteam@herefordshire.gov.uk

We will review and update this guidance in line with Government advice and restrictions.

Thank you for your help in keeping Herefordshire Council meetings safe.

You have a right to:

- Attend all council, cabinet, committee and sub-committee meetings unless the business to be transacted would disclose 'confidential' or 'exempt' information.
- Inspect agenda and public reports at least five clear days before the date of the meeting. Agenda and reports (relating to items to be considered in public) are available at www.herefordshire.gov.uk/meetings
- Inspect minutes of the council and all committees and sub-committees and written statements of decisions taken by the cabinet or individual cabinet members for up to six years following a meeting.
- Inspect background papers used in the preparation of public reports for a period of up to four years from the date of the meeting (a list of the background papers to a report is given at the end of each report). A background paper is a document on which the officer has relied in writing the report and which otherwise is not available to the public.
- Access to a public register stating the names, addresses and wards of all councillors with details of the membership of cabinet and of all committees and sub-committees. Information about councillors is available at www.herefordshire.gov.uk/councillors
- Have access to a list specifying those powers on which the council have delegated decision making to their officers identifying the officers concerned by title. The council's constitution is available at www.herefordshire.gov.uk/constitution
- Access to this summary of your rights as members of the public to attend meetings of the council, cabinet, committees and sub-committees and to inspect documents.

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The location of the office and details of city bus services can be viewed at:
www.herefordshire.gov.uk/downloads/file/1597/hereford-city-bus-map-local-services-

The seven principles of public life

(Nolan Principles)

1. Selflessness

Holders of public office should act solely in terms of the public interest.

2. Integrity

Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.

3. Objectivity

Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.

4. Accountability

Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.

5. Openness

Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.

6. Honesty

Holders of public office should be truthful.

7. Leadership

Holders of public office should exhibit these principles in their own behaviour and treat others with respect. They should actively promote and robustly support the principles and challenge poor behaviour wherever it occurs.



Title of report: 2024/25 Draft Budget - Revenue

Meeting: Scrutiny Management Board

Meeting date: Tuesday 16 January 2024

Cabinet member: Peter Stoddart, Finance and corporate services

Report by: Head of Strategic Finance (Deputy S151 Officer)

Classification

Open

Decision type

This is not an executive decision

Wards affected

All Wards

Purpose

To seek the views of the Scrutiny Management Board on the budget proposals for 2024/25.

Recommendation

That:

- a) **having regard to the proposals the Board determines any recommendations it wishes to make to Cabinet in relation to the 2024/25 Revenue Budget.**

Alternative options

1. There are no alternatives to the recommendations; Cabinet is responsible for developing budget proposals for Council consideration and it is a function of this committee to make reports or recommendations to the executive with respect to the discharge of any functions which are the responsibility of the executive. The council's budget and policy framework rules require Cabinet to consult with scrutiny committees on budget proposals in order that the scrutiny committee members may inform and support the process for making Cabinet proposals to Council.
2. It is open to the committee to recommend alternative spending proposals or strategic priorities; however given the legal requirement to set a balanced budget should additional expenditure be proposed, compensatory savings proposals must also be identified.

Key considerations

3. A balanced draft revenue budget which totals £205.2 million is proposed for 2024/25. The proposal includes a 4.99% increase in council tax and estimates of central funding to be confirmed following the announcement of the provisional financial settlement in late December 2023.
4. The draft 2024/25 revenue budget assumes a total council tax increase of 4.99%: 2.99% increase in core council tax and a 2% adult social care precept. This increases the band D equivalent charge to £1,875.76, representing an increase of £7.43 per month. This is the maximum increase permitted; a higher increase would require the support of a referendum.
5. The 2% adult social care precept will generate approximately £2.5 million of additional income to fund social care pressures identified in the Community Wellbeing Directorate; reflecting increases in both demand and cost for services to support the county's residents.
6. An increase to the base budget for 2024/25 is proposed to fund identified budget pressures of £43.3 million. Savings and efficiencies of £19.5 million are proposed to mitigate these pressures to deliver a balanced budget.

Autumn Statement & Funding Updates

7. The Chancellor's Autumn Statement on 22 November 2023 included economic forecasts from the Office for Budget Responsibility (OBR) and set out medium term spending plans.

Inflation Forecasts and National Living Wage Increases

8. The OBR has forecast inflation to remain higher for longer and it is now expected that inflation will not return to the 2% target until the second quarter of 2025, more than a year later than forecast in the March 2023 Budget.
9. Consumer Price Index (CPI) inflation is forecast to fall to 4.8% in the final quarter of 2023 with an increase of 7.5% across 2023 compared with a rate of 6.1% in the March 2023 Budget. The increase for 2024 is 3.6% compared with 0.9% previously forecast. CPI inflation is expected to reduce below the 2% OBR target between 2025 and 2027 before returning to a rate of 2% for a longer term.
10. In advance of the Autumn Statement, Central Government announced an increase to the National Living Wage for individuals aged 21 and over of 9.8% from 1 April 2024 from £10.42 to £11.44 per hour.
11. The impact of the increase in the National Living Wage and movement in CPI inflation on the rates that the council pays for services under contract, and in particular care contracts, has been considered as part of this draft budget.

Planned Council Tax Increases

12. The Local Government Settlement in February 2023 confirmed that the council tax referendum limit would be increased to 3% in 2024/25. In addition, local authorities are able to meet adult social care pressures by raising council tax by a further 2% through additional precept in 2024/25.
13. Each 1% increase in council tax will generate approximately £1.3 million of recurrent funding to meet demand pressures and deliver the council's services. The proposed draft revenue budget for 2024/25 assumes the maximum increase of 4.99% in 2024/25.

14. Individual local authority funding allocations were announced in late December 2023 as part of the Provisional Local Government Finance Settlement. The final settlement is expected to be received in early February 2024.
15. If additional funding is identified following the announcement of the Local Government Finance Settlement in late December 2023, this will provide an opportunity for Cabinet to review the options for an increase in council tax and any other element of the draft budget. The updated funding position and any changes to the proposals will be included in the Report to Cabinet on 25 January 2024 along with the outcome of the public consultation and recommendations from scrutiny.

Revenue Budget Proposals 2024/25

16. The base budget proposed for 2024/25 is summarised below and detailed in Appendix B with Directorate Savings Proposals detailed in Appendix A.

