Notice of Meeting

Cabinet

Date: Wednesday 22 February 2023

Time: 5.30 pm

Venue: Conference Room 1, Beech Hurst, Weyhill Road, Andover SP10 3AJ

For further information or enquiries please contact:
Emma Horbury - 01264 368000
ehorbury@testvalley.gov.uk

Legal and Democratic Service
Test Valley Borough Council,
Beech Hurst, Weyhill Road,
Andover, Hampshire,
SP10 3AJ
www.testvalley.gov.uk

This is formal notice under The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 that part of this meeting may be held in private because the agenda and reports for the meeting may contain exempt information under Part 1 of Schedule 12A to the Local Government Act 1972 (as amended) and that the public interest in withholding the information outweighs the public interest in disclosing it.

PUBLIC PARTICIPATION SCHEME

If members of the public wish to address the meeting they should notify the Legal and Democratic Service at the Council's Beech Hurst office by noon on the working day before the meeting.

Membership of Cabinet

MEMBER	WARD
Councillor P North (Chairman)	Bourne Valley
Councillor N Adams-King (Vice-Chairman)	Blackwater
Councillor P Bundy	Chilworth, Nursling & Rownhams
Councillor D Drew	Harewood
Councillor M Flood	Anna
Councillor I Jeffrey	Mid Test
Councillor A Johnston	Mid Test
Councillor T Tasker	Andover Romans

Cabinet

Wednesday 22 February 2023

AGENDA

The order of these items may change as a result of members of the public wishing to speak

ITEM 7 Interim Rights under the Electronic Communications Code

Report of the Finance and Resources Portfolio Holder

Recommended:

1. That an access agreement be entered into with EE Limited and Hutchinson 3G Limited to allow access to the site within this report, if a formal Notice is submitted.

2. That the Head of Property and Asset Management and Head of Legal and Democratic Services be given authority to settle the final form of the Agreement.

SUMMARY:

- To consider request for access by Waldon Telecom Limited on behalf of EE Limited and Hutchinson 3G Limited seeking agreement to carry out survey works at East Portway, Andover under the Electronic Communications Code.

1 Introduction

1.1 The Council has received a request, prior to an official notice, on behalf of EE Limited and Hutchinson 3G (‘the Operator”) seeking agreement to carry out survey work at East Portway in order to establish whether the site would be suitable for the installation of a telecommunications mast.

1.2 The location of the proposed survey site, as a temporary site, at East Portway close to the junction with Weyhill Road. The proposed survey site is shown solid red on the plan in the Annex to this report. Contact has been made with Waldon, the agent for EE and Hutchinson 3G, asking if the mast could be located further from the housing and possibly within the industrial area edged blue. Due to the site topography and trees in the line of site for the area that needs a signal this has not proven possible. Clarification has also been sought in relation to the detail of the design and access arrangements. It has also been suggested from the Council’s perspective, as landowner, that this could be a permanent site and that the Council would favour an electrical mains option rather than a diesel generator to power the mast, even on a temporary basis due to the noise and pollution impact on nearby properties.

1.3 The Head of Property and Asset Management holds delegated powers to enter into various agreements regarding the Council’s estate, however the Council’s constitution carves out any transaction involving the possible installation of one or more telecommunications masts and/or ancillary equipment on Council-owned land or buildings’ and requires such matters to be referred to the Cabinet for consideration and approval.

1.4 At this stage, the request is simply to carry out survey work to establish if the site is suitable for mast installation, *not* to erect a mast itself. Any request to actually erect a mast would need to be submitted and considered separately.

2 Background

2.1 The Electronic Communications Code ('the Code') which is inserted into the Communications Act 2003 and Digital Economy Act 2017 gives Telecommunications Operators wide-ranging statutory rights to facilitate the creation and operation of their networks.

2.2 It is important to note that these are *rights* and rights which can only be challenged in very limited circumstances.

2.3 Operators can obtain the rights in one of two ways, firstly, by agreement and secondly in the absence of agreement they can be imposed by the Court.

2.4 The Operator is looking for suitable sites in the local area to replace a mast which his being decommissioned.

2.5 The purpose of these proposed surveys is to carry out Multi Skilled Visits (MSV) to assess whether there are impediments on the site such as radio wave interference, access issues, existing infrastructure etc. It is important to note that this request relates to the carrying out of survey work only. Granting rights to carry out the survey work does not commit the Council in any way to granting rights for any mast installations and in consenting to survey work, the Council does not in any way prejudice its ability to make a decision on granting rights for any mast installation itself if, and when, such a request ultimately arrived.

2.6 Outline information on the need for sites in Andover generally has been provided and these discussions are ongoing but in the meanwhile it is recommended that requests be considered prior to the formal notice.

2.7 It is important to note that this decision is sought of the Council in its capacity as landowner of the site in question. The Council is obviously also the Local Planning Authority. Any decision, as landowner, to give permission for the survey works to be carried out is entirely separate and remote from the Council's capacity as LPA. If, after the surveys, the Operator wishes to proceed and seek to obtain rights either from the Council or ultimately from the Court to erect a mast and apparatus on the land then planning permission will be also required in the usual way.

2.8 The General Permitted Development Order 2015 gives deemed permission (subject to some exceptions) for installation of electronic communications apparatus conditional on the Developer/Operator making a prior approval application to the LPA for its siting and appearance. On receiving a prior approval application, the LPA can either approve or refuse the proposed siting and appearance of the development. In the case of temporary masts different provisions can apply. Cabinet will be provided with an update on any differences in the Code with regards this being a temporary site.

2.9 As set out above, today's decision is not in any way related to the Council's role as LPA.

3 Consultations/Communications

3.1 No consultations have been undertaken in relation to this request. In the previous instance the Operator has written to some neighbouring properties regarding their proposals, normally when a Notice is served.

4 Options

4.1 **Option 1** Agree to give the requested rights to the Operator.

4.2 **Option 2** To refuse to give the requested rights.

4.3 **Option 3** To not respond at all to the request.

5 Option Appraisal

5.1 If either Option two or three was adopted, if a Notice follows this request, the Operator would apply to court for an order conferring the rights sought. From the experience of the previous request the Notice can follow quickly. There currently exist no grounds to properly object to the survey work and it is recommended that rights are given by agreement. For these reasons Option 1 is the recommended Option. If the Council ultimately made an order requiring access it is likely that the Council would be ordered to pay the Operators costs of obtaining that order.

6 Risk Management

6.1 An evaluation of the risks indicates that the existing controls in place mean that no significant risks have been identified at this time.

7 Resource Implications

7.1 There are no resource implications to the recommended course of action in respect of the survey works. If granted, the Operator will carry out the surveys and reinstate the site to its former condition.

7.2 Agreeing to confer the expressly limited survey rights at this stage will avoid the Council being ordered to pay the Operator's court fees in the event that consent is not given, and the Operator applies to the court for an order conferring the rights.

7.3 The Operator will repay reasonable costs properly incurred by the Council in providing access to carry out the surveys along with any supervision required of up to £500 plus vat for the first day of access and £350 for each subsequent day for each site. Officers are also looking to obtain fees for any external professional advice.

8 Legal Implications

8.1 The legal implications of the recommended option are that the Operator EE Limited and Hutchinson 3G Limited will be able to carry out survey works at the site at East Portway without the need for a Court Order.

8.2 The recommendation does not commit or imply commitment to permission being given for erection of telecommunications mast itself and in no way prejudices the Council's ability to consider any request regarding the mast itself. If the operators wish to proceed with that work, a further decision will be required and presented to Cabinet with all relevant supporting documentation.

8.3 As set out above, if, at the next stage following a Notice, an agreement is not entered into, the Operator may apply to the Court for an order compelling the Council to provide access. In this instance it is likely that the Council would be ordered to pay the costs of such an application. There are currently no grounds to resist that particular application.

9 Equality Issues

9.1 No equality issues arise as a result of the subject matter of this report.

10 Other Issues

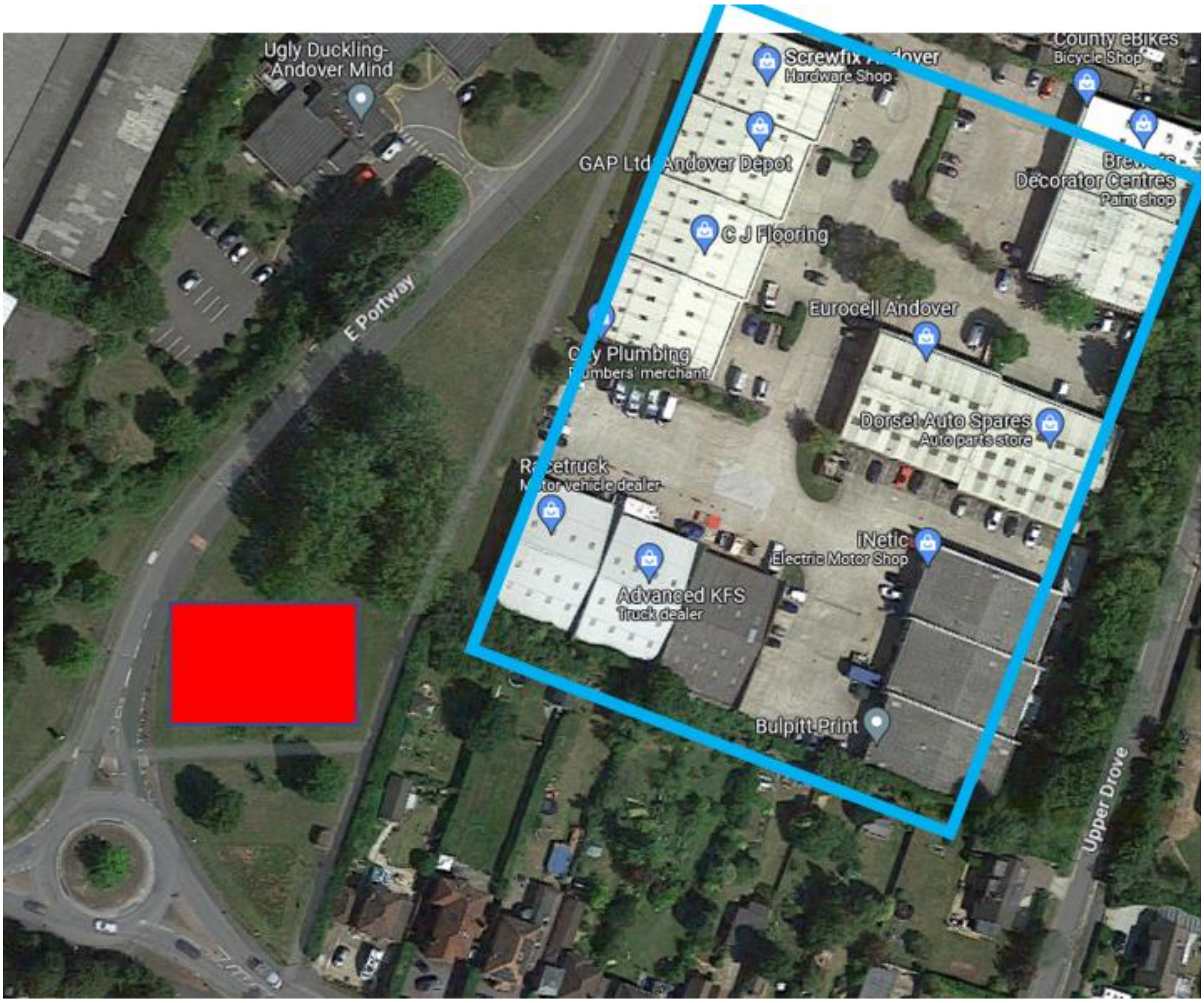
10.1 None identified.

11 Conclusion and reasons for recommendation

11.1 In the absence of grounds to object to the request for rights to carry out specified surveys, and in the light of the likely court costs which would fall to the Council if the Council does not consent, it is recommended that agreement to survey is entered into. To reiterate, any agreement pursuant to the recommendation allows the operator to survey in accordance with the Agreement and nothing further.

Background Papers (Local Government Act 1972 Section 100D) 2017 Electronic Communications Code			
Confidentiality It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	1	File Ref:	N/A
(Portfolio: Finance and Resources) Councillor M Flood			
Officer:	Paul Brooks	Ext:	8318
Report to:	Cabinet	Date:	22 February 2023

ANNEX


Ugly Duckling-
Andover Mind
Screwfix
Hardware Shop
County eBikes
Bicycle Shop
GAP Ltd Andover Depot
Decorator Centres
Paint shop
C J Flooring
E Portway
Eurocell Andover
Dorset Auto Spares
Auto parts store
iNetic
Electric Motor Shop
Advanced KFS
Truck dealer
Bulpitt Print
Upper Drove

ITEM 8 Resourcing for Impacts of the Environment Act and Biodiversity Net Gain (BNG)

Report of the Planning Portfolio Holder

Recommended:

That the budget requirement, as set out in section 8 of the report, be approved.

SUMMARY:

- The Environment Act imposes new requirements on the Council in terms of securing the delivery of Biodiversity Net Gain. Developments meeting certain criteria will need to achieve a mandatory 10% gain in biodiversity which will have significant impact on planning decision making. This will apply to certain types of new development requiring planning permission from the Council from November 2023. This obligation will also have wider corporate implications for the Council as a landowner, developer and manager of open space.
- In order to address these new duties, an additional full time Ecologist post is recommended to be based within Planning and Building service. This will increase the Council's capacity and resilience in this specialist area to properly address the additional workload resulting from the introduction of the Biodiversity Net Gain (BNG) requirements of the Environment Act.

1 Introduction

1.1 This report recommends funding for additional resource needed by the Council to accommodate the increased workload resulting from the introduction of BNG requirements under the provisions of the Environment Act 2021.

2 Background

2.1 The Environment Act was passed through parliament in November 2021 and makes provision for targets, plans and policies for improving the natural environment. There will be a number of new statutory requirements which will affect Local Authorities, stipulated within this Act, and to be implemented by further secondary legislation. This includes a new requirement for certain forms of development to achieve measurable gains (minimum 10%) in biodiversity in order to deliver BNG.

2.2 To assess the BNG required by new development, Natural England have produced a Biodiversity metric, which allows the relative gain/loss in biodiversity from a development to be calculated. This gives a value of the habitats on site before and after a proposed development, and informs the required measures to achieve a net gain in biodiversity. Developments need to achieve a minimum 10% uplift per habitat type affected by the proposed development e.g. woodland and grassland. A 10% net gain also needs to be achieved for hedgerow and river habitats, which are calculated separately within the metric.

2.3 The mandatory 10% uplift can be achieved on or off-site but on site gains must be maximised and prioritised as far as possible.

2.4 As the local planning authority (LPA), the Council has to assess applications for development and ensure they adhere to the requirements of the Environment Act as well as other statutory requirements and planning policy. The requirements under the Environment Act do not replace/override pre-existing legislation and protection afforded to protected sites, habitats and species. BNG is a separate, additional requirement, which must be considered in conjunction with existing ecological considerations.

2.5 BNG requirements will also apply to other aspects of Council work, such as major projects, including development plans for town centre regeneration in Romsey and Andover, and achieving positive environmental outcomes across other service areas involved in land/environmental management.

2.6 The Council will also have a responsibility to monitor the on-going delivery of BNG (the requirement is a minimum of 30 years) and report on progress within the Borough, as well as informing the Local Nature Recovery Strategies (LNRS). These are broad strategies to inform where BNG and nature recovery should be focussed. This will help guide developers and LPAs in terms of preferred locations for biodiversity enhancements. It is anticipated that this will be led by the County Council. However, this will require input and ongoing monitoring from all LPAs within the County so will have an effect upon the Council.

2.7 Overall, therefore, the requirements of the Environment Act will have a direct and significant impact on the Council, primarily in relation to Planning & Building and Planning Policy, but will also have a significant affect upon a range of other services including Community and Leisure, Property & Asset Management, Legal, and Environmental Services. Without enabling sufficient resource to cater for the additional workload, the Council’s planning performance could be adversely affected. It will likely impact upon the continued delivery of new housing (housing land supply) and other development, cause delays in planning decision making, lead to less robust decisions and result in reputational damage as well as missed opportunities to strengthen biodiversity within the Borough.

2.8 The requirement for BNG is further likely to affect procurement in relation to the demand for the provision of mitigation land, which is already an issue because of other statutory obligations relating to new development and the environment, such as nitrate neutrality and provision of Suitable Alternative Natural Green Space (SANGs) which deal with increased recreational pressure on the New Forest and Solent Special Protection Areas.

2.9 However, as well as providing a challenge and, by extension, new risks for the Council, which need to be managed, there are also likely to be opportunities whereby safeguarding land for BNG has benefits for the Borough's residents such as improved access to green space. It is anticipated therefore that successful and robust BNG delivery will have wider benefits not only to biodiversity within the Borough, but also the welfare and wellbeing of our residents, as well as having a positive contribution towards other Council goals (e.g. provision of green infrastructure). However adequate resourcing will be required to deliver the full benefit of this opportunity and successfully meet our statutory requirements.

2.10 The Council could also look at other options which could support biodiversity enhancements across the Borough. These might include procuring additional land, and improving land it already owns, which may be utilised for 'off site' BNG credits to support development proposals in a similar way to nitrate neutrality solutions. This would create other work streams and potential income. However there are complexities in stacking multiple benefits on sites (i.e. nitrates, SANG and BNG), and the principles which govern the application of BNG will still need to be adhered to.

2.11 Our existing Ecologist post (1 FTE) is already fully committed to meet the current requirements of Planning (Development Management), Planning Policy and supporting the work of other services including Communities and Leisure. There is therefore no capacity to absorb the unavoidable additional demands/work that will result directly from the new requirements of BNG which are significant.

2.12 The need for local authorities to identify extra resource has been highlighted in an ADEPT (Association of Directors of Environment, Economy, Planning and Transport) ALGE (Association of Local Government Ecologists) & DEFRA report (June 2022 – link in Background papers). The report says that there will be significant implications for how both capacity and capability can be developed within the planning system to accommodate BNG. This highlights the need for the provision of high quality, consistent training to be made available to relevant LPA staff.

2.13 Many other local authorities in Hampshire are better placed to able to meet the additional workload requirements of BNG, having had an established in house Ecology resource for a much longer period than Test Valley. Some authorities already have greater resource as they employ 2 or more qualified ecologists, or rely on SLA agreements within Hampshire County Council. Other larger rural authorities, with similar area and population to Test Valley, already have more than 1 FTE Ecologist (Basingstoke & Deane Borough Council and Winchester City Council) and it is possible that they may consider increasing capacity subject to identification of additional resourcing.

2.14 In order to assess the likely workload implications of BNG, officers have considered how many applications may be subject to this requirement. This is anticipated to affect approximately 450 applications per year, based upon our current understanding of how BNG requirements will operate, with a further

1100 likely to be subject to local requirements (still achieve enhancement but the mandatory 10% would not apply). This calculation is based on an average number of applications, over the last 5 years, for which mandatory BNG is likely to apply.

2.15 Given the complexity of the metric calculation used in these applications, and the additional information and reports which will require review, this will be a significant additional workload pressure. This activity will need to be combined with the other work streams anticipated to successfully deliver BNG including; advisory role to other services, possible procurement of land, assessing requirements under the next local plan, input to LNRs, provision of training, and input into Council's regeneration projects. Furthermore specialist advice will be needed to support additional consultations regarding planning conditions, long term management plans (min. 30 years) and legal agreements to secure BNG. Mitigation land will need to be monitored too. Collectively therefore this extra work has been assessed and equates to the provision of at least one additional Ecologist with the same level of expertise and experience as the existing post.

3 Corporate Objectives and Priorities

3.1 BNG is required as it is within the statutory provisions of the Environment Act 2021.

3.2 In the current Corporate Plan (2019-2023) the public feedback was that "*Residents are keen to take part in more leisure activities across the Borough making the most of Test Valley's green spaces*." And that looking ahead it was recognised that "*Preserving the natural assets of Test Valley for future generations"* was a priority also.

3.3 Delivering corporate objectives/projects, such as the regeneration envisaged by the Masterplans for Romsey and Andover, will need to provide BNG in accordance with the new statutory requirements. Early consideration of how to address this key issue will be needed to inform policies and plans as they emerge and so it is important to the success of these projects that the council has suitable specialist/technical resources in place.

4 Consultations/Communications

4.1 The report considers an operational resourcing matter, in response to additional workload resulting from new statutory requirements, and as such no external consultation or communication was necessary in this case. Any consultation regarding changes to the organisational structure will be undertaken in accordance with Council policy.

5 Options

5.1 Option 1 – Do not approve additional resource to meet BNG requirements.

5.2 Option 2 – Approve additional resource (new Ecologist Post 1 FTE at grade 9) to address BNG requirements (recommended).

5.3 Option 3 – Consider alternative ways to support delivery of BNG to meet the Council's statutory requirements.

6 Option Appraisal

6.1 **Option 1 -** With no additional resource in place there is a substantial risk that the council will not be able to satisfactorily fulfil its new statutory functions under the Environment Act because it will not have sufficient capacity to accommodate the additional workload based upon the current level of staffing in this specialist area. This option is therefore not recommended. As set out at 2.7 above this could potentially adversely affect planning performance, housing delivery and robustness of decision making leading to a range of associated problems and reputational harm to the Council.

Option 2 – To fulfil its statutory duty going forward, create more team resilience, and meet the aspirations of the current Corporate Plan, this additional resourcing (1 FTE Ecologist) is the recommended option. Providing an additional Ecologist, based in the Planning and Building service, will increase capacity and resilience in the specialist area. This will enable the Council to accommodate the additional workload resulting from the requirements BNG in terms of assessing proposals for new development, and its need to show how a 10% improvement in biodiversity has been calculated and will be delivered for a minimum period of 30 years, policy development, including the Council's new Local Plan, support for major regeneration projects as well as other the activities of services including Community and Leisure and Environmental Services.

6.2 **Option 3** – As per para 2.11, our current Ecologist (1 FTE) is at capacity. There is only one post with the expertise to deal with BNG and as such it cannot be covered in house by other officers. It might be possible to achieve more capacity for BNG by using external resources. For example, procuring the services provided by consultants. However, this is likely to be a more costly option than the 1 FTE post in-house and offer less flexibility and certainly of on-going delivery for the Council over a longer period of time (BNG is required to be provided for at least 30 years). This option is not therefore recommended.

7 Risk Management

7.1 An evaluation of the risks relating to this decision indicate that the controls in place mean that no significant risks have been identified at this time. The ability to discharge our BNG responsibilities with this additional resource will be closely monitored. If further resourcing needs are identified they will be reported at the appropriate time. Risks associated with the introduction generally of BNG are outlined above.

8 Resource Implications

8.1 The estimated cost of an Ecologist post, based on the mid-point of the grade, is £52,000. This is inclusive of all on-costs and after deduction of the vacancy management target that is applied to all salary budgets.

8.2 The recommendation is for a permanent post. Funding it constitutes budget growth as it will not be possible to identify compensating savings or additional income. It is not anticipated that the on-going cost of resourcing the additional requirements of BNG will be funded by Government. This additional pressure has been included in the revenue budget report for 2023/24, which is shown elsewhere on this agenda.

9 Legal Implications

9.1 There are no legal implications arising from the recommended option.

10 Equality Issues

10.1 Any future requirements would comply with the necessary equality duties and Council procedures

11 Other Issues

11.1 Community Safety - There are no implications for Community Safety.

11.2 Environmental Health Issues - There are no implications for Environmental Health and Protection.

11.3 Sustainability and Addressing a Changing Climate – There are positive implications in meeting our statutory duties with positive outcomes for sustainability and climate change.

11.4 Property Issues -- There may be implications for land ownership and management as a by-product of the new post – with a positive impact on land holdings with a climate and sustainability benefit.

11.5 Wards/Communities Affected – All wards and communities may be affected in the sense that planning applications across the Borough will need to achieve BNG.

12 Conclusion

12.1 To fulfil our new statutory duty for the delivery of our planning services and policy development, as well as broader corporate responsibilities and opportunities relating to BNG, it is recommended that the funding for an additional Ecologist be approved.

Background Papers (Local Government Act 1972 Section 100D) ADEPT (Association of Directors of Environment, Economy, Planning and Transport) ALGE (Association of Local Government Ecologists) & DEFRA report (June 2022)			
Confidentiality It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	None	File Ref:	N/A
(Portfolio: Planning) Councillor P Bundy			
Officer:	Louise Ward / Simon Finch	Ext:	8507
Report to:	Cabinet	Date:	22 February 2023

ITEM 9 King John's House Grant 2023/24

Report of the Community, Leisure and Tourism Portfolio Holder

Recommended:

1. **That the King John's House grant of £43,634 be extended for one year to cover 2023-24.**
2. **That authority be given to the Head of Finance and Revenues to agree up to a 5% inflationary rise on the grant for 2023/24 in discussion with King John's House.**

SUMMARY:

- The purpose of this report is to outline the rationale to extend the grant to King John's House (KJH) for 2023/24.
- In 2022 KJH applied for a three-year grant but was awarded a one year grant but with provision to fund for a further two years in order to align more closely with the wider Tourism activity and a future review to inform how best to meet the tourism sector needs of the Borough.
- The Review has not yet taken place and the proposal is to extend the grant for one more year in order to maintain services whilst the review takes place.

1 Introduction

1.1 The purpose of this report is to propose the extension of the grant to King John's House (KJH) for 2023/24.

1.2 King John's House and Tudor Cottage Trust exists to preserve the medieval house for the benefit of future generations and to share the house in an educational context. The Council has provided grant funding to support KJH to position themselves at the centre of a developing regional tourism market in active collaboration with the Visitor Information Centre in Romsey, Tourism South East and other local attractions to meet the needs of the whole Borough, whilst also developing the house and gardens as an attraction in its own right, creating a more engaging experience which broadens its current narrow demographic of visitor.

2 Background

2.1 At Cabinet on 23 February 2022 it was agreed to provide funding of £43,634 for 2022/23 under Community and Leisure's Revenue Grant Programme. KJH had applied for three year's funding but one year was agreed as the funding programme was to be managed by Planning Policy & Economic Development (PPED) Service and future funding tied into a wider Tourism Review. This funding supported the salaries of the General Manager and Deputy Manager (combined 1.8 FTE).

2.2 The 2022 Cabinet Report outlined how the Council's tourism contract, which includes the running of the Visitor Information Centre, would be coming up for renewal in 2023. The nature of this contract will be significant to the future objectives for any funding provided to KJH and therefore the report only made recommendations on one year's funding so that funding from 2023-4 onwards is better coordinated with the tourism contract.

2.3 There was also provision for future funding covering 2023/24 and 2024/25. This was set at £43,634 which did not include any inflationary rise. It is therefore recommended that any inflationary request be confirmed following discussions between the Head of Planning Policy and Economic Development, Head of Finance and Revenues and KJH.

3 Corporate Objectives and Priorities

3.1 As a tourist asset within the centre of Romsey and co-located with the Visitor Information Centre, supporting King John's House would meet the Town Centre and Communities Corporate priorities.

4 Consultations/Communications

4.1 Subject to the outcome of this decision, communication will be continued with King John's House and its trustees.

5 Options

5.1 The option to consider is whether to award King John's House a further year's funding.

6 Option Appraisal

6.1 King John's House and Tudor Cottage Trust (KJH) exists to preserve the medieval house for the benefit of future generations and to share the house in an educational context. The funding helps to continue those objectives whilst a wider review of tourism is undertaken.