Detail	2023/24 Base Budget	Unfunded Pressures	Mitigation	Savings	2024/25 Proposed Budget
	£'000	£'000	£'000	£'000	£'000
Community and Wellbeing	68,124	17,182	(5,123)	(3,251)	76,932
Children and Young People	50,812	17,623	(800)	(2,503)	65,132
Economy and Environment	27,735	5,811	(2,000)	(3,080)	28,466
Corporate	25,530	2,376	-	(2,772)	25,134
All Ages Social Care	4,000	(4,000)	-	-	-
Sub Total	176,201	38,992	(7,923)	(11,606)	195,664
Central	17,107	314	-	(7,915)	9,506
TOTALS	193,308	39,306	(7,923)	(19,521)	205,170
Funded by:					
Council tax	126,980				135,054
Business rates	40,614				41,426
Collection fund surplus	1,400				-
Revenue support grant	983				1,048
Rural sparsity delivery grant	5,353				5,982
Social care support grant	13,466				15,642
ASC Discharge Fund	951				1,585
Mkt Sustainability/Fair Cost of Care	2,062				3,100
Services Grant	1,268				1,102
New Homes Bonus	231				231
TOTALS	193,308				205,170

Directorate Key Budget Pressures 2024/25

17. A summary of Unfunded Pressures of £43.3 million in 2024/25, by Directorate, is noted in the table below. It is proposed that the £3.8 million All Ages Social Care budget, approved in the

2023/24 revenue budget, is applied to the Community Wellbeing Directorate in 2024/25 to fund demand and cost pressures in adult social care.

Pay Award: This pressure represents an impact of the estimated pay award for 2024/25 on staffing expenditure across each Directorate.

Inflation: This pressure represents the impact of inflation across contractual and non-contractual commitments in 2024/25. Inflation is estimated based on a variety of relevant inflation and price indices as well as contract specific rates.

Demand: Demand pressures reflect additional demand for services based on most recent activity data and costs. This pressure includes adjustments to reflect trend analysis and planned activity in each service area.

Transformation: This pressure reflects expenditure required to deliver transformation of service activity and improvements in each Directorate.

Pressure	Community Wellbeing	Children & Young People	Economy & Environment	Corporate Services	Central	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000
Pay Award	1,160	1,253	806	809	-	4,028
Inflation	7,115	2,121	2,100	1,158	-	12,494
Demand	8,873	12,886	2,776	-	314	24,849
Transformation	34	1,363	129	409	-	1,935
TOTAL	17,182	17,623	5,811	2,376	314	43,306

Community Wellbeing

18. The Directorate faces continued challenge in 2024/25 as a result of increasing demand and complexity of need for the county's ageing population, limited market availability, the impact of hospital high occupancy rates and an increase in the number of individuals unable to fund their own care linked to the impact of increases in the cost of living and inflation.
19. Planned activity in 2024/25 aims to respond to these challenges and deliver savings and efficiencies across the Directorate through increased collaboration with Health and community partners, reviewing high cost Adult Social Care packages and improved utilisation of existing care contracts.

Children & Young People

20. Unprecedented increases in the demand for children's social care have had a significant impact on Children's Services nationally. Insufficiency of local residential placements, growing demand in Special Educational Needs (SEN) and Home to School Transport services and national challenges in the recruitment and retention of social workers continue to contribute to pressures across the Directorate.
21. In 2024/25, savings proposals through the 3 Year Financial Plan place workforce stability and the reduction of high cost placements as key priorities for the Directorate to ensure it lives within its means after 3 years. There will be a continued focus on the conversion of high cost agency staff to permanent posts and a decrease in the number of social workers, aligned to

expected reductions in the number of children in care due to improvements. The 3 Year Financial Plan is aligned to support the delivery of activity per the Children’s Improvement Plan.

22. The Quarter 2 revenue outturn forecast for 2023/24 presented at the Cabinet meeting on 23 November 2023 reports an overspend of £13.8 million before management action, with the most significant forecast overspend in Children & Young People (£11.8 million).
23. The forecast overspend represents the key national and local pressures facing the provision of children’s social care. The key challenges and source of overspend in 2023/24 include:
 - a. sufficiency of placements (local and national);
 - b. unprecedented demand (increasing in a number of areas post covid);
 - c. placement costs (including the impact of inflation and National Living Wage);
 - d. transport services (increase in numbers and contract prices);
 - e. recruitment and retention (local and national challenges); and
 - f. responsibility to support Unaccompanied Asylum Seeking Children (UASC).
24. The Directorate base includes additional funding of £17.6 million to ensure the budget is sufficient to meet the cost of service delivery in 2024/25.
25. This comprises additional funding of £10.8 million, allocated to address demand and cost pressures influencing the 2023/24 outturn position plus amounts to reflect the estimated pay award (£1.2 million), inflation (£2.1 million) and a further £3.5 million which represents additional estimated demand pressures in 2024/25. These pressures are informed by activity data and trend analysis in 2023/24 plus estimated changes for 2024/25 including £1.6 million in respect of Special Educational Needs (SEN) Transport.
26. The table below outlines how savings planned over the three year period will enable a reduction in the base budget by 31 March 2027.

	Year 1 2024/25 £'000	Year 2 2025/26 £'000	Year 3 2026/27 £'000	Total 3 Year Saving £'000
Base budget b/f	50,812	65,132	59,761	
Additional funding	10,750	-	-	
Pressures less Mitigations	6,073	-	-	
Planned savings	(2,503)	(5,371)	(2,292)	(10,166)
Base budget c/f	65,132	59,761	57,469	

Economy & Environment

27. The Directorate budget for 2024/25 implements increases in parking charges to recognise previously deferred savings targets. Investment in the Directorate will provide sufficient resource and capacity to support growth in the economy in 2024/25 and beyond with additional one-off funding allocated to ensure the Local Plan can be delivered in the next 12 months and to provide resources and expertise to support the Future Operating Model and contractual arrangements with BBLP.

Corporate Services

28. Savings will be delivered in 2024/25; reducing costs through a review of corporate services, business support functions across the council and a review of the council's management structure.

Proposed Directorate and Council-wide Savings

29. Total savings of £19.5 million are proposed in the 2024/25 draft budget comprising £11.6 million of Directorate savings and a further £7.9 million of council-wide savings. These savings include a range of proposals to:
- transform the delivery of services;
 - increase opportunities to recover the costs of service delivery;
 - reduce expenditure to deliver recurrent efficiencies; and
 - review of the size and shape of the organisation.

Category of Saving	Directorate £'000	Council-wide £'000	TOTAL £'000
Transform	5,488	7,915	13,403
Reduce	5,103	-	5,103
Increase	1,015	-	1,015
TOTAL	11,606	7,915	19,521

30. Details of individual proposals and a description of planned activity for Directorate savings of £11.6 million are included at Appendix A.
31. In addition to the proposed Directorate savings, a further £7.9 million of savings will be achieved through planned transformation activity across the council in 2024/25. Efficiencies and savings will be achieved through the council's Thrive programme with improvements to systems, processes and technology; using digital solutions and technology to improve the customer offer and maximise opportunities to work with communities and partners alongside maximising income through service cost recovery.
32. Delivery of these initiatives will require the council to transform as an organisation to ensure the future sustainability of the council and the services it delivers. This will require a review of the size and shape of the workforce to create a lean and resilient council for the future.

Outstanding Information and Next Steps

33. Outstanding information which is required in the budget setting process is set out below. Changes to budget proposals arising from the funding settlement, consultation activity, inflationary changes as well as the assessed level of reserves and forecast outturn position for 2023/24 will need to be considered and reflected in the final budget proposed by Cabinet in January 2024.
34. Outstanding information expected to have an impact on the proposed budget for 2024/25 and MTFS includes:

- a) The provisional and final Local Government Finance Settlement for 2024/25 setting out the council's Settlement Funding Assessment and confirming estimated grant funding and any other changes;
 - b) The outcome of the public consultation running from 21 November to 31 December 2023; and
 - c) Recommendations from Scrutiny Management Board in respect of draft budget and savings proposals.
35. Cabinet will propose the 2024/25 Revenue Budget for recommendation to Council at the meeting on 25 January 2024 reflecting the outstanding information above. The report to Cabinet in January 2024 will include:
- a) Council tax and precept calculations;
 - b) 2024/25 Revenue Budget;
 - c) Medium Term Financial Strategy (2024/25 to 2027/28);
 - d) Directorate Savings Plans 2024/25;
 - e) Directorate Base Budgets 2024/25;
 - f) Treasury Management Strategy 2024/25;
 - g) Earmarked Reserve Balances at 31 March 2023;
 - h) Results of Consultation Activity; and
 - i) Responses to recommendations from Scrutiny Management Board.
36. Council will meet to approve the 2024/25 Revenue Budget and supporting Appendices at its meeting on 9 February 2024. Any changes to the budget proposed by Cabinet at the meeting on 25 January 2024, as a result of outstanding information noted above, will be incorporated into the final budget to be considered by Council.

Community impact

37. The draft budget demonstrates how the council plans to use its financial resources to deliver its statutory responsibilities and strategic priorities. The budget and savings proposals support the overall delivery plan and service delivery strategies in place.
38. In accordance with the adopted code of corporate governance, the council achieves its intended outcomes by providing a mixture of legal, regulatory and practical interventions. Determining the right mix of these is an important strategic choice to make to ensure intended outcomes are achieved. The council needs robust decision making mechanisms to ensure our outcomes can be achieved in a way that provides the best use of resources while still enabling efficient and effective operations.

Environmental Impact

39. The council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.
40. Whilst this overarching budget setting document will not detail specific environmental impacts, consideration is always made to minimising waste and resource use in line with the council's Environmental Policy. A specific environmental impact assessment for the service specific budget proposals will be considered as appropriate to seek to minimise any adverse environmental impact and actively seek opportunities to improve and enhance environmental performance.

Equality duty

41. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:
- A public authority must, in the exercise of its functions, have due regard to the need to –
- a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
41. Service specific equality impact assessments for the service specific budget proposals will be completed, as required, to assess the impact on the protected characteristic as set out in the Equality Act 2010. The duty means that the potential impact of a decision on people with different protected characteristics is always taken into account when these assessments have been completed then we will consider mitigating against any adverse impact identified. Where additional governance is required to support possible service delivery changes the impact of a decision on people with different protected characteristics will be fully detailed and disclosed in that governance decision report.

Resource implications

42. The financial implications are as set out in the report. The ongoing operational costs including, human resources, information technology and property resource requirements are included in the draft budget and will be detailed in separate governance decision reports as appropriate.
43. The council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from its resources. This includes taking properly informed decisions and managing key operational and financial risks in order to deliver objectives and safeguard public money.
44. Under the Local Audit and Accountability Act 2014, the council's external auditors are required to assess whether the council has made proper arrangements under three areas, as defined by the National Audit Office: Financial Sustainability, Governance and Improving economy, efficiency and effectiveness.
45. The draft Auditor's Annual Report for 2022/23 notes that arrangements are appropriate and that the council has undertaken appropriate analysis and consultation to arrive at reasonable and prudent assumptions in respect of income and expenditure, including inflation at appropriate rates and reflecting the impact of increases in demand for services.
46. Audit testing of the robustness of savings proposals included in the 2023/24 budget has confirmed that there was appropriate evidence to support proposals and they had been consulted upon. The report acknowledges that delivery of savings has been monitored throughout 2023/24 with risks to delivery and mitigating actions clearly identified and reported to Cabinet.
47. The audit report provides valuable independent assurance that the council has robust financial planning arrangements in place to identify all significant financial pressures and risks to financial resilience and to support the sustainable delivery of services in accordance with strategic and statutory priorities. These arrangements, assessed by external audit, underpin the 2024/25 budget setting process to support the preparation of a realistic balanced budget.

Legal implications

48. When setting the budget it is important that councillors are aware of the legal requirements and obligations. Councillors are required to act prudently when setting the budget and council tax so that they act in a way that considers local taxpayers. This also covers the impact on future taxpayers.
49. In acting prudently, the council has an obligation to determine whether any planned council increase is excessive (based on a set of principles defined by the Secretary of State, and approved by the House of Commons).
50. The level of council tax rise does not meet the definition of an excessive increase so can be approved without the need for a referendum.
51. The Local Government Finance Act 1992 requires a council to set a balanced budget. To do this the council must prepare a budget that covers not only the expenditure but also the funding to meet the proposed budget. The budget has to be fully funded and the income from all sources must meet the expenditure.
52. Best estimates have to be employed so that all anticipated expenditure and resources are identified. If the budget includes unallocated savings or unidentified income then these have to be carefully handled to demonstrate that these do not create a deficit budget. An intention to set a deficit budget is not permitted under local government legislation.
53. The council must decide every year how much they are going to raise from council tax. The decision is based on a budget that sets out estimates of what is planned to be spent on services. Because the level of council tax is set before the year begins and cannot be increased during the year, risks and uncertainties have to be considered, that might force higher spending more on the services than planned. Allowance is made for these risks by: making prudent allowance in the estimates for services; and ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient.
54. Local government legislation requires the council's S151 officer to make a report to the full Council meeting when it is considering its budget and council tax. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals (the statement is contained within the risk management section of this report). This is done so that members will have authoritative advice available to them when they make their decisions. As part of the Local Government Act 2003 members have a duty to determine whether they agree with the S151 statutory report.
55. The council's budget and policy framework rules require that the chairpersons of a scrutiny committee shall take steps to ensure that the relevant committee work programmes include any budget and policy framework plan or strategy, to enable scrutiny members to inform and support the process for making Cabinet proposals to Council.
56. Section 106 of the Local Government Finance Act 1992 precludes a councillor from voting on the Council's budget if he or she has an outstanding council tax debt of over two months. If a councillor who is precluded from voting is present at any meeting at which relevant matters are discussed, he or she must disclose that section 106 applies and may not vote. Failure to comply is a criminal offence.