6.2 This recommendation was linked to the wider Tourism review which has not yet taken place but is planned for 2023. This review has not yet taken place as it was considered necessary for this to be completed in the context of a post pandemic tourism economy. It will also ensure that decisions can be informed with a full year of visitor figures and data.

6.3 KJH applied for three years' funding in 2022 but were awarded one year and the funding was moved to PPED. As a result a further application has not been requested. By providing a further year of funding it would bring this into line with the Visitor Information Centre (VIC) contract this is currently out to tender for one year, 2023/24. With the extension to the VIC contract and the grant support for KJH the Council would be able to carry out the review whilst the tourist services continue. Both organisations have experienced challenges recently. These external factors have affected their ability to implement and monitor the progress of their proposals. Without having a clear picture to understand the circumstances it is not possible to recommend a future specific model of tourist service delivery in the Borough.

6.4 It is intended that as part of the grant offer that the Trust would need to submit regular monitoring reports. This will give the Council an accurate picture post Covid of how the organisation is running and demonstrate an increasing involvement in the work of Romsey Future and other town centre partnerships whilst also supporting the wider Test Valley Tourism objectives. This will be in the form of:

- To provide a quarterly report submitted 10 days post quarter end outlining visitor numbers and clearly articulating the role the Centre plays in supporting both the tourism activity and community activity.

- To work with TVBC and partners to proactively promote Test Valley, its businesses, and events through all relevant social media channels (Facebook, Twitter and Instagram) to prospective visitors; and be able to provide statistics on the number of posts, followers etc. attributable to this work.

- To work closely in an open and proactive way with TVBC during 2023 through providing data as we scope and develop the wider Test Valley Tourism offer.

6.5 Should the recommendation not be agreed it would not provide KJH with the certainty and security that the funding provides whilst the monitoring and review process is undertaken and to understand the function and role that KJH can have in the future.

7 Risk Management

7.1 An evaluation of the risks indicate that the existing controls in place mean that no significant risks have been identified at this time.

8 Resource Implications

8.1 The recommended grant, together with an inflationary allowance can be managed within existing budgets.

9 Legal Implications

9.1 There are no legal implications arising from this report.

10 Equality Issues

10.1 An EQIA screening had been completed in accordance with the Council's EQIA methodology as part of the February 2022 Cabinet report and no potential for unlawful discrimination or negative impact had been identified, therefore a full EQIA had not been carried out. The considerations within this report reflect that earlier decision.

11 Other Issues

11.1 Sustainability and Addressing a Changing Climate – None

11.2 Wards/Communities Affected – Romsey but also wider Test Valley.

11.3 King John's House Gardens are under the ownership of TVBC and leased to King John's House.

12 Conclusion and reasons for recommendation

12.1 This report recommends that the King John House's grant is extended for one year.

12.2 During 2023 a complete tourism review in the context of a post pandemic tourism economy will be undertaken. By extending this grant, together with the tender of the VIC for 2023/24, both services will continue, feed data into the review process and play a role in developing the new Test Valley tourism offer.

Background Papers (Local Government Act 1972 Section 100D) None			
Confidentiality It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	None	File Ref:	N/A
(Portfolio: Community, Leisure and Tourism) Councillor D Drew			
Officer:	Jennie Pell	Ext:	8309
Report to:	Cabinet	Date:	22 February 2023

ITEM 10 Capital Strategy Update 2022/23 – 2027/28

Report of the Finance and Resources Portfolio Holder

Recommended:

That the Capital Strategy 2022/23 to 2027/28 be approved.

Recommendation to Council

SUMMARY:

- The Capital Strategy sets out the framework within which all Council capital expenditure is approved, monitored and financed. The CIPFA Prudential Code requires that it be updated annually.
- This report provides an update of the existing Capital Strategy and includes forecast changes to its timescale and total cost.

1 Introduction

1.1 The approval of a Capital Strategy is an annual requirement under the revised CIPFA Prudential Code 2021. The Code requires that councils have in place a strategy that sets out the long term context in which capital expenditure and investment decisions are made, giving due consideration to both risk and reward and the impact resulting from those decisions.

1.2 As local authorities become increasingly complex and diverse it is important that those charged with governance understand the long term context in which investment decisions are made and the financial risks to which the council is exposed.

1.3 The objectives of the Capital Strategy are to:

- Provide an overview of the governance process for approval and monitoring of capital expenditure.
- Provide a longer term view of planned capital expenditure.
- Provide expectations around debt and use of internal borrowing to support capital expenditure.
- Define the authority’s approach to commercial activities including due diligence and risk appetite.
- Define the available knowledge and skills of the authority in relation to capital investment activities.

2 Background to the Capital Strategy

2.1 The Council's Capital Strategy was last updated for the period 2021/22 to 2026/27 in February 2022.

2.2 The Capital Strategy demonstrates how the Council takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability.

2.3 The Capital Strategy addresses in detail the following key areas:

- Linking together capital requirements related to corporate priorities for new projects and the ongoing capital need to maintain / repair existing assets through the Asset Management Plan.
- Managing the approved Capital Programme in an affordable, financially prudent and sustainable way.
- The process of how new bids are introduced to the Capital Programme.
- Monitoring progress against approved budgets.
- Financing capital expenditure including borrowing requirements and Minimum Revenue Provision (MRP).
- Purchase of commercial properties and the resources required to ensure due diligence.
- Knowledge and skills.

2.4 The Capital Strategy does not allocate resources. This is included in the decision-making process in setting the three-year rolling capital programme as part of the annual budget-setting process.

2.5 The Capital Strategy is written to give a broad view of spending in the longer term and how it will be financed. There are several large projects being currently considered, but as these projects are still in the early planning stage and have not yet been costed, it will be prudent to give a further update when these figures are available.

2.6 All capital receipts and expenditure identified in this document are subject to the Council's Financial Regulations and the authority limits contained therein.

3 Definition of Capital Expenditure

3.1 In order to qualify as capital expenditure an item must meet the following three criteria:

- Have a total cost greater than £10,000.
- Have a useful economic life greater than one year.

- Expenditure must be for the purchase of new land / equipment that can be separately identified on the asset register OR
  Materially lengthen the expected useful economic life of an asset OR
  Add value to the asset being modified.

3.2 All other expenditure on the routine maintenance and repair of assets will be treated as revenue expenditure.

4 Corporate Objectives and Priorities

4.1 The objective of the Capital Strategy is to ensure that the overall strategy, governance procedures and risk appetite are clear to members. The strategy outlines how stewardship, value for money, prudence, sustainability and affordability will be secured.

4.2 The Council's Corporate Plan, sets out the Council's strategic aims over the period 2019 – 2023 and details four priority areas. A new plan for 2023 – 2027 is currently being developed.

4.3 The Capital Strategy enables delivery of projects within the Corporate Action Plan to deliver these priority areas. Some examples of projects in the current Capital Programme that contribute to meeting these priorities are given below.

<u>Growing the Potential of our Town Centres</u>

4.4 Part of the office complex in the Chantry Centre has been refurbished, funded by a grant, enabling businesses to utilise previously vacant offices, bringing further footfall into the town centre. Riverside Park has been developed to give shoppers a pleasant area to enjoy within the town centre.

<u>Growing the Potential of our Communities</u>

4.5 The Council continues to invest and refurbish properties to expand the availability of housing for rent with plans to refurbish Fleming Avenue, Romsey in the south of the borough and New Street properties, Andover in the north.

4.6 The Community Infrastructure Levy continues to be used to provide funds to enhance local amenities in several parishes such the clubhouse at Abbots Ann and Valley Park Orchard Trail.

<u>Growing the Potential of People</u>

4.7 The Council continues to work in partnership with Kier Property Ltd for the management and development of Walworth Business Park. Substantial investment in developing several sites within the park has been made in the last few years, ensuring that more opportunities for work are available.

4.8 The Council exceeded its affordable housing target for the seventh year in a row.

Growing the Potential of the Local Environment

4.9 The Council has recently been successful in bidding for funding under the Public Sector Decarbonisation Scheme to implement energy efficiency measure at the Bourne House depot in Romsey. This will dramatically reduce carbon emissions from one of the Council's main operational facilities.

4.10 Purchase of Bury Hill land and subsequent works relating to it, have enabled the public access to the countryside for recreation and general health and wellbeing.

5 Capital Expenditure required to maintain Council Assets

5.1 In addition to the above, the Council also has the responsibility of maintaining its existing asset base.

5.2 The Asset Management Plan (AMP) for 2023/24 was approved by Council on 25 January 2023. The plan identifies a combination of both revenue repairs and capital replacements for assets owned by the Council.

5.3 Whilst the AMP is a key document in planning future capital expenditure requirements, funding for the identified projects is only approved for current year and 2023/24 projects.

5.3.1 The Council has an earmarked reserve for Asset Management expenditure, which covers both revenue and capital expenditure. The balance on this reserve was £3.070M at 31 March 2022. Currently it is forecast to have a balance of £1,095M remaining in the reserve by the end of March 2024.

The Council's strategy is to fund the AMP in three ways:

- Firstly, there is a contribution from the revenue budget. This is recommended to be £2.0M in 2023/24.
- Secondly, where the Council has a revenue surplus at the end of the year an element of this can be used to top-up the reserve.
- Finally, there may be earmarked reserves or other sources of income to finance specific projects. For example, some community based projects are regularly funded by New Homes Bonus receipts in the year.

6 The Council's Capital Expenditure and Financing 2022/23 to 2027/28

Current Asset Portfolio as at 31/3/22

6.1 The Council holds an investment property portfolio that supports both its operational activities and non-operational activities from which it receives an element of rental income. For 2022/23 the value was £8.053M which represents a gross yield of 5%.

Asset Category	**Valuation 31/03/22**	**Rental Income**
	£'000	**£'000**
Investment Properties - Existing	120,225	5,941
Investment Properties – Project Enterprise	35,956	2,112
Total Investment Properties	**156,181**	**8,053**
Land & Buildings	93,735	
Vehicles, Plant & Equipment	3,312	
Community Assets	12,595	
Infrastructure Assets	633	
Surplus Assets	320	
Total Assets	**266,776**	

The rental income the Council receives is used to support General Fund services.

Investment Property (Non-Operational)

6.2 These assets include Business Parks, Project Enterprise investments and land held solely for capital appreciation and rental income.

Land and Buildings

6.3 These are operational properties, land, infrastructure and community assets that are used to deliver council services and include Council offices and car parks.

Vehicles, Plant & Equipment

6.4 These assets are used in the delivery of Council services and include all council owned vehicles, IT equipment, play equipment and green spaces equipment.

Community Assets

6.5 These assets include parks and open spaces.

Infrastructure Assets

6.6 These assets include footpaths and cycle ways.

Surplus Assets

6.7 These are assets that are not being used to deliver services, but which do not meet the criteria to be classified as either investment properties or assets for sale.

6.8 Capital Expenditure Forecast

Details of capital expenditure form one of the prudential indicators. The table below shows the capital expenditure for 2021/22 to 2023/24 as presented in the Capital Programme update elsewhere on this agenda, together with estimated expenditure on future unapproved projects from 2023 to 2028, and how these approved and unapproved projects will be financed.

	2021/22 Actuals £'000	**2022/23 Forecast £'000**	**2023/24 Estimate £'000**	**2024/25 Estimate £'000**	**2025/26 Estimate £'000**	**2026/27 Estimate £'000**	**2027/28 Estimate £'000**
Capital Expenditure							
Asset Management Plan	886.0	2,634.3	1,485.1				
Community & Leisure							
Land & Buildings	259.0	652.3	2,452.2	690.5			
Vehicles, Plant & Equipment	94.1		647.3				
Community Assets	262.6	1,203.3	2,310.4	1,000.0	1,000.0	250.0	250.0
Infrastructure Assets	5.8	16.7	1,587.3	3,350.0	3,350.0		
Property& Asset Management							
Land & Buildings	798.3	397.4	200.0				
Vehicles, Plant & Equipment	30.2		20.6				
Community Assets	209.1	375.0	240.5				
Infrastructure Assets	334.3	71.5	3,200.0	400.0			
Project Enterprise							
Investment Properties	4,047.7	5,926.9	3,160.0				
Planning Policy & ED							
Vehicles, Plant & Equipment			439.7				
Community Assets		45.0	66.0	599.0			
Housing & Env'tl Health							

Community Assets *(Disabled Facility Grants/Loans)	961.2	1,300.0	1,250.0	1,250.0	1,250.0	1,250.0	1,250.0
Affordable Housing							
Community Assets	810.0						
Total Capital Expenditure	**8,698.3**	**12,622.4**	**17,059.1**	**7,289.5**	**5,600.0**	**1,500.0**	**1,500.0**
Resourced by:							
Capital Receipts	1,174.2	578.1	537.4	500.0	500.0	500.0	500.0
Government Grants	960.8	1,295.0	1,361.0	1,749.0	1,150.0	1,150.0	1,150.0
Internal Contributions	1,114.8	1,114.8	2,269.5	2,327.7	1,369.7	883.0	883.0
External Cont'ns (S106 etc.)	1,225.1	2,148.6	1,835.7	1,150.0	1,000.0		
Reserves (NHB & specific)	1,342.7	3,927.9	5,522.9	3,600.0	2,100.0	250.0	250.0
Draw from / Transfer to Capital Receipts Reserve	2,880.7	3,558.0	4,282.6	(787.2)	(519.7)	(1,283.0)	(1,283.0)
Internal Borrowing			1,250.0	(1,250.0)			
Total Financing	**8,698.3**	**12,622.4**	**17,059.1**	**7,289.5**	**5,600.0**	**1,500.0**	**1,500.0**

**(DFG) Disabled Facilities Grants*

6.9 The table above indicates that internal borrowing will fill the funding gap of £1.25M in 2023/24 but will be cleared by receipts forecast in the following year. The balance of the Capital Receipts Reserve as at March 2028 is estimated to be £4.24M but will be impacted by any additional projects in the future such as the regeneration programme, see table in 6.10. For funding options – see section 10.

6.10

Capital Receipts Reserve	**£'000**
Balance B/f 1.4.22	**7,936.4**
Forecasted income over programme	10,052.6
Forecasted expenditure over programme	13,743.7
Balance as at 31.3.28	**4,245.3**

7 Managing the Capital Programme

7.1 A Capital Working Group (CWG) meets every year. The group includes the Deputy Chief Executive together with representatives from Finance and other Services with capital expenditure requirements. The CWG is responsible for assessing new capital bids against a range of criteria, and considering the available capital financing options.

7.2 The Capital Programme is updated and reported to Cabinet three times per year. Bids for new expenditure are generally included in the autumn report (see para 8.1). Each update contains details of approved projects together with the budget profile of each project.

7.3 The process for adding new projects to the Capital Programme is detailed below.

8 Adding new projects to the Capital Programme

8.1 There is a timetable for new bids to be prepared and assessed before being presented for approval.

July/August – CWG reviews bids together with draft business cases and options appraisals. All bids are subject to an objective scoring exercise. Bids are prioritised according to the score attained.

October – Management Team reviews the scored bids and proposes a Capital Programme for approval.

December – The proposed Capital Programme is considered by Cabinet.

January – The Capital Programme is recommended to Council for approval.

8.2 In order to ensure the most efficient use of capital resources an objective scoring methodology is used. The scoring system gives priority to bids that meet the Council's Corporate Plan objectives or improve efficiency in service delivery whilst considering other key factors such as the Climate Emergency.

9 Monitoring Progress against the Capital Programme

9.1 The Capital Programme contains details of approved projects together with the budget profile of each project. Where budget variances or potential slippage are identified they are reported to Cabinet as part of the Capital Programme reporting process.

9.2 Cabinet receives three updates per year on the progress of the Capital Programme. On each occasion, the progress of each project is assessed and if any change is required to the budget or timing of the project, the reasons are explained and the necessary approvals sought.

10 Financing the Capital Programme

10.1 Consideration of the financing of capital projects is integral to the governance procedures outlined above.

10.2 In general, the Council finances capital expenditure from existing resources including reserves and capital receipts or from specific grant funding sources. This ensures that capital expenditure is both affordable and prudent.

10.3 As at February 2023 the forecast balance of the Capital Receipts Reserve used for the financing of the approved Capital Programme at 31 March 2025 was £3.3M. The options for dealing with any expenditure above this balance are:

- Honour existing capital projects, but restrict new capital spending (with the exception of projects that are legislative, externally funded or generate revenue savings) to ensure suitable capital receipts have been identified for expenditure above the remaining balance in the Capital Receipts Reserve.

- Use borrowing (either external loans or using existing reserve balances) until an ongoing sustainable funding solution for the Capital Programme can be identified.

- Use contributions from revenue budgets or transfers from existing earmarked reserves.

Resource Streams to fund the Capital Programme

10.4 The Council has five main sources of income generation to fund future capital expenditure:

- Proceeds from the sale of assets

- Grants and contributions for specific projects including New Homes Bonus and developers' contributions

- Contributions from the Revenue Budget

- Use of existing balances

- Borrowing

10.5 This strategy recommends a sustainable approach to capital investment by placing maximum emphasis on utilising the first three options. Use of existing balances will only be used for the reasons discussed in paragraph 10.19-23. Borrowing will be used for funding where there is a good business case for doing so.

Sale of redundant / obsolete assets

10.6 The Property and Asset Management Service monitors the useful economic life of the Council's land and buildings assets. Where it is determined that an asset is surplus to Council requirements or is not economically advantageous to retain it will be considered for disposal.

10.7 In the case of land this will not be less than the best consideration that can reasonably be obtained unless there are exceptional circumstances (e.g. discounted disposal for affordable housing). Given the current situation in the market value of land and buildings, it is expected that few sites will be suitable for disposal in the near future.

10.8 In considering whether an asset is surplus to requirements, the following will all be considered; the Council's ability to control future uses of the property, the net income foregone by disposal and the costs of making good or creating a suitable replacement of the asset sold.

10.9 The Head of Property and Asset Management will periodically produce a list of properties considered appropriate for potential disposal and, if required, report to Cabinet accordingly.

Grants and Contributions

10.10 Certain projects will attract grants from the Government or other bodies. Where these grants are available, the Council will seek to fully utilise them having due consideration to ongoing revenue costs that will have to be borne following the removal of the grant. The level of external funding available is considered when approving bids to be added to the Capital Programme.

10.11 The Council also uses income received under the New Homes Bonus scheme to contribute to new capital expenditure. For example, receipts from this source are used to fund capital community projects.

10.12 Part funding is available on some projects from partners (e.g. Hampshire County Council). Where such contributions are available they will be applied against approved capital expenditure.

10.13 As part of the terms of certain planning consents, developers are required to make contributions to local infrastructure in areas such as affordable housing, open space, green travel, highways improvements etc. (often referred to as section 106 agreements). Where these contributions are available they will be applied against the total cost of relevant projects.

10.14 The S106 regime is supplemented by the Community Infrastructure Levy (CIL).

Revenue Contributions

10.15 The annual revenue budget includes contributions to capital reserves for specific projects as well as a general contribution towards future capital spending.

10.16 Additional revenue contributions may be made in the event of revenue surpluses at the end of each year. However, the allocation of any underspend will be decided by Cabinet and cannot be relied upon as a sustainable source of financing for the capital programme.

10.17 Where the Council has existing reserves, these balances could be considered for transfer to the Capital Programme. However, reserve balances are one-off in nature and do not provide an ongoing funding option.

10.18 In light of recent increases in the base interest rate, the Council forecasts generating additional income from its cash investments over the medium term. The Medium Term Financial Strategy allows for a transfer from revenue to allocate some of this income to capital expenditure.

Use of Existing Balances

10.19 At 1st April 2022 the Council had £7.936M of useable capital receipts.

10.20 The Capital Strategy promotes a sustainable approach to capital investment by restricting the level of capital expenditure to the amount of receipts generated/other sources of finance available.

10.21 The use of balances will be considered appropriate for projects that will produce ongoing revenue savings. Where this method is applied, the savings generated in the revenue budget will be used to replenish capital reserves until such time as the project is 'capital-neutral' after which time ongoing savings will form part of the Council's annual revenue budget.

10.22 Use of balances or internal borrowing will also be considered appropriate as a short term measure where expenditure is made before expected capital receipts are generated. There is some risk with this approach as expenditure will be incurred before assets are sold and income is realised.

10.23 The table in paragraph 6.10 indicates that the balance of available capital receipts will reduce to £4.245M at the end of 2027/28.

10.24 The current Capital Programme is fully financed and can be delivered with available resources.

Borrowing

10.25 The Council borrowed £5.9M in 2018/19 to part fund the redevelopment of Andover Leisure Centre. In April 2019 a further £1.55M was borrowed to fund the purchase of property in Andover. The Council, as an eligible local authority, has accessed funds from the Public Works Loan Board (PWLB).

10.26 The Prudential Indicators, annexed to the Treasury Management Strategy Statement and Annual Investment Strategy report elsewhere on this agenda, set out the maximum borrowing limits for the Council.

Minimum Revenue Provision (MRP) Policy Statement

10.27 Authorities have a statutory duty to set aside revenue funds to repay borrowing. Minimum Revenue Provision (MRP) is the revenue charge that the Council is required to make for the repayment of debt, as measured by the underlying need to borrow, rather than actual debt. The underlying debt is needed to finance capital expenditure which has not been fully financed by revenue or capital resources. As capital expenditure is generally expenditure on assets which have a life expectancy of over one year it is prudent to charge an amount for the repayment of debt over the life of the asset or a similar proxy figure.

10.28 The Local Authorities (Capital Financing and Accounting) regulations require local authorities to calculate for the financial year an amount of MRP which is considered to be ‘prudent’. There are two methods available for calculating this.

10.29 Asset Life method - where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be determined by reference to the useful life of the asset.

10.30 Depreciation method – MRP is deemed to be equal to the provision required in accordance with depreciation accounting in respect of the asset on which expenditure has been financed by borrowing or credit arrangements. This should include any amount for impairment charged to the income and expenditure accounts.

10.31 For this purpose standard depreciation accounting procedures should be followed, except in the following respects:

- MRP should continue to be made annually until the cumulative amount of provision made is equal to the expenditure originally financed by borrowing or credit arrangements. Thereafter the Council will cease to make MRP.
- On disposal of the asset, the charge should continue in accordance with the depreciation schedule as if the disposal had not taken place. This does not affect the ability to apply capital receipts or other funding sources at any time to repay all or part of the outstanding debt.

10.32 Where the percentage of the expenditure on the asset financed by borrowing or credit arrangements is less than 100%, MRP should be equal to the same percentage of the provision required under depreciation accounting.

10.33 There is no requirement to charge MRP where the Capital Financing Requirement (CFR) is nil or negative at the end of the preceding year, nor is a charge required until the financial year after an asset becomes operational.

10.34 The Council’s MRP Policy is elsewhere on this agenda, as part of the Treasury Management Strategy Statement and Annual Investment Strategy.

11 Commercial Property Investment and Resource Strategy

11.1 On 16 November 2022, Council approved the Medium Term Financial Strategy (MTFS) for 2023/24 – 2025/26. This strategy sets out that the Council, "will continue to seek out new investment opportunities through Project Enterprise, making better use of cash resources to enhance revenue returns", and "ensure that the Council's infrastructure is fit for purpose and that new capital needs are identified and met."

11.2 The Council has a work stream known as Project Enterprise to progress this. In recognition of the fast pace of the local property market, Council approved a delegated authority to the Head of Property and Asset Management, in consultation with a cross-party Member panel, to purchase property investments from a pre-approved capital budget where the timing of the Council's usual approval process may impede the ability to complete an acquisition. A sum of £3M was approved for this purpose and all purchases under this delegation are reported to Council for noting.

11.3 The Head of Property & Asset Management in consultation with the Head of Finance & Revenues is responsible for considering all proposals that contribute to the delivery of the investment strategy and meet the investment criteria (see 11.5 below). Feasible projects which fall outside the Head of Property and Asset Management's delegation, are reported to Cabinet / Council for approval.

11.4 External agents may be appointed to advise on and negotiate the terms of acquisition, recognising that others can be closer to the investment market on a day to day basis than the Council's in-house team. As well as advising prior to acquisition, the agents undertake due diligence in order to ensure that those charged with governance can make informed decisions.

Assessment Process

11.5 Each investment opportunity will be assessed through a two stage (or gateway) process. Gateway One comprises a number of criteria to determine whether there is an opportunity to consider and take forward. It establishes whether the opportunity can be recommended for in-principle agreement, or that the opportunity does not meet the decision criteria and therefore proceeds no further. Gateway Two involves the development of a much more detailed business case to be considered for approval.

Investment Threshold

11.6 The Council's Investment Strategy gateway process stipulates a minimum of £250,000 for commercial property investments and £100,000 for housing investments.

Return on Investment

11.7 The Investment Strategy gateway process requires a minimum level of return depending on the perceived risk of a project, ranging from 4% to 10% for commercial property investments. This reflects the level of risk in the commercial property market, which for a number of reasons is more volatile than the housing market.

11.8 A lower minimum level of return of 3% is used for residential property purchases to reflect the greater influence of expected long-term capital appreciation in house values that is not so prevalent in the commercial property market.

Risk Management

11.9 The implementation of the Investment Strategy means the council is managing different financial risks. Investments are subject to inherent economic and market risks, and therefore a balanced portfolio of investment is maintained.

11.10 The governance process is designed to mitigate these risks. All investment opportunities are built upon a robust business case, developed using appropriate technical advisors and take into account due and proper consideration of the balance between risk and reward and an assessment of the underlying security of the investment to ensure compliance with the fiduciary duty the council holds.

Resource Implications

11.11 The Council may fund investments through using its reserves, capital receipts and internal borrowing. Any external borrowing required needs to be made in accordance with the Prudential Code. The latest edition of this code states an authority must not borrow to invest primarily for financial return. The code requires borrowing to be affordable, sustainable and provide value for money. The return on investment would therefore need to be in excess of the capital financing costs of the borrowing, which consist of the interest payable and the statutory minimum revenue provision (MRP) that sets aside funds for the repayment of the borrowing. Currently to access PWLB lending, the chief financial officer is required to certify that the local authority’s capital spending plans do not include the acquisition of assets primarily for yield.

11.12 Some investments will generate a return in the medium to long term but make a loss in the earlier years. It will be important to set aside a proportion of any returns made on investments to repay capital, which in turn will enable further future investments to be made.

11.13 Assets created through these investments, and the associated liabilities will be consolidated in the Council’s balance sheet and treated in accordance with the code of Practice on Local Authority Accounting in the United Kingdom, which is supported by the International Financial Reporting Standards.

12 Knowledge and Skills

Financial Assets

12.1 Treasury Management Activity is undertaken by the Principal Accountant (Technical) (CIMA) and the Principal Accountant (Services). They are managed by the Accountancy Manager. Two of these three posts are filled by qualified CIMA accountants.

12.2 The team is experienced in treasury management activity and has demonstrated its skills by enabling the Council to opt-up to Professional status under the MiFID II (EU law - Markets in Financial Instruments Directive) reforms.

12.3 The CIPFA Code requires the Chief Financial Officer to ensure that Members and Officers are adequately trained in treasury management. Training is arranged as required and is regularly reviewed.

Non-Financial Assets

12.4 The Council's investment property portfolio is managed by the Property and Asset Management Service. The team includes qualified chartered surveyors and a building surveyor all of whom have extensive experience of property dealings within both the public and private sectors. This experience includes dealing with a mix of property types and professional work including professional services, landlord and tenant statutory valuations, acquisitions and disposals, commercial and residential property management.