Risk management

57. Section 25 of the Local Government Act 2003 requires the S151 officer to report to Council when it is setting the budget and precept (council tax). Council is required to take this report

into account when making its budget and precept decision. The report must deal with the robustness of the estimates included in the budget and the adequacy of reserves.

58. The budget has been updated using the best available information; current spending, anticipated pressures and estimates in respect of the provisional 2024/25 funding settlement.
59. The known most substantial risks have been assessed as part of the budget process and reasonable mitigation has been made where possible. Risks will be monitored through the year and reported to cabinet as part of the budget monitoring process.
60. The council maintains a general fund reserve balance above the minimum requirement, earmarked reserves and an annual contingency budget to manage these risks.
61. Key financial risks and mitigating actions are noted in the table below. The impact measure refers to the potential financial severity of each identified risk.

Key Financial Risk	Likelihood	Impact (Potential Severity)	Mitigating Action
<p>Unexpected events and emergencies By its nature, the financial risk is uncertain</p>	Low	High	The Council maintains a strategic reserve at a level of between 3 and 5% of its revenue budget for emergency purposes. The level of this reserve at 31 March 2023 was 9.6m (6.0% of budget). Additionally, national resources have historically been provided to support national issues.
<p>Not delivering required improvements The council must address the statutory direction and improvements across Children's Services</p>	Low	Medium	<p>The Children's Improvement Board continues to work with the Department for Education, the appointed Commissioner for Children's Services and its improvement partner Leeds City Council and resources have been allocated to address required transformation and improvement. Performance against the Improvement Plan is monitored and reported on a quarterly basis.</p> <p>A three year Strategic and Financial Plan has been developed to ensure the Children & Young People Directorate is able to live within its means after 3 years.</p>
<p>Increasing demand for Adult and Children's Social Care Demand for Children's services continue and demand for adult services increases as the population ages.</p>	High	Medium	<p>Demand led pressures are reflected within our spending plans; additional funding to support increased demand has been applied to Community Wellbeing and Children & Young People Directorate base budgets for 2024/25. In year monitoring of performance enables Directorates to forecast trends and identify changes in demand. Talk Community and strength Based Assessment have evidenced managing demand and investing in Early Help and Prevention will support our response to increasing demand.</p> <p>Increasing demand for social care represents a key financial pressure for all councils. Robust and regular budget monitoring identifies emerging pressures and the financial impact on in-year budgets across the council.</p>

			Financial monitoring is informed by activity data and trend analysis from the relevant service to ensure that forecasting is reliable and timely.
Potential overspend and non-delivery of savings required to balance the budget	Medium	Medium	High risk budget areas have been identified and financial support is targeted in these areas. Robust and regular financial monitoring which is reported to Directorate and Corporate Leadership Teams and Cabinet enables the timely identification of actions to mitigate the risk of overspends.
Volatility in Government funding streams The government settlement for 2023/24 is a one year settlement; the assumed funding for the MTFS period is not confirmed	High	Medium	The MTFS reflects prudent estimates and assumptions in the financial planning over the medium term period where it is acknowledged that uncertainty over future funding exists.
Interest and Inflation There is uncertainty over interest and inflation rates	Medium	Medium	The Treasury Management Strategy is informed by latest forecast, as provided by our Treasury Management Advisors. Increases in borrowing rates will be offset by increases in investment returns.

Consultees

62. The council's constitution states that budget consultees should include parish councils, health partners, the schools forum, business ratepayers, council taxpayers, the trade unions, political groups on the council, the scrutiny committees and such other organisations and persons as the Leader shall determine.
63. A series of 15 local budget public consultation events will be held between 22 November and 13 December 2023 including engagement with community groups and the business community. The consultation presents high-level options to contribute towards balancing the council's budget for 2024/25 and their likely impact. These options included reducing and transforming services, increasing charging for services and increasing council tax.
64. An online public consultation will be available for residents to complete from 21 November to 31 December 2023.
65. The results of these consultation activities will be included in the updated 2024/25 Budget Report for the meeting of Cabinet on 25 January 2024.

Appendices

Appendix A: Medium Term Financial Strategy 2024/25 to 2027/28 *[to follow]*

Appendix D: Treasury Management Strategy 2024/25

Appendix E: Earmarked Reserves and General Fund Balance forecasts to 31 March 2024 *[to follow]*

Background papers

2024/25 Draft Budget – Revenue Report and Appendices A-F as presented to Scrutiny Management Board 10 January 2024, [link](#)



TREASURY MANAGEMENT STRATEGY 2024/25

Introduction

- 1.1 Treasury Management is the management of the council's borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
- 1.2 This strategy has been prepared in accordance with the following guidance:
 - Department for Levelling Up, Housing and Communities (DLUHC) Statutory guidance on local government investments (2018)
 - DLUHC Statutory guidance on Minimum Revenue Provision (2018)
 - Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for capital finance in local authorities (2021)
 - CIPFA Treasury management in the public services: Code of practice (2021)
- 1.3 To support this Treasury Management Strategy (TMS), the council maintains Treasury Management Practices (TMP) that outline how the council's strategic policy objectives for treasury management will be achieved. The operational practices are maintained by the corporate finance team and approved by the Chief Finance Officer.
- 1.4 The council employs treasury management advisors, Link Group, who provide advice and guidance on treasury management activities, including interest rate forecasts. This is utilised to inform borrowing and investment decisions.
- 1.5 This report incorporates prudential and treasury indicators (Annex C) as required by the Prudential Code, and a treasury management policy statement (Annex E) as required by the Treasury Management Code of Practice.

Economic Context

- 2.1 The UK economy remains challenging following a prolonged period of high interest rates and sticky inflation, caused by the global pandemic and the subsequent cost of living crisis. UK growth is stagnant, with Gross Domestic Product (GDP) at 0% for quarter 3 2023, currently narrowly avoiding a recession.
- 2.2 Domestic inflation rates are in decline, with Consumer Price Index (CPI) falling to 4.6% in October 2023, following a high of 11.1% in October 2022. The decline has been led mainly by falling food and energy prices.
- 2.3 Interest rates have been increasing since December 2021. In December 2023, the Bank of England's Monetary Policy Committee held the bank rate at 5.25% for the third time in succession. The market consensus is that the bank rate has likely peaked, given the declining trend in inflation, but a further rise is possible given the continued wage growth in the UK. Link Group have provided an interest rate forecast in Annex D, showing an expectation that interest rates will remain at 5.25% in the short term, and start falling gradually in quarter 2 2024/25.
- 2.4 There are some significant risks that could impact these forecasts. There are geo-political risks of ongoing conflicts, with a potential impact on oil prices and therefore an upside risk

to inflationary pressure. There are risks of inflationary pressure fuelled by wage growth, due to the continued low levels of UK unemployment (currently 4.2%).