12.5 The team also work with external agents where specialist expertise is required to deal with particular properties or if resource is not available to deal with matters in a timely way. Examples of where external advice is used include agency, valuation, building surveying and planning work. The Council also has internal building surveying resource in Property and Asset Management to advise on construction, repair and maintenance and statutory compliance matters across its investment and operational properties.

12.6 The Council's asset valuations for its financial statement are prepared by internal and external valuers with an agreed rolling programme of valuations for the whole Council property portfolio. All investment properties are valued on an annual basis.

13 Conclusion and reasons for recommendation

13.1 The Capital Strategy highlights the need to consider funding options for additional expenditure within this programme. Currently the forecasted expenditure to 2027/28 is showing a funding gap in 2023/24 where internal borrowing is necessary. The Capital Receipts Reserve balance is forecast to be £4.245M at the end of March 2028.

13.2 The main drive of the strategy is to ensure that future capital expenditure is prudent, sustainable and affordable.

13.3 Regular reviews will be carried out to identify potential assets for disposal in order to generate capital receipts.

Background Papers (Local Government Act 1972 Section 100D) None			
Confidentiality It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	None	File Ref:	N/A
(Portfolio: Finance and Resources) Councillor M Flood			
Officer:	Laura Berntsen	Ext:	8204
Report to:	Cabinet	Date:	22 February 2023

ITEM 11 Treasury Management Strategy Statement and Annual Investment Strategy 2023/24

Report of the Finance and Resources Portfolio Holder

Recommended:

1. **That the Treasury Management Strategy Statement and the Annual Investment Strategy for 2023/24, as set out in the report, be approved.**
2. **That the Minimum Revenue Provision (MRP) policy, as shown in paragraph 4.4 in the report, be approved.**
3. **That the Prudential Indicators, as set out in Annex 1 to the report, be approved.**

Recommendation to Council

SUMMARY:

- This report presents the Treasury Management and Annual Investment Strategies of the Council which have been produced in accordance with the latest statutory requirements and relevant codes of practice.
- Borrowing costs are currently limited to the interest payable on long-term borrowing on PWLB loans, which have been used to fund various initiatives as defined in this strategy. There is no additional borrowing expected in this strategy.
- The major objectives of the Treasury Management Strategy for 2023/24 are:
  - To manage effectively and control the risks associated with treasury management activities.
  - To invest prudently having regard to the security and liquidity of investments and the predictability of returns.
  - To aim to achieve the optimum return on investments commensurate with the proper levels of security, liquidity and protection of capital.

1 Background

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

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

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

1.4 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to day treasury management activities.

1.5 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

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

2 Reporting Requirements

2.1 Treasury Management Reporting

2.1.1 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actual figures.

(a) **Prudential and treasury indicators and treasury strategy** (this report) – 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 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 Councillors with the progress of the capital programme, amending prudential indicators as necessary, and whether any policies require revision. This report is presented to Cabinet.

(c) **An annual treasury report** – this is a backward looking review document and provides details of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

2.2 **Quarterly reports**

2.2.1 In addition to the three major reports detailed above, from 2023/24 quarterly reporting is also required. It is anticipated that these reports will be incorporated into the regular budget monitoring reports already presented to Cabinet throughout the year.

2.3 **Treasury Management Strategy for 2023/24**

2.3.1 The strategy for 2023/24 covers two main areas:

(a) Capital issues

- The capital expenditure plans and the associated prudential indicators;
- The minimum revenue provision (MRP) policy

(b) Treasury Management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

2.3.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, DLUHC MRP Guidance, the CIPFA Treasury Management Code and DLUHC Investment Guidance.

2.4 **Training**

2.4.1 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.

2.4.2 The Head of Finance and Revenues, supported by the Democratic Services Manager and Principal Accountant (Corporate), will ensure that adequate and appropriate training is provided to all Councillors and staff involved in treasury management activities.

2.4.3 This will form part of the finance induction for new Members following the 2023 borough elections.

2.5 **Treasury Management Consultants**

2.5.1 The Council uses Link Asset Services, Treasury Solutions as its external treasury management advisors.

2.5.2 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 the external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

2.5.3 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the method by which their value will be assessed are properly agreed and documented, and are subject to regular review.

2.5.4 The scope of investments within the Council's operations now includes both conventional treasury investments (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The commercial type investments require specialist advisors, and the Council uses appropriate external advisors in relation to this activity.

3 **Prudential Indicators, Treasury Limits and MRP Statement**

3.1 **The Capital Prudential Indicators 2023/24 – 2025/26**

3.1.1 The Council's capital expenditure plans are the key driver of treasury management activity. Capital expenditure plans are reflected in the prudential indicators, which are designed to assist Members' overview and that capital expenditure is affordable.

3.2 **Capital Expenditure**

3.2.1 This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Capital expenditure £000	2021/22 Actuals	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Services	**4,650.6**	**5,945.5**	**7,950.1**	**1,539.5**
Commercial Activities/non-financial investments	**4,047.7**	**6,676.9**	**3,160.0**	
Total	**8,698.3**	**12,622.4**	**11,110.1**	**1,539.5**

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure £000	2021/22 Actuals	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Capital Expenditure	**8,698.3**	**12,622.4**	**11,110.1**	**1,539.5**
Financed by:				
Capital receipts	**1,174.2**	**578.1**	**87.4**	**50.0**
Capital receipts reserve	**2,880.7**	**3,558.0**	**2,357.6**	**-2,027.2**
Government grants	**960.8**	**1,295.0**	**1,582.9**	**599.0**
External Contributions	**1,225.1**	**2,148.6**	**689.8**	**400.0**
Internal Contributions	**1,114.8**	**1,114.8**	**2,269.5**	**2,267.7**
External financing				
Reserves (NHB and Specific	**1,342.7**	**3,927.9**	**4,122.9**	**250.0**
Net financing need for the year	**0**	**0**	**0**	**0**

3.3 **The Council’s borrowing need (the Capital Financing Requirement)**

3.3.1 The second prudential indicator is the Council’s Capital Financing Requirement (CFR). The CFR reflects the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council’s indebtedness and underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

3.3.2 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset’s life, and so charges the economic consumption of capital assets as they are used.

3.3.3 The CFR includes any other long-term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council’s borrowing requirement, these types of scheme include a borrowing facility by the lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes within the CFR.

3.3.4 It is recommended that the CFR projections shown in Annex 1 are approved.

3.3.5 A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures shown in 4.2.1 and the details above demonstrate the scope of this activity.

3.4 **Liability Benchmark**

3.4.1 A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

3.4.2 There are four components to the LB: -

1. **Existing loan debt outstanding**: the Authority's existing loans that are outstanding at the year-end. The Council currently has two PWLB loans and therefore the existing loan debt outstanding will be equal to the remaining balance on these loans.

2. **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.

3. **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast. If the Councils net loan requirement is negative this means that the Council does not currently need to borrow to meet its future resource and capital intensions. If the figure is positive the Council will need to borrow. Therefore, a negative net loan requirement is the desirable position for the Council to be in.

4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

3.4.3 The Liability Benchmark is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance.

3.4.4 As the Council's net loan requirement is negative across the entire forecast period, the Council's liability benchmark is also negative across the forecast period, indicating that there is no present need to borrow given the Council's current resources and capital intentions.

3.4.5 The Benchmark calculation can be found in Annex 3.

3.5 **Minimum Revenue Provision (MRP) Policy Statement**

3.5.1 MRP is the statutory requirement to make a charge to the Council's General Fund providing for the repayment of the Council's past capital debt and other credit liabilities.

3.5.2 The key principle of this system and accompanying guidance is that an authority's debt liability should be repaid over a similar period to that which the asset associated with the capital expenditure provides benefits. Local authorities are asked by the Secretary of State "to prepare an annual statement of their policy on making MRP for submission to their full Council".

3.5.3 The type of approach intended by the MRP guidance is clearly to enable local circumstances and discretion to play a part, as the guidance in general contains a set of recommendations rather than representing a prescriptive process. The guidance makes it clear that councils can follow an alternative approach, provided they still make a prudent provision.

3.5.4 The Council borrowed £5.9M in 2018/19, to fund the construction of the new Andover Leisure Centre. In 2019/20 further borrowing was taken to purchase property in Andover Town Centre. Where borrowing was taken out, the principles established in the Prudential Code of prudence, affordability and sustainability were followed.

3.5.5 It is recommended that Members approve the following MRP policy to be applied from 2023/24:

- In respect of capital expenditure incurred in 2023/24 and subsequent financial years the MRP policy will be to use the Asset Life Method. MRP will be charged based on the estimated life of the associated assets, calculated on an annuity basis.
- Repayments included in any finance leases will be applied as MRP in accordance with the terms of the agreement.

4 BORROWING

4.1 The capital expenditure plans set out in paragraph 4.2.1 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

4.2 Portfolio position as at 31 December 2022

Treasury Portfolio	
Treasury Investments – Specified	**£'000**
Callable on Demand	15,453
Callable Deposits (10 to 100 days' notice)	15,368
Investments maturing on or before 31 March 2023	30,000
Investments maturing between 1 April 2023 and 31 March 2024	25,000

Treasury Investments – Non Specified	
Investments maturing on or before 31 March 2023	0
Investments maturing between 1 April 2023 and 31 March 2024	0
Investments maturing after 31 March 2024	20,000
Total Investment Portfolio	**105,821**
Treasury External Borrowing	
Public Works Loan Board (PWLB)	6,639
Total External Borrowing	**6,639**
Net Treasury investments	**97,282**

4.3 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 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

4.4 The Head of Finance and Revenues 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.

4.5 **Treasury Indicators: limits to borrowing activity**

4.5.1 **The operational boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

4.5.2 **The authorised limit for external debt.** This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

4.5.3 This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

4.5.4 It is recommended that Council approves the authorised limit stated in Annex1.

4.6 Prospects for interest rates

4.6.1 The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Annex 2 draws together a number of current forecasts together with the Link central view, for short term bank rate and longer fixed interest rates.

4.7 Borrowing Strategy

4.7.1 The Council is currently maintaining an over-borrowed position and reflects the decision to borrow for capital purchases in prior years. This means that the capital borrowing need (the Capital Financing Requirement), is fully funded.

4.7.2 When borrowing, the Head of Finance and Revenues will;

- ensure the ongoing revenue liabilities to be created, and the implications for future plans and budgets have been considered.
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow.
- consider the merits and demerits of alternative forms of funding and consider the alternative interest rate bases available, the most appropriate periods to fund and the repayment profiles to use.

4.7.3 In normal circumstances the main sensitivities of the economic forecast are likely to be the two scenarios noted below. Council officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of interest rate forecast:

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

4.7.4 Against this background and the risks within the economic forecast, caution will be adopted with the 2022/24 treasury operations. The Head of Finance and Revenues will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances, reporting any decisions at the next available opportunity.

4.8 **Policy on borrowing in advance of need**

4.8.1 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

4.8.2 In determining whether borrowing will be undertaken in advance of need the Council will ensure that there is a clear link between the capital programme and maturity profile of the debt portfolio which supports the need to take funding in advance of need.

4.8.3 **Debt rescheduling**

4.9 Rescheduling of current borrowing in our debt portfolio may occur in the near term. The Head of Finance and Revenues will present options to Cabinet if it is deemed beneficial to reschedule debts.

5 **ANNUAL INVESTMENT STRATEGY**

Investment Policy – management of risk

5.1 DLUHC and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy.

5.2 The Council's investment policy has regard to the following: -

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

5.3 The Council's investment priorities will be security first, portfolio liquidity second and then yield.

5.4 When investing the Council will consider the benefits of Environmental, Social and Governance investments and will seek to invest in them where it is possible and beneficial to do so. Further details are included with the Councils Treasury Management Practices (TMP1).

5.5 The above guidance from DLUHC and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

- Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term credit ratings.

- **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.

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

- This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists below under the categories of ‘specified’ and ‘non-specified’ investments.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if they were originally classified as non-specified investments solely due to the maturity period exceeding one year.

- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and / or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5.6 **Specified Investments**

5.6.1 All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum rating criteria where applicable.

	Minimum Credit Criteria(para 6.8)	**Limits**
Debt Management Agency Deposit Facility	--	No Limit
Term deposits – local authorities	--	£20M total investment per Counterparty
Term deposits / bonds – banks and building societies *	Per Link colour code (see 6.8.2)	£20M total investment per Counterparty
Term deposits – banks backed by UK Government Guarantees **	--	£20M total investment
Money Market Funds	Long term AAA	£20M total investment per fund
UK Government Gilts / Treasury Bills	UK Sovereign Rating	£20M total investment
Ultra Short dated bond fund	Per Link colour code (see 6.8.2)	£20M total investment per fund

	Minimum Credit Criteria(para 6.8)	**Limits**
Bonds issued by multilateral development banks	Long term AAA	£20M total investment
Bonds issued by a financial institution which is guaranteed by the UK government*	UK Sovereign Rating	£20M total investment

- If forward deposits are to be made, the forward period plus the deal period will not exceed one year in aggregate.

*Subject to the maximum of any guarantee period in issue by the Government on the date the investment was made.

5.6.2 Whilst these requirements are in place to ensure the safety of the Council's investments it does present an operational difficulty for managing short term (up to one week) funds as these types of accounts are only available from major banks. The following criteria are proposed for investment accounts for balances held for up to seven days.

	Minimum 'High' Credit Criteria	**Limits**
On Call accounts	Short-term F1, Long-term A Individual C, Support 1	£20M total investment per Counterparty
Term deposits – maximum of 7 days	Short-term F1, Long-term A Individual C, Support 1	£20M total investment per Counterparty

5.7 Accounting treatment of investments

The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by the Council. To ensure that the Council is protected from any adverse revenue impact which may arise from these differences, the accounting implications of new transactions will be reviewed before they are committed.