Borrowing Strategy

- 3.1 The council primarily borrows to fund capital expenditure; with borrowing driven by the requirements of the approved capital investment budget. The objective of the borrowing strategy is to manage the risk of current and potential future debt.
- 3.2 This strategy serves to balance the affordability of loan interest payments from the revenue budget with the long term stability of the debt portfolio. The strategy aims to achieve a low and certain cost of finance whilst retaining flexibility should financing requirements change in the future. The council will minimise cash balances by utilising internal borrowing where possible.
- 3.3 The Public Works Loan Board (PWLB) is the preferred route for borrowing across the local government sector. If borrowing is required, then the council will favour short term loans because the interest rates on long term loans are relatively high (PWLB 25 year rate is 5.5%, see Annex D). Longer term borrowing will only be considered when interest rates are lowered.
- 3.4 The approved sources of borrowing for the council are:-
 - Internal borrowing (reserves/balances)
 - Public Works Loan Board (PWLB)
 - UK Local Authorities
 - Any institution approved for investments (see Annual Investment Strategy section)
 - Any other bank or building society authorised to operate in the UK
 - UK public and private sector pension funds
 - Capital market bond investors
 - Local capital finance company and any other special purpose companies created to enable local authority bond issues
- 3.5 In addition, capital finance may be raised by the following methods that are not borrowing:-
 - Operating leases
 - Finance leases
 - Hire purchase arrangements
 - Private Finance Initiatives
 - Sale and leaseback arrangements
- 3.6 As at 31 October 2023, the council manages current loan debt of £121.3 million, which is detailed in Annex A (treasury portfolio) and Annex B (borrowing maturity profile). This comprises £109.3 million of Public Works Loan Board (PWLB) loans, which are all fixed interest long term loans, and £12 million Lender Option Borrower Option (LOBO) loans.
- 3.7 PWLB permits the repayment of loans before maturity by either paying a premium or receiving a discount according to a set formula based on current interest rates. This option will be kept under review and will be considered where this is expected to lead to an overall saving or reduction in risk.
- 3.8 The interest on the LOBO loans becomes due every 6 months. At this point, the lender has the option of increasing the interest rate, and the borrower can accept the interest rate increase, or pay back the loans.

- 3.9 The council borrowing is forecast to be £119.4 million at 31 March 2024. This is expected to increase to £162.4 million by 31 March 2025. The estimated movement of £43.0 million in 2024/25 is represented by additional prudential borrowing to fund capital spend of £52.3 million less £9.3 million Minimum Revenue Provision (MRP) charge.
- 3.10 The council has no short term loans in its existing debt portfolio. Short term loans can increase the risk exposure to high interest rates. This risk is mitigated by applying a cap on short terms loans to 50% of the debt total.

Investment Strategy

- 4.1 The objective of the investment strategy is to ensure prudence is applied and risks are managed when the council holds surplus funds (income received in advance of expenditure).
- 4.2 The council will primarily consider security (protecting the capital sum invested from loss) and liquidity (ensuring the funds are available for expenditure when needed) before yield. For 2024/25 the council will continue to focus on Money Market Funds (MMF) which are liquid, diverse and spread the credit risk. There are currently relatively high rates of interest to be gained on MMFs, whilst keeping the risk levels at an appropriate level.
- 4.3 The council applies the credit worthiness service provided by Link Group. This service employs a modelling approach utilising credit ratings from three main credit rating agencies (Fitch, Moody's and Standard and Poor's). This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system to which Link Group allocate a series of colour coded bands with suggested maximum durations for investments.
- 4.4 Typically the minimum credit ratings criteria the council use will be short-term rating (Fitch or equivalents) of F1 and a long term rating of A-. There may be occasions when the counterparty ratings from one agency are marginally lower than these ratings but still may be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.
- 4.5 The council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- (Fitch or equivalents). If investments are to be made overseas then approval ahead of the investment being made is required from the Chief Finance Officer. Santander UK plc (a subsidiary of Spain's Banco Santander) and Clydesdale Bank plc (a subsidiary of National Australia Bank) will be classed as UK banks due to their substantial franchises and the arms-length nature of the parent-subsiary relationship.
- 4.6 Investment limits for approved counterparties are detailed in the table below for specified investments. Specified investments are those denominated in pound sterling, due to be repaid within 12 months, not defined as capital expenditure and invested in UK government/Local Authority/a high credit quality investment scheme (A- UK domiciled or AA- non UK domiciled).

Table 1 Investment limits for approved counterparties

Counterparty	Investment type	Rating	£ limit	Time limit
Banks and Building societies	Term deposits, certificate of deposit or corporate bond	Yellow Purple Orange Blue Red Green No colour	£5m £5m £5m £5m £5m £5m £nil	5 years 2 years 1 year 1 year 6 months 100 days None
Council's banker			£5m	Liquid
Debt Management Account Deposit Facility (DMADF)	DMADF account	AAA	Unlimited	6 months
UK Government	UK gilts or Treasury bills	UK sovereign	Unlimited	1 year
Multilateral development banks	Bonds	AAA	£5m	6 months
Local Authorities	Term deposits		£10m	1 year
Money Market Funds (MMF)	MMF	AAA	£10m	Liquid
Pooled funds	Pooled funds		£5m per fund	

- 4.7 Investment limits are detailed in the table below for non-specified investments. Non-specified investments are those that do not meet the definition of specified investments, for the council, this means those longer than 12 months.

Table 2 Investment limits for non-specified investments

Investment type	£ limit
Total long term investments	£5m
Total investments with unrecognised credit ratings	£5m
Total non-specified investments	£10m

- 4.8 The council will take an active approach to invest in environmental, social and governance (ESG) entities, but this will be a secondary consideration to security, liquidity and yield.
- 4.9 As at 31 October 2023, the council has £78.9 million of investments, spread across banks, other local authorities and MMFs. This current investment portfolio is detailed in Annex A.

Annual Minimum Revenue Provision Statement

- 5.1 Where the council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the notional repayment of debt is known as Minimum Revenue Provision (MRP). The Local Government Act 2003 requires the council to have regard to the DLUHC Guidance on MRP most recently issued in 2018. The broad aim of the guidance is to ensure that a prudent provision is made to enable debt to be repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.
- 5.2 The council's MRP policy was formally reviewed by the council's external Treasury Management advisors in 2022/23 with recommended revisions to the policy supported by the Scrutiny Management Board in January 2023. The revised methods which inform the basis of calculations for each source of borrowing remain consistent with those recommended by government guidance to determine a prudent level of MRP.
- 5.3 In line with the guidance, the policy for the 2024/25 calculation of MRP is as follows:

Table 3 MRP methodology and charge

	MRP methodology	Indicative MRP charge 2024/25 £000
Supported borrowing	Annuity basis at rate of 4%	892
Prudential borrowing	Annuity basis at rate of 4%	8,447
Subtotal		9,339
Finance leases and private finance initiatives	Equal to value of payments that reduce the liability each year	2,457
Total		11,796

ANNEX A Treasury Portfolio

The table below shows the treasury investment and borrowing positions as at 31 March 2023 and 31 October 2023.

Table 4 Treasury portfolio

Treasury investments	31 March 23 £000	31 March 23 %	31 Oct 23 £000	31 Oct 23 %
Banks	15,650	28%	10,000	13%
Banks – ESG “green” deposits	10,000	18%	10,000	13%
Local authorities	7,500	14%	5,000	6%
DMADF (HM Treasury)	5,000	9%	-	-
Money market funds	17,450	31%	53,870	68%
Total treasury investments	55,600	100%	78,870	100%

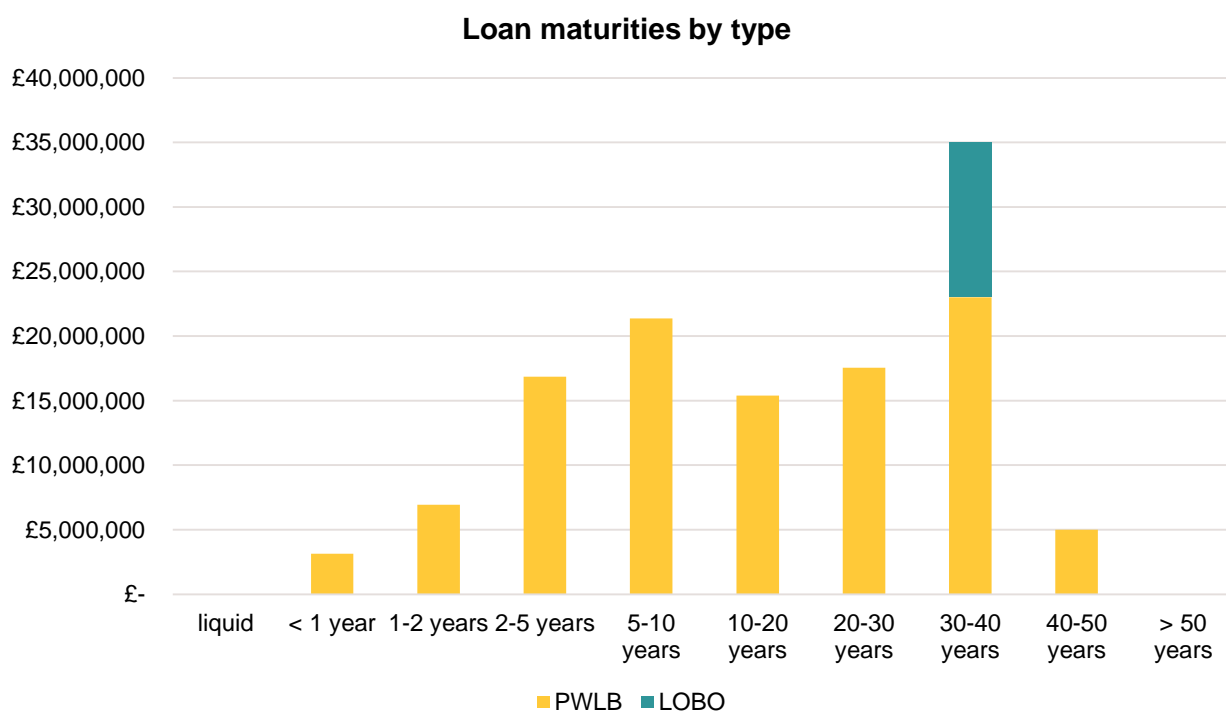
Treasury borrowing	31 March 23 £000	31 March 23 %	31 Oct 23 £000	31 Oct 23 %
Public Works Loan Board (PWLB)	(110,567)	90%	(109,250)	90%
Lender Option Borrower Option (LOBO)	(12,000)	10%	(12,000)	10%
Total treasury borrowing	(122,567)	100%	(121,250)	100%

Net treasury investments/(borrowing)	(66,967)	-	(42,380)	-
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ANNEX B Borrowing Maturity Profile

The chart below shows when each loan matures over the next 50 years. The green block represents the LOBO loans, and the orange blocks represent PWLB loans.

Chart 1 Loan maturity profile



ANNEX C Prudential and Treasury Indicators

Background

- 1.1 The Local Government Act 2003 requires local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice.
- 1.2 To demonstrate that the council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored. The indicators set out parameters within which the council should operate to ensure the objectives of the Prudential Code are met.

Prudential Indicator 1: Estimates of capital expenditure

- 2.1 The Prudential Code requires local authorities to make reasonable estimates of the total capital expenditure that it plans to incur during the forthcoming financial year and at least the following two financial years, as well as actual capital expenditure for the previous financial year.
- 2.2 The actual amount of capital expenditure that was incurred during 2022/23, the forecast amount for 2023/24 and the estimated amounts for 2024/25 plus two further years, based on the current approved capital programme, are noted in Table 5 below.

Table 5 Estimates of capital expenditure and funding

	2022/23 actual £000	2023/24 forecast £000	2024/25 estimate £000	2025/26 estimate £000	2026/27 estimate £000
Capital expenditure	46,411	68,873	156,373	50,791	19,187
Grants, contributions and capital receipts	36,431	51,013	104,053	23,551	7,306
Prudential borrowing	9,980	17,860	52,320	27,240	11,881
Total funding	46,411	68,873	156,373	50,791	19,187

Prudential Indicator 2: Capital financing requirement

- 3.1 The Prudential Code requires local authorities to make reasonable estimates of the total capital financing requirement at the end of the forthcoming financial year and the following two years, as well as the actual capital financing requirement for the previous financial year.
- 3.2 The capital financing requirement (CFR) measures the council's underlying need to borrow for a capital purpose. It represents the capital expenditure not financed by capital receipts, capital grants, contributions or a direct revenue charge. The actual CFR for 2022/23, the forecast amount for 2023/24 and the estimated amounts for 2024/25 plus two further years are noted in Table 6 below.

Table 6 Capital financing requirement

	2022/23 actual £000	2023/24 forecast £000	2024/25 estimate £000	2025/26 estimate £000	2026/27 estimate £000
CFR excluding PFI	261,398	269,018	310,584	326,478	326,056
PFI and finance leases*	43,046	41,705	39,390	37,048	34,670
Total CFR	304,444	310,723	349,974	363,526	360,726

* this value is expected to increase following the adoption of IFRS 16 from 1 April 2024.