5.8 Non-Specified Investments

5.8.1 These are investments which do not meet the Specified Investment criteria. A maximum of 50% will be held in aggregate in non-specified investments with no more than £5M to be held with any one counterparty (excluding other local authorities).

Maturities in excess of 1 year.

	Minimum Credit Criteria (para.6.8)	**Max. maturity period**
Term deposits – local authorities	--	60 months
Term deposits - Banks	Per Link colour code	24 months
Fixed term callable deposits with variable rate and variable maturities	Per Link colour code (see para.6.8.2)	24 months

	Minimum Credit Criteria (para.6.8)	**Max. maturity period**
Certificates of deposits issued by banks	Short-term F1+, Long-term AA- Individual B, Support 2	24 months
UK Government Gilts	UK Sovereign Rating	60 months
Bonds issued by multilateral development banks	AAA	60 months
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	60 months
Sovereign bond issues (i.e. other than the UK govt)	AAA	60 months
Short dated bond fund	--	No maximum
Multi asset Income fund	--	No maximum
Property fund	--	No maximum

5.8.2 There may be occasions when the counterparty limit will be exceeded as a result of credit interest being applied to deposit balances. Where this occurs, it will be permitted without the need to immediately withdraw the amount by which the gross balance exceeds the counterparty limit.

5.9 Creditworthiness Policy

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

- Credit watches and credit outlooks from credit rating agencies;
- Credit default swap (CDS) spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

5.9.2 This modelling approach combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments and are referred to as durational bands. The Council will therefore use counterparties within the following durational bands.

- Yellow 5 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi-nationalised UK Banks)

- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

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

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

5.9.5 All credit ratings will be monitored daily**.** The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use for new investments will be withdrawn immediately.
- In addition to the use of Credit Ratings, the Council will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Financials benchmark and other market data on a daily basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

5.9.6 Sole reliance will not be placed on the use of this external service. In addition the Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

5.10 **Country risk**

5.10.1 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide).

6 **Investment Strategy**

6.1 The Council will continue to manage its investment portfolio using internal resources.

6.2 A mid-year report on investment performance will be presented to Cabinet and at the end of the financial year a report summarising investment activity will be presented to Cabinet as part of the Treasury Management Outturn.

6.3 The Council will avoid locking into longer term deals while investment rates are at historically low levels unless exceptionally attractive rates are available which make longer term deals worthwhile.

Investment returns expectations.

6.4 The current Interest Rate forecast is shown in Annex 2.

6.5 The current suggested budgeted investment earnings rates for returns on investments placed for periods up to three months during each financial year are as follows.

- 2023/24 4.4%
- 2024/25 3.3%
- 2025/26 2.6%
- 2026/27 2.5%
- Later years 2.8%

7 Investment performance / risk benchmarking

7.1 The Council will use an investment benchmark to assess the performance of its investment portfolio using the 6 month compounded SONIA (Sterling Overnight Index Average). SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

7.2 Previously the Council had used the published official LIBOR figures (and related LIBID calculations) which ceased at the end of 2021.

<u>Role of the Section 151 Officer</u>

7.3 The S151 officer is responsible for:

- Recommending 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 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.
- 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
- 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

8 **Risk Management**

8.1 Whilst the protection of the authority's capital and the pursuit of reasonable returns are two vital features of effective treasury management, there is also a need to address other treasury risks. The main treasury management risks have been identified as;

- Liquidity Risk – the risk that cash will not be available when it is needed.
- Interest Rate risk – the risk that changes in the rates of interest create an unexpected or unbudgeted burden on the Council's finances.
- Inflation Risk – the risk that growth in the authority's investment income, does not keep pace with the effects of inflation on its expenditure.
- Credit Risk – the risk that a counterparty defaults on its obligations.
- Operational Risk – the risk of loss through fraud, error, corruption, system failure or other eventualities in treasury management dealings, and failure to maintain effective contingency management arrangements.

8.2 Techniques and procedures to manage these risks are in place and include:

- Reliable cash flow forecasting and monitoring;
- Maintaining an earmarked reserve to offset the impacts of an unexpected drop in interest rates on the Council's budget;
- Access to reliable and informed sources of information concerning both economic developments and the likely future course of interest rates;
- Managing exposure to interest rates;
- A sound diversification policy for investments;
- Rigorous assessment of credit-worthiness of counterparties;
- Fidelity insurance;
- Suitable treasury management policies, including back-up measures for system failures and staff absences.

8.3 Despite these measures, there is a risk of a financial institution collapsing and not repaying a loan to the authority. The current arrangements are designed to reflect this level of risk and reduce the authority's exposure. However, a residual risk remains, which cannot be fully mitigated, as the authority must undertake a level of Treasury Management activity with its cash surpluses.

9 **Resource Implications**

9.1 There are no direct resource implications arising from this report. However, the restrictions on the types of investment that can be used identified in this report will have an effect on the return on investments that the Council can expect to achieve in the year.

10 **Equality Issues**

10.1 There are no equality matters arising from this report.

11 Consultation

11.1 The Council's treasury advisors, Link Asset Services, have been consulted in the preparation of this report.

12 Conclusion and reasons for recommendation

12.1 This report presents the Council's Treasury Management strategy for 2023/24. This strategy is prepared in accordance with the 2021 Prudential Code. The strategy sets out the criteria within which cash surpluses can be invested and how external borrowing will be managed should the Council choose to take on debt in the year.

12.2 The report and annexes show how the Council plans to minimise its risks to the current economic climate by stipulating creditworthiness requirements on lenders and limiting the maximum amount available to be invested at any one time.

Background Papers (Local Government Act 1972 Section 100D) None			
Confidentiality It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	3	File Ref:	N/A
(Portfolio: Finance and Resources) Councillor M Flood			
Officer:	Simon Skeates	Ext:	8817
Report to:	Cabinet	Date:	22 February 2023

ANNEX 1

PRUDENTIAL INDICATORS

PRUDENTIAL INDICATOR	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
EXTRACT FROM BUDGET	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	Actual	**Forecast**	**Estimate**	**Estimate**	**Estimate**
Capital Expenditure	**8,698.3**	**13,372.4**	**11,110.1**	**1,539.5**	**3,500**
Ratio of financing costs to net revenue stream	**5.0%**	**29.5%**	**27.8%**	**22.0%**	**21.4%**
Capital Financing Requirement (CFR) b/f	6,394	6,198	5,998	5,794	5,585
Minimum Revenue Provision	(196)	(200)	(204)	(209)	(214)
Internal Debt in year					
Capital Financing Requirement (CFR) c/f	**6,198**	**5,998**	**5,794**	**5,585**	**5,371**
Gross debt <= CFR actuals + 3 years					
Gross debt		6,543			
CFR + 3 years movement		6,198			
Difference		**-345**			

ANNEX 1

PRUDENTIAL INDICATORS

PRUDENTIAL INDICATOR	2021/22	2022/23	2023/24	2024/25	2025/26
TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	Actual	**Forecast**	**Estimate**	**Estimate**	**Estimate**
Authorised Limit for external debt	**20,000**	**20,000**	**20,000**	**20,000**	**20,000**
Operational Boundary for external debt	**20,000**	**20,000**	**20,000**	**20,000**	**20,000**
Upper limit for fixed interest rate exposure					
Net principal re fixed rate borrowing / investments	**100 %**	**100 %**	**100 %**	**100 %**	**100 %**
Upper limit for variable rate exposure					
Net principal re variable rate borrowing / investments	**50 %**	**50 %**	**50 %**	**50 %**	**50 %**
Upper limit for total principal sums invested for over 364 days (amount shown subject to being not more that 50% of the portfolio size at the time the investment is placed)	**£35,000**	**£35,000**	**£35,000**	**£35,000**	**£35,000**

Maturity structure of fixed rate borrowing during 2022/23	Upper limit	Lower limit
Less than 1 year	100 %	0 %
1 year to less than 2 years	100 %	0 %
2 years to less than 5 years	100 %	0 %
5 years to less than 10 years	100%	0 %
10 years or longer	100%	0 %

ANNEX 2

PROPSECTS FOR INTEREST RATES

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

ANNEX 3

Liability Benchmark	£'000	£'000	£'000	£'000	£'000
	Opening Balance				
Financial Year End	31/03/22	31/03/23	31/03/24	31/03/25	31/03/26
PWLB Loans	6,784	6,543	6,298	6,047	5,790
Existing Loan Debt Outstanding	*6,784*	*6,543*	*6,298*	*6,047*	*5,790*
Opening Loan Debt	6,784				
Less: opening treasury investments	-95,929				
Plus: planned prudential borrowing		0	0	0	0
Less: MRP & Capital Receipts set aside		-200	-204	-209	-214
Net Loans Requirement (forecast net loan debt)	*-89,145*	*-89,345*	*-89,549*	*-89,758*	*-89,972*
Liquidity allowance above net debt (liquidity buffer)	10,000	10,000	10,000	10,000	10,000
Liability Benchmark (Gross Loans Requirement)	*-79,145*	*-79,345*	*-79,549*	*-79,758*	*-79,972*

ITEM 12 Capital Programme Update – 2022/23 to 2024/25

Report of the Finance and Resources Portfolio Holder

Recommended:

That the revised estimates and financing for the 2022/23 to 2024/25 Capital Programme as shown in the Annex to the report, be approved.

Recommendation to Council

SUMMARY:

- This report updates Councillors on the progress of the existing 2022/23 Capital programme and includes forecast changes to its timescale and total cost.
- It also provides an update on projects where the timetable has changed from that currently approved, in particular where projects are expected to slip from the current year.

1 Introduction

1.1 The progress of the Capital Programme is reported to Councillors each year usually in May, December, and February.

1.2 The last update was presented on 7 December 2022 and gave details of the overall expenditure and financing of the Capital Programme for 2022/23 to 2024/25.

1.3 This report provides an update on the Capital Programme presented to that meeting and also examines how the costs of the updated programme will be financed.

2 Background

2.1 It is always difficult to assess accurately the cost, timescale and progress of a project when an initial bid is made. This is exacerbated by the fact that bids are often made a year before a project is expected to commence and before exact costs have been agreed.

2.2 As a result of this the timing and total cost of the Capital Programme is constantly changing.

2.3 All capital budget holders have been asked to review the projects under their control. The objective is to provide an up to date assessment of the latest estimate for the total cost and timescale for each project.

2.4 Major changes to schemes need to be reported in accordance with the schedule of limits in the Council's Financial Regulations.

3 Existing Capital Programme

3.1 The following paragraphs summarise the main changes to the Capital Programme since the December report. A full breakdown of each Service's Capital Programme and a summary of the General Fund Capital Programme Financing are shown in the Annex.

3.2 The table below analyses the movement in the capital programme since the December 2022 update.

	£'000
2022/23 to 2024/25 capital budget per December report	**42,883.4**
CIL projects – Approved January 2023	503.9
SANG – Sherfield English	(13.0)
Property Investment	(18,802.0)
Public Sector Decarbonisation Scheme	439.7
Changing Places Toilet Facilities	200.0
UK Shared Prosperity Fund projects	710.0
Disabled Facilities Grants/Loans	100.0
2022/23 to 2024/25 capital budget per Annex	**26,022.0**

3.3 The paragraphs below provide some detail of the reasons for the above changes to budgets and also identifies projects that are expected to slip from 2022/23 to 2023/24.

3.4 <u>Asset Management Projects</u>

The Asset Management Plan (AMP) was presented to Cabinet on 7 December 2022 and subsequently approved by Council on 25 January 2023.

The report identified a number of projects that fall into one of three main categories; land and buildings, vehicles and plant and IT equipment. Some of these projects are revenue in nature whilst others represent capital expenditure.

The total cost of the capital items is summarised by category in the Annex. The detailed expenditure across all AMP projects will be reported at the end of the financial year.

3.5 Community and Leisure

CIL (Community Infrastructure Levy) projects - three projects have been added to the capital programme for Community and Leisure together with £100k additional funding for an existing project. These are all fully funded by the Community Infrastructure Levy so have no impact to the Capital Receipts Reserve (CRR).

Costs have been less than anticipated for the works at Sherfield English resulting in a saving of £13,000.

Fishlake Meadows – as the access works have been delayed this project has slipped into the next financial year.

Picket Twenty Phase 4 – Works have been held back to enable a consultation with residents on a wider package of play works which will include the two additional sites on the Picket Twenty extension. These are in the process of being laid out/transferred to Test Valley BC. This delay will improve the ultimate outcome for the community.

Andover BMX track floodlighting – due to a delay in planning permission caused by ecology issues, this project will slip into the next financial year.

3.6 Property & Asset Management

The council has recently been awarded £145,000 from the Department of Levelling Up, Housing & Communities for the installation of three changing places toilets. It is recommended that the project is added to the Property & Asset Management part of the Capital Programme.

It is anticipated that the total cost of the installations could be up to £200,000. The shortfall of £55,000 is recommended to be funded from the New Homes Bonus Reserve.

3.7 Project Enterprise

The property investment project was originally approved by Council on 7 April 2021 on the basis that the building would be pre-let – a key factor in mitigating the risk of the development. The potential tenant for the development has recently withdrawn their interest and therefore the project has been removed from the Capital Programme.

3.8 Planning Policy and Economic Development

Two new projects have been added.

- Working with Property and Asset Management Service the decarbonisation scheme at Bourne House, which was approved by Council 16 November 2022 (minute 316). This will be funded by a Business, Energy and Industrial Strategy(BIES) grant of £221,900 and £217,800 from the Special Projects Reserve/AMP reserve.

- Several identified capital projects totalling £710,000 will be funded from the £1M UK Shared Prosperity Fund with the residual forming the revenue grant element for the identified projects. (Cabinet 29 September 2022).

3.9 Housing and Environmental Health

There has been an increase of budget for both Disabled Facility Grants and Loans to reflect the reported increase in spend. These are funded by the Better Care Fund so will not impact the overall financing of the Capital Programme.

4 Resource Implications

4.1 The Capital Strategy is based on the principle that the Capital Programme will be self-financing over the medium to long-term. The strategy permits expenditure ahead of receiving capital receipts which may create a temporary deficit on the programme.

4.2 The forecast of funding remaining at 31 March 2025 for the Capital Programme is £3.3M, a reduction of £4.6M from the level of the Capital Receipts Reserve as at 1 April 2022.

Slippage within the Capital Programme

4.3 Some slippage within a Capital Programme is entirely normal. Expenditure can be delayed for many reasons and this is frequently outside the Council’s control.

4.4 This report identifies slippage of £155,000. The reasons for the additional slippage have been explained in the paragraphs above and previous reports to Cabinet.

5 Financing the Capital Programme.

Capital Receipts Reserve

5.1 The balance on the Capital Receipts Reserve as at 1 April 2022 was £7.936M.

5.2 The maximum use of grants and contributions from external bodies and other internal reserves has been taken into account in the proposed financing of the Capital Programme.

5.3 The following table shows the level of capital receipts available to allocate to capital projects after considering the implications of past years’ expenditure and the recommendations of this report.

Existing Capital Programme	**December 2022 £'000**	**February 2023 £'000**
Capital Receipts Reserve (CRR) as at 1 April 2022	7,936.4	7,936.4
Total Capital Expenditure 2022/23 – 2024/25	(24,081.4)	(26,022.0)
Total Capital Financing 2022/23 – 2024/25	18,518.3	21,383.6
Capital Receipts Reserve as at 31 March 2025	**2,373.3**	**3,298.0**

6 Revenue Consequences of the Capital Programme

6.1 The ongoing revenue impact of the projects recommended for inclusion in the Capital Programme have also been considered and built into the budget for 2023/24.

7 Corporate Objectives and Priorities

7.1 The capital programme enables capital investment to support the Council's priorities and to maintain its assets so that services may continue uninterrupted in the future.

8 Risk Analysis

8.1 Each individual project will have specific risks attached to it. These will be identified by the responsible officer at the start of each project.

8.2 The Capital Programme presented for approval takes into account all known future capital receipts. If there are no further sources of capital receipts, there is a risk that the Council will not be able to fund a sustainably financed Capital Programme in the future.

9 Equality Issues

9.1 An EQIA screening has been completed in accordance with the Council's EQIA methodology and no potential for unlawful discrimination or negative impact has been identified, therefore a full EQIA has not been carried out.

10 Consultations

10.1 Portfolio Holders, Heads of Service and project managers were consulted in the update of the 2022/23 to 2024/25 Capital Programme.

11 Conclusion and reasons for recommendation

11.1 The report provides an update on the existing approved Capital Programme. There are changes to the previous update that was approved in December 2022.

Background Papers (Local Government Act 1972 Section 100D) None			
Confidentiality It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	1	File Ref:	N/A
(Portfolio: Finance and Resources) Councillor M Flood			
Officer:	Laura Berntsen	Ext:	8204
Report to:	Cabinet	Date:	22 February 2023

ANNEX

CAPITAL PROGRAMME AND FINANCING

Approved Projects

	December 2022				February 2023			
	2022/23 £'000	**2023/24 £'000**	**2024/25 £'000**	**Total £'000**	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**	**Total £'000**
CAPITAL EXPENDITURE								
Asset Management Projects	2,634.3	1,485.1	0.0	4,119.4	2,634.3	1,485.1	0.0	4,119.4
Community & Leisure	2,040.0	3,589.6	940.5	6,570.1	1,872.3	4,248.2	940.5	7,061.0
Property & Asset Management	608.9	496.1	0.0	1,105.0	843.9	461.1	0.0	1,305.0
Project Enterprise	22,478.9	160.0	0.0	22,638.9	3,676.9	160.0	0.0	3,836.9
Planning Policy & Economic Development					45.0	505.7	599.0	1,149.7
Housing & Environmental Health	1,200.0	1,250.0	0.0	2,450.0	1,300.0	1,250.0	0.0	2,550.0
Affordable Housing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**28,962.1**	**6,980.8**	**940.5**	**36,883.4**	**10,372.4**	**8,110.1**	**1,539.5**	**20,022.0**
CAPITAL FINANCING								
Capital Grants	1,150.0	1,150.0	0.0	2,300.0	1,295.0	1,582.9	599.0	3,476.9
Capital Receipts	1,664.2	50.0	50.0	1,764.2	578.1	87.4	50.0	715.5
Internal Borrowing	18,802.0	0.0	0.0	18,802.0	0.0	0.0	0.0	0.0
Capital Contributions	7,086.6	5,436.5	1,931.0	14,454.1	7,191.3	7,082.2	2,917.7	17,191.2
Total	**28,702.8**	**6,636.5**	**1,981.0**	**37,320.3**	**9,064.4**	**8,752.5**	**3,566.7**	**21,383.6**
Contribution (to) / from balances	259.3	344.3	(1,040.5)	(436.9)	1,308.0	(642.4)	(2,027.2)	(1,361.6)
Total Financing	**28,962.1**	**6,980.8**	**940.5**	**36,883.4**	**10,372.4**	**8,110.1**	**1,539.5**	**20,022.0**

CAPITAL PROGRAMME AND FINANCING

Schemes yet to be identified

	December 2022				February 2023			
	2022/23 £'000	2023/24 £'000	2024/25 £'000	Total £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Total £'000
CAPITAL EXPENDITURE								
Project Enterprise	3,000.0	3,000.0		6,000.0	3,000.0	3,000.0		6,000.0
Total	**3,000.0**	**3,000.0**	**0.0**	**6,000.0**	**3,000.0**	**3,000.0**	**0.0**	**6,000.0**
CAPITAL FINANCING								
Contribution from balances	3,000.0	3,000.0		6,000.0	3,000.0	3,000.0		6,000.0
Total Financing	**3,000.0**	**3,000.0**	**0.0**	**6,000.0**	**3,000.0**	**3,000.0**	**0.0**	**6,000.0**

ANNEX

ASSET MANAGEMENT PROJECTS
CAPITAL PROGRAMME

		December 2022				February 2023			
Ref	**Scheme**	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**	**Total £'000**	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**	**Total £000**
1	Land and Property Projects	742.0	675.0		1,417.0	742.0	675.0		1,417.0
2	Vehicle and Plant Projects	1,585.6	680.1		2,265.7	1,585.6	680.1		2,265.7
3	IT Equipment Projects	306.7	130.0		436.7	306.7	130.0		436.7
	Total AMP Capital Programme	**2,634.3**	**1,485.1**	**0.0**	**4,119.4**	**2,634.3**	**1,485.1**	**0.0**	**4,119.4**

ANNEX

COMMUNITY & LEISURE
CAPITAL PROGRAMME

Ref	Scheme	December 2022 2022/23 £'000	December 2022 2023/24 £'000	December 2022 2024/25 £'000	December 2022 Total £'000	February 2023 2022/23 £'000	February 2023 2023/24 £'000	February 2023 2024/25 £'000	February 2023 Total £000
1	Community Asset Fund - New projects	250.0	250.0	250.0	750.0	250.0	250.0	250.0	750.0
1A	Community Asset Fund - O/s projects	210.3			210.3	210.3			210.3
2	Andover War Memorial	29.7			29.7	29.7			29.7
3	East Anton Public Art		2.5		2.5		2.5		2.5
4	Leisure Contract	400.0			400.0	400.0			400.0
5	Fishlake Meadows	76.3			76.3	36.3	40.0		76.3
6	Ganger Farm - Sports & Recreation	212.0			212.0	212.0			212.0
7	Boundary fencing & hedging - land purchase	2.5			2.5	2.5			2.5
8	Picket Twenty - Pavilion/pitch changes	9.1	1,389.8		1,398.9	9.1	1,389.8		1,398.9
9	Picket Twenty - Phase 4 play area	77.3			77.3		77.3		77.3
10	SANG - Sherfield English	25.0			25.0	12.0			12.0
11	Plaza Theatre Stage House Rebuild		200.0		200.0		300.0		300.0
12	Valley Park Community Centre	3.9			3.9	3.9			3.9
13	Stockbridge Travel to School		95.0		95.0		95.0		95.0
14	King John's House and Signage	36.5			36.5	36.5			36.5
15	Trojan Sports Club		350.0		350.0		350.0		350.0
16	Monxton Village Hall		345.0		345.0		345.0		345.0
17	Broughton Sports Pavilion	200.0			200.0	200.0			200.0
	Bal c/f…..continued on next page	***1,532.6***	***2,632.3***	***250.0***	***4,414.9***	***1,402.3***	***2,849.6***	***250.0***	***4,501.9***

COMMUNITY & LEISURE
CAPITAL PROGRAMME

Ref	Scheme	December 2022				February 2023			
		2022/23	2023/24	2024/25	Total	2022/23	2023/24	2024/25	Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£000
	Bal b/f…..continued from previous page	***1,532.6***	***2,632.3***	***250.0***	***4,414.9***	***1,402.3***	***2,849.6***	***250.0***	***4,501.9***
18	Abbots Ann Clubhouse	250.0			250.0	250.0			250.0
19	N. Baddesley Fitness Equipment	40.0			40.0	40.0			40.0
20	Kings Somborne Traffic Calming	15.7			15.7	15.7			15.7
21	Valley Park Orchard Trail	29.5			29.5	29.5			29.5
22	Nether Wallop Playing Fields						101.0		101.0
23	Over Wallop Sports Pavilion						269.8		269.8
24	Bury Dene Playing Fields						33.1		33.1
25	Charlton Leisure Centre Car Park upgrade	1.0	187.3		188.3	1.0	187.3		188.3
26	Abbotswood Public Art	26.0			26.0	26.0			26.0
27	Picket Piece Public Art	22.0			22.0	22.0			22.0
28	Picket Twenty Public Art	29.0			29.0	29.0			29.0
29	Public Art Andover Town Centre	44.0			44.0	44.0			44.0
30	Queen's Platinum Jubilee Public Art		200.0		200.0		200.0		200.0
31	Andover BMX floodlights	50.2			50.2	12.8	37.4		50.2
32	Picket 20 Play area - phase 5		220.0		220.0		220.0		220.0
33	Vigo Road play area		350.0		350.0		350.0		350.0
34	East Anton 4 Court Sports Hall			690.5	690.5			690.5	690.5
	Total Community & Leisure Capital Programme	**2,040.0**	**3,589.6**	**940.5**	**6,570.1**	**1,872.3**	**4,248.2**	**940.5**	**7,061.0**

ANNEX

PROPERTY AND ASSET MANAGEMENT SERVICE
CAPITAL PROGRAMME

Ref	Scheme	December 2022				February 2023			
		2022/23 £'000	2023/24 £'000	2024/25 £'000	Total £000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Total £000
1	Hampshire Community Bank	125.0			125.0	125.0			125.0
2	Romsey Flood Alleviation Scheme		235.0		235.0	235.0			235.0
3	Footpath link - Smannell to Augusta	58.0			58.0	58.0			58.0
4	Multi Storey Car Park Lighting Refurbishment		20.6		20.6		20.6		20.6
5	Chantry House Works 4/5 floors	24.0			24.0	24.0			24.0
6	Land at Bury Hill	373.4			373.4	373.4			373.4
7	Viney Ave to Cupernham School Pedestrian Works	13.5			13.5	13.5			13.5
8	St Mary's GP Surgery extension		240.5		240.5		240.5		240.5
9	Town Mills - phase 2	15.0			15.0	15.0			15.0
10	Changing Places Toilet Facilities						200.0		200.0
	Total Property & Asset Management Capital Programme	**608.9**	**496.1**	**0.0**	**1,105.0**	**843.9**	**461.1**	**0.0**	**1,305.0**

PROJECT ENTERPRISE CAPITAL PROGRAMME

Ref	Scheme	December 2022				February 2023			
		2022/23 £'000	2023/24 £'000	2024/25 £'000	Total £000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Total £000
1	Walworth Business Park Investment	3,676.9			3,676.9	3,676.9			3,676.9
2	Property Investment	18,802.0			18,802.0				0.0
3	New Street Properties refurbishment		135.0		135.0		135.0		135.0
4	Fleming Avenue Property refurbishment		25.0		25.0		25.0		25.0
	Total Approved Projects	**22,478.9**	**160.0**	**0.0**	**22,638.9**	**3,676.9**	**160.0**	**0.0**	**3,836.9**
	Purchase of Investment properties - yet to be identified	3,000.0	3,000.0		6,000.0	3,000.0	3,000.0		6,000.0
	Total Project Enterprise Capital Programme	**25,478.9**	**3,160.0**	**0.0**	**28,638.9**	**6,676.9**	**3,160.0**	**0.0**	**9,836.9**

ANNEX

PLANNING POLICY AND ECONOMIC DEVELOPMENT CAPITAL PROGRAMME

Ref	Scheme	December 2022				February 2023			
		2022/23 £'000	2023/24 £'000	2024/25 £'000	Total £000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Total £000
1	Public Sector Decarbonisation Scheme - Bourne House						439.7		439.7
2	UK Shared Prosperity Fund Projects					45.0	66.0	599.0	710.0
	Total Planning, Policy & Economic Development Capital Programme	**0.0**	**0.0**	**0.0**	**0.0**	**45.0**	**505.7**	**599.0**	**1,149.7**

ANNEX

HOUSING & ENVIRONMENTAL HEALTH SERVICE CAPITAL PROGRAMME

Ref	Scheme	December 2022				February 2023			
		2022/23 £'000	2023/24 £'000	2024/25 £'000	Total £000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Total £000
1	Renovations and Minor Works Grants	50.0	100.0		150.0	50.0	100.0		150.0
2	Disabled Facilities Grants/Loans	750.0	750.0		1,500.0	850.0	750.0		1,600.0
3	Discretionary Grants/Loans	400.0	400.0		800.0	400.0	400.0		800.0
	Total Housing & Environmental Health Capital Programme	**1,200.0**	**1,250.0**	**0.0**	**2,450.0**	**1,300.0**	**1,250.0**	**0.0**	**2,550.0**

ITEM 13 Revenue Budget and Council Tax Proposals 2023/24

Report of the Finance and Resources Portfolio Holder

Recommended:

1. That the Forecast for 2022/23, as set out in Column 3 of Annex 1 to the report, be noted.

2. That the Income Generation Proposals, Savings Options and Revenue Pressures, as set out in Annexes 2 – 4 of the report, be approved.