Prudential Indicator 3: Gross debt and the capital financing requirement

- 4.1 The Prudential Code requires local authorities to ensure that the total gross debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.
- 4.2 This indicator monitors the requirement for debt not to exceed the CFR. The actual ratio for 2022/23, the forecast amount for 2023/24 and the estimated amounts for 2024/25 plus two further years. The ratio of gross debt to CFR is below 100% for each of the disclosed years, confirming that gross debt does not exceed CFR, and that the council is operating within the parameters as set out in the Prudential Code.

Table 7 Ratio of gross debt to CFR

	2022/23 actual £000	2023/24 forecast £000	2024/25 estimate £000	2025/26 estimate £000	2026/27 estimate £000
Gross debt	123,833	137,326	182,709	203,800	209,257
CFR	304,444	310,723	349,974	363,526	360,726
Ratio of gross debt to CFR	41%	44%	52%	56%	58%

Prudential Indicator 4: Authorised limit for external debt

- 5.1 The Prudential Code requires local authorities to set an authorised limit for its gross external debt for the forthcoming financial year and the following two years.
- 5.2 The authorised limit represents an upper limit of borrowing that the council can legally owe. The actual limit for 2022/23, the forecast amount for 2023/24 and the estimated amounts for 2024/25 plus two further years. By comparing the gross debt figures in table 7 to the authorised limits in table 8, it is confirmed that the council is operating within the parameters as set out in the Prudential Code.

Table 8 Authorised limit

	2022/23 actual £000	2023/24 forecast £000	2024/25 estimate £000	2025/26 estimate £000	2026/27 estimate £000
External borrowing	350,000	350,000	350,000	350,000	350,000
Other long term liabilities	70,000	70,000	70,000	70,000	70,000
Total authorised limit	420,000	420,000	420,000	420,000	420,000

Prudential Indicator 5: Operational boundary for external debt

- 6.1 The Prudential Code requires local authorities to set an operational boundary for its gross external debt for the forthcoming financial year and the following two years.
- 6.2 The operational boundary is the limit beyond which external debt is not normally expected to exceed, and provides a parameter to monitor day to day treasury management activity. The actual limit for 2022/23, the forecast amount for 2023/24 and the estimated amounts for 2024/25 plus two further years. By comparing the gross debt figures in table 7 to the operational boundaries in table 9, it is confirmed that the council is operating within the parameters as set out in the Prudential Code.

Table 9 Operational boundary

	2022/23 actual £000	2023/24 forecast £000	2024/25 estimate £000	2025/26 estimate £000	2026/27 estimate £000
External borrowing	340,000	340,000	340,000	340,000	340,000
Other long term liabilities	60,000	60,000	60,000	60,000	60,000
Total operational boundary	400,000	400,000	400,000	400,000	400,000

Prudential Indicator 6: Ratio of financing costs to net revenue stream

- 7.1 The Prudential Code requires local authorities to estimate the proportion of financing costs to net revenue stream for the forthcoming financial year and the following two years, as well as actual figures for the previous financial year.
- 7.2 This ratio highlights the proportion of the revenue budget required to meet financing costs and is an indicator of the affordability of borrowing. The actual limit for 2022/23, the forecast amount for 2023/24 and the estimated amounts for 2024/25 plus two further years. The calculated ratios of between 7% and 9% confirm that the council's borrowing is currently considered to be affordable.

Table 10 Ratio of financing costs to net revenue stream

	2022/23 actual £000	2023/24 forecast £000	2024/25 estimate £000	2025/26 estimate £000	2026/27 estimate £000
MRP (excluding PFI)	9,228	8,649	9,339	10,692	11,477
Interest payable	4,990	4,542	5,812	7,211	7,931
Total financing costs	14,218	13,191	15,151	17,903	19,408
Net revenue stream	185,943	193,308	205,170	220,348	220,874
Ratio of financing costs to net revenue stream	8%	7%	7%	8%	9%

Prudential Indicator 7: Maturity structure of borrowing

- 8.1 The council sets upper and lower limits for the maturity structure of its borrowing to mitigate against the risk of exposure to interest rate fluctuations on debt refinancing. The table below shows the upper limit, the lower limit, the actual level for 2022/23 and the forecast level for 2023/24. This confirms that the council is operating within the lower and upper limit.

Table 11 Maturity structure of borrowing

	2022/23 actual %	2023/24 forecast %	Lower limit %	Upper limit %
Under 12 months	4%	2%	0%	10%
Between 12 months and 24 months	6%	6%	0%	10%
Between 24 months and 5 years	14%	14%	0%	25%
Between 5 years and 10 years	17%	18%	0%	35%
10 years and above	59%	60%	0%	80%
	100%	100%		

Prudential Indicator 8: Upper limit of investments over 364 days

- 9.1 The council sets an upper limit for total principal sums invested over 364 days to mitigate against the risk of exposure to loss due to early repayment requirements. The actual limit for 2022/23, the forecast amount for 2023/24 and the estimated amounts for 2024/25 plus two further years. This is monitored through-out the year in day to day treasury management activity.

Table 12 Upper limit of investments over 364 days

	2022/23 actual £000	2023/24 forecast £000	2024/25 estimate £000	2025/26 estimate £000	2026/27 estimate £000
Upper limit	5,000	5,000	5,000	5,000	5,000

Prudential Indicator 9: Ratio of net commercial and service investments income to net revenue stream

- 10.1 The Prudential Code requires local authorities to estimate the proportion of net income from commercial and service investments to net revenue stream for the forthcoming financial year and the following two years, as well as actual figures for the previous financial year.
- 10.2 This ratio highlights the proportion of the revenue income budget reliant on commercial income. The actual limit for 2022/23, the forecast amount for 2023/24 and the estimated amounts for 2024/25 plus two further years. The calculated ratios of 1% confirm that the council is not over reliant on this income.

Table 13 Ratio of net commercial and service investments income to net revenue stream

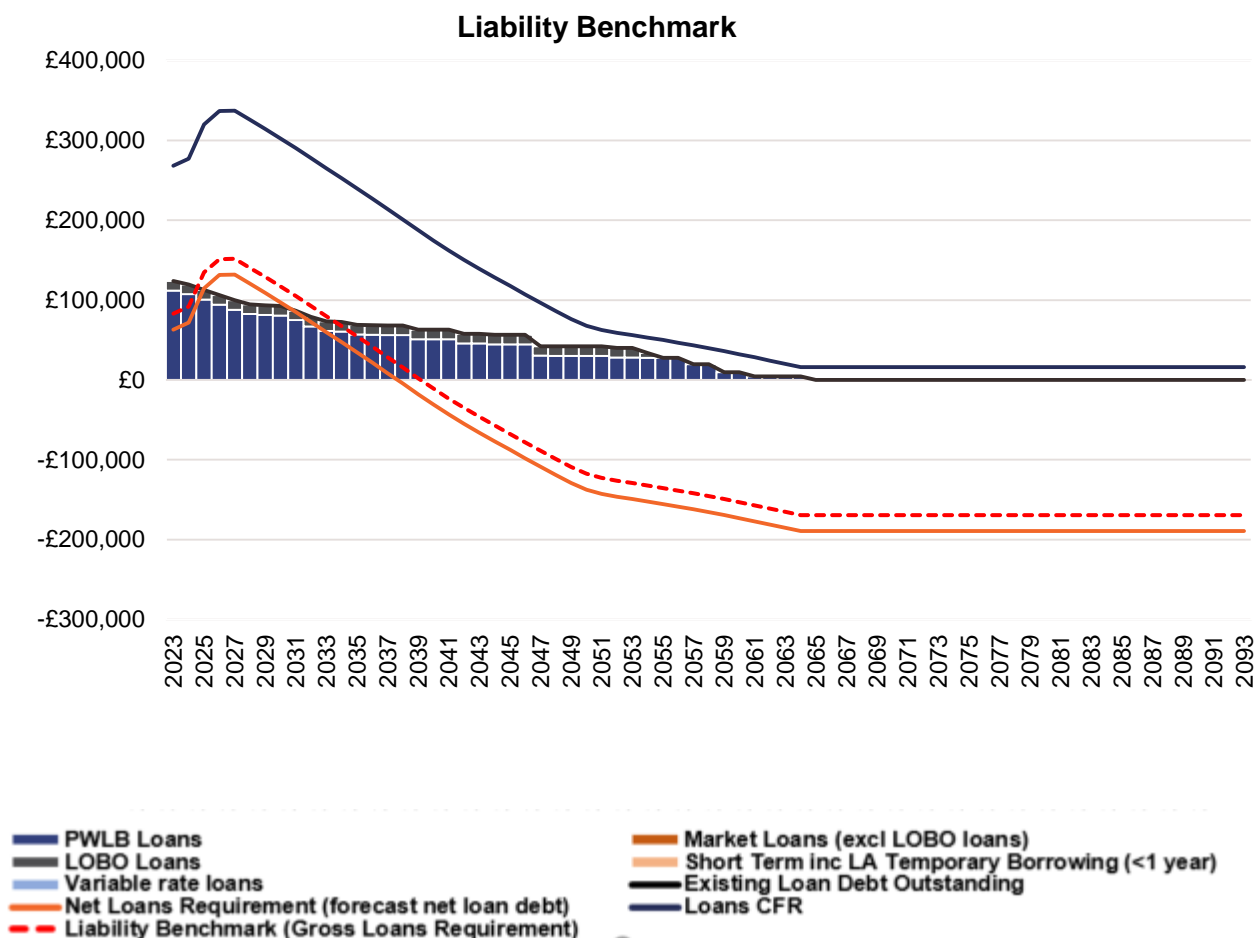
	2022/23 actual £000	2023/24 forecast £000	2024/25 estimate £000	2025/26 estimate £000	2026/27 estimate £000
Total net income from commercial and service investments	2,135	2,365	2,369	2,373	2,378
Net revenue stream	185,943	193,308	205,170	220,348	220,826
Ratio of commercial income to net revenue stream	1%	1%	1%	1%	1%

Prudential Indicator 10: Liability benchmark

11.1 The liability benchmark provides a measure of how well the existing loans portfolio matches planned borrowing needs for capital. It is calculated by deducting investable resources on the balance sheet from the outstanding debt liability, adjusting for a minimum investment allowance. A borrowing requirement is anticipated where the liability benchmark (red dotted line) is greater than the existing debt.

11.2 The existing loans portfolio is shown on the chart below as blue and grey bar charts. The liability benchmark is the red dotted line. By comparing these, it can be seen that the council is under-borrowed, meaning that it is utilising its strong balance sheet position instead of increasing loan debt. There is no short term additional borrowing need for the current approved capital commitments.

Chart 2 Liability benchmark in £'000s



ANNEX D Interest Rate Forecast

Link Group provide the council with interest rate forecasts as part of their advisory role. The following forecasts for the bank base rate and Public Works Loan Board (PWLB) rates were provided on 7 November 2023.

Table 14 Link Group interest rate forecasts

	Dec 23	Mar 24	Jun 24	Sep 24	Dec 24	Mar 25	Jun 25	Sep 25	Dec 25	Mar 26	Jun 26	Sep 26	Dec 26
Bank base rate %	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
PWLB 5 year rate %	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
PWLB 10 year rate %	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
PWLB 25 year rate %	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
PWLB 50 year rate %	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

ANNEX E Treasury Management Policy Statement

Statement of Purpose

- 1.1 Herefordshire Council adopts the recommendations made in CIPFA's Treasury Management in the Public Services: Code of Practice guidance, which was revised in 2021. The council adopts the following key principles and clauses.

Key Principles

- 2.1 Herefordshire Council adopts the following three key principles (identified in Section 4 of the Code):
- The council will put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of its treasury management activities.
 - The council will ensure that its policies and practices make clear that the effective management and control of risk are prime objectives of its treasury management activities and that responsibility for these lies clearly with the council. In addition, the council's appetite for risk will form part of its annual strategy and will ensure that priority is given to security and portfolio liquidity when investing treasury funds.
 - The council acknowledges that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of business and service objectives, and that within the context of effective risk management, the councils treasury management policies and practices should reflect this.

Adopted Clauses

- 3.1 Herefordshire Council formally adopts the following clauses (identified in Section 5 of the code):
- The council will create and maintain, as the cornerstones for effective treasury management:
 - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities;
 - Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

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

- Full council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close in the form prescribed in its TMPs.
- The responsibility for the implementation and regular monitoring of treasury management policies and practices is delegated to Cabinet and for the execution and administration of treasury management decisions to the Director of Resources and Assurance, who will act in accordance with the organisation's policy statement

and TMPs and, if they are a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

- The council nominates Scrutiny Management Board to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Definition of Treasury Management

4.1 Herefordshire Council defines its treasury management activities as: -

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

Policy Objectives

- 5.1 Herefordshire Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the council, and any financial instruments entered into to manage these risks.
- 5.2 Herefordshire Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Non-treasury investments

- 6.1 Herefordshire Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries and investment property portfolios.
- 6.2 Herefordshire Council will ensure that all investments in the capital programme will set out, where relevant, the risk appetite and policy and arrangement for non-treasury investments. The risk appetite for these activities may differ from that of treasury management.
- 6.3 Herefordshire Council will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisations risk exposure within its annual statement of accounts.