3. That the transfers to or from reserves, as detailed in paragraph 4.35 in the report, be approved.

4. That subject to recommendations 2 and 3 above and taking due regard of the Head of Finance and Revenues' comments in Annex 8 to the report, the budget for 2023/24, as set out in Column 6 of Annex 1 to the report, be approved.

5. That subject to recommendations 2, 3 and 4 above, the revenue estimates for each Service, contained in Annex 7 to the report, be approved.

6. That a Council Tax Requirement for 2023/24 of £10,585,319 be approved.

7. That a Special Expenses Levy of £343,667 be made in respect of the area of Andover to cover the cost of providing burial grounds, sports grounds and playgrounds, as set out in Annex 9, to the report.

8. That a general precept of £8,258,235 be levied for the year 2023/24.

9. That the Medium Term Forecast, contained in Annex 6 to the report, be noted.

10. That a Band D Council Tax excluding Parishes and Special Expenses of £158.91 in 2023/24 be approved.

Recommendation to Council

SUMMARY:

- This report presents proposals for the final Revenue Budget and Council Tax for the financial year 2023/24.
- The report takes into account the previous budget information and options for changes in service delivery that were presented to the Cabinet in October 2022 and January 2023.
- The headline financial figures in the report are :-
    - ♦ Band D Council Tax (excluding Parishes and Special Expenses) to be increased by £5.00 to £158.91.

- ♦ Income generation proposals totalling £1.758M – Annex 2.
- ♦ Revenue savings proposals totalling £267,000 – Annex 3.
- ♦ Additional spending pressures on services of £1.088M – Annex 4.

- The final recommendations arising from this meeting for the Budget and Council Tax for 2023/24 will be considered by Council on 23 February 2023.

1 Introduction

1.1 Cabinet considered the Budget Strategy for 2023/24 in October 2022. The report showed a best, middle and worst case scenario of the budget gap the Council expected to face for 2023/24.

1.2 An update of the budget forecast was presented to Cabinet in January 2023 in light of the provisional Local Government Finance Settlement and further work that had been carried out to identify the savings necessary to balance the budget for 2023/24.

1.3 This report presents the proposals for the 2023/24 Revenue Budget and Council Tax to be considered at this meeting before a final recommendation is made to Council.

2 Background

2.1 This report deals with the overall revenue budget and council tax for the Borough for the 2023/24 financial year. The key issue that needs to be considered is how to set a balanced budget with due regard to:-

- The estimated cost of providing existing services at their current levels
- Very high levels of inflation
- The level of savings to be taken into account in setting the budget
- The availability and use of balances to support revenue spending
- The level of Council Tax to be set for the Borough of Test Valley
- The impact on budget projections for the medium term.

2.2 It is impractical to examine every possible permutation of the items set out above. Therefore, this report sets out a specific budget proposal for debate that incorporates all of these items and takes into account discussions that have been held with the Leader and Portfolio Holders.

2.3 The following sections provide more detailed information on the final budget proposals that have been put forward. They compare the figures to those presented to Cabinet on 18 January 2023.

3 2022/23 Revised Forecast

<u>Service estimates</u>

3.1 Detailed work on the revised forecasts for all services has been finalised, and show an estimated £1.633M positive variance, primarily from salary savings and additional investment income.

3.2 This report does not make any recommendations about the possible utilisation of budget variances expected to arise in the current financial year.

4 2023/24 Budget Proposals

4.1 Annex 1 sets out the proposed budget for 2023/24. The figures shown take into account changes in the detailed estimates arising from the budget process together with the savings options and budget pressures set out in the annexes to this report.

4.2 The Net Cost of Services shown in Annex 1 includes some items of expenditure, such as depreciation and capital grants, that do not form part of the Council Tax calculation. These charges can vary significantly and distort the figures shown against each Service. Annex 5 shows the same figures as Annex 1 with these items removed.

4.3 Annex 7 sets out a summary of the estimates by main service area. The figures in Annex 7 exclude capital financing charges and are reconciled to the summary shown in Annex 5.

Overall Budget

4.4 All of the changes outlined in this report are reflected in the figures shown in Annex 1 which represents the proposed budget before the Cabinet. The Net General Fund Requirement is £15.285M and the Council Tax Requirement is £10.585M.

4.5 The budget gap shown in the January budget update was £104,000. Since then, there have been a number of movements, and the gap has now been closed. A summary of the movements is shown in the following table.

	£’000
Budget Gap per January report	**104**
Additional income (see Annex 2)	(66)
Additional savings (see Annex 3)	(143)
Additional pressures (see Annex 4)	107
Additional investment income (see para 4.16 – 4.18)	(487)
Transfer to capital receipts reserve (see paras 4.18 and 4.35)	487
Net additional income from retained Business Rates Income after transfers to / from Collection Fund Reserve (see para 4.25 - 4.34)	(2)
Final Budget Position – Balanced Budget	**0**

Council Tax Charge in 2023/24

4.6 The Council's Medium Term Financial Strategy aims to keep Council Tax at a comparatively low level, taking into account spending priorities and Central Government funding. This is set in the context of central government's core spending power calculations which include Council Tax and an expectation that Councils will apply Council Tax increases to sustain their existing spending power.

4.7 The current level of Council Tax at £153.91 is still very low when compared to district council tax levels across the country. The Council's ability to sustain this low level means that it is one of only 31 district councils across the country where a £5 increase will be allowable and not trigger a referendum. In 2022/23 the average charge was 27th lowest out of 181 district councils in England and £42 (20%) lower than the average charge.

4.8 The Council has ambitious plans to regenerate both Andover and Romsey town centres. With interest rates rising rapidly over the past year, the cost of borrowing is more expensive, and there is a need for the Council to build capacity to ensure that the regeneration plans can be delivered. The recommended increase in Council Tax levels will help to maintain income levels and support our delivery of those key infrastructure projects.

4.9 Looking towards the medium term, the Council faces a number of risks. The Local Government Finance Settlement is for one year only with a set of principles outlining no cuts to core spending power in 2024/25. There is the potential to lose accumulated growth from the business rates retention scheme in a national re-set, and the impact of inflation on expenditure remains a risk. Annex 6 shows a potential budget gap of some £1.8M for 2025/26 which takes each of these risks into account. Some reserves are held to partly mitigate this loss of income, but the Council must sustain its controllable income levels to be able to safeguard frontline services in the medium term.

4.10 Against this background, it is recommended that the Band D Council Tax charge is increased by £5.00 from £153.91 to £158.91 for the 2023/24 financial year. This is an increase of 3.25%, which is considerably lower than the current CPI inflation level of 10.5%.

4.11 The Council approved its Council Tax Support scheme for 2022/23 at its meeting on 18 January 2023. This scheme helps to protect the most vulnerable households from the full effect of the Council Tax charge. The Council continues to offer up to 100% support for pensioner households and those in receipt of certain benefits. Up to 90% support is available for most working-age households.

4.12 In addition, the Council has established a £100,000 cost-of-living grants scheme to support local organisations who are helping our most vulnerable households. The Council will also be implementing the new Council Tax Support relief scheme which will provide a £25 reduction in Council Tax for all households in receipt of Council Tax Support in 2023/24.

4.13 Under delegated authority, the Head of Finance & Revenues sets the Council Tax base for the forthcoming financial year. The Council Tax Resolution is reported directly to Council for consideration with the budget proposals.

Local Government Finance Settlement

4.14 Full details of the Provisional Local Government Finance Settlement were given in the Budget Update report to Cabinet on 12 January and are not repeated here.

4.15 The Final Local Government Finance Settlement figures were confirmed earlier this month. There were some very minor changes to individual grant amounts but the overall settlement funding remains unchanged.

Investment Income

4.16 The Bank of England Monetary Policy Committee voted to increase the base rate from 3.5% to 4% on 2nd February. Current forecasts are that further rises to 4.5 % can be expected during 2023/24 before rates start to reduce.

4.17 This, along with a detailed review of the council's forecast cashflow following changes to the capital programme for 2023/24, has yielded an additional £487,000 of investment income.

4.18 This additional income is recommended to be transferred to the Capital Receipts Reserve to support future capital works.

Project Enterprise

4.19 Project Enterprise was established in 2014 to increase the income generated by the Council from its investments and reduce its reliance on the Government's Revenue Support Grant.

4.20 Since 2014, the Council has invested in a number of properties that have sought to generate additional revenue income. This additional income has been generated by investing the cash reserves held by the Council in projects that will yield greater returns than the current cash investment portfolio.

4.21 The amount of investment in completed projects is currently £31.174M. This excludes investment in development projects which are yet to be completed. Net rental income from these completed investments is forecast to be £2.430M in 2023/24. This represents an average return on investment of 7.8%.

4.22 In contrast, the Council's cash investment portfolio is forecast to generate an average return of 3.60% in 2023/24. Had the Council not purchased the additional properties and left the investment in cash reserves, this would be expected to generate £1.122M in 2023/24.

4.23 Income from Project Enterprise investments is therefore expected to be £1.308M greater than would have been achieved by retaining the balances in cash. This differential is smaller than in previous years due to the increases in interest rates in 2022/23.

4.24 Some of the income generated from the completed investments is used to replenish the Capital Receipts Reserve over the lifetime of the investment. For 2023/24, £473,000 is included within the Transfer to Capital Balances line in Annex 1 for this purpose. The remainder of the income will be used to support Council services.

Business Rates Retention Scheme

4.25 The Head of Finance & Revenues has delegated authority (in consultation with the Finance & Resources Portfolio Holder) to approve the annual National Non Domestic Rates returns to Central Government. In so doing, this effectively sets the initial shares of income to be allocated to the main preceptors and the Government from the Collection Fund.

4.26 The Government introduced the Business Rates Retention Scheme in 2013. It is a complex scheme with baseline assessments, top ups and tariffs, levy payments and safety nets.

4.27 If this was not complicated enough, the Government has introduced a further layer of complexity in awarding grants to offset the impact of policies aimed at protecting small businesses, something that has been exaggerated by the business support schemes, such as the Retail, Hospitality & Leisure discount, introduced in response to the pandemic. This can create apparent surpluses or deficits in both the Collection Fund and General Fund and volatility in yearly cashflows.

4.28 There is a national business rates revaluation that takes effect from 1st April 2023 which has led to changes in the estimates for the income that the Council can expect to receive for 2023/24. There are assumptions built in for transitional payment protection and levels of reliefs and it won’t be known how accurate these assumptions are until the outturn for business rates is calculated in May 2024.

4.29 This volatility in Collection Fund accounting for business rates is mitigated by transferring surpluses and deficits arising from these timing differences to an earmarked reserve (Collection Fund Equalisation Reserve). An example of the reasons to maintain a reserve to protect against rates income volatility arose in late 2022 when a number of supermarkets were successful in appealing their rateable values going back over a six-year period. The repayment required to pay back overpaid rates amounted to more than £3.5M.

4.30 The Collection Fund Equalisation Reserve therefore serves two purposes:

- To mitigate against volatility in income during the lifecycle of the current rating list, to allow for successful appeals by ratepayers and / or timing differences in cashflows caused by, for example, new reliefs

- To build capacity against a potential loss of all retained income when a re-set of the business rates accounting arrangements takes place. This will enable any losses to be tapered in over several years, reducing the need for major budgetary overhaul in one financial year.

4.31 It is estimated that income due to the Council in each of the next 3 years will be as per the following table:

	2023/24 £'000s	**2024/25 £'000s**	**2025/26 £'000s**
Business rates income	4,524	5,189	3,471
Section 31 grants	5,873	2,062	0
2022/23 surplus on collection fund	1,992	0	0
Provision for levy payable to government	(3,120)	(2,080)	0
Renewable energy rates 100% retained	505	505	505
Total income from business rates retention scheme	**9,774**	**5,676**	**3,976**
Less income from business rates retention scheme included in January report	5,504	5,504	3,804
Increase in retained income from business rates retention scheme	**4,270**	**172**	**172**

4.32 The assumption built into the table above is that a full re-set of the business rates financing mechanism is implemented ahead of the 2025/26 financial year. This removes the Council's share of accumulated growth in rates income since 2013 (£2.718M) and instead assumes that the baseline income forecast of £2.470M plus £1.0M in transitional or damping support and local retention of rates from renewable energy schemes (£505,000) only are built into the ongoing base budget.

4.33 This income is built into the Medium Term Forecast. It is extremely vulnerable to both the level of appeals that may occur as a result of the 2023 revaluation exercise and the potential re-set of the Business Rates Retention Scheme which has been delayed until at least 2025/26.

4.34 The next budget strategy will consider a number of scenarios relating to the potential impacts in 2024/25 and beyond. It is unlikely to have any certainty at that stage, but will include any latest information from central government. The Head of Finance & Revenues keeps the level of this reserve under regular review. Ultimately, if the impact of a rates re-set is more favourable than forecast, the balance on the Collection Fund Equalisation Reserve will be able to be deployed to other Council areas; however, it is not recommended that the balance is re-allocated at this time.

Transfers to / from Reserves

4.35 The following table details the recommended transfers to or from reserves. Draws from reserves are expected to be for one-off or specific expenditure.

Reserve	**Transfer to / (from) £'000s**
Investment equalisation reserve	300
Pension equalisation reserve	245
Leisure contract equalisation reserve	350
Environment Act reserve	82
Regeneration reserve (net of £500,000 to and £136,000 from)	364
Chantry Centre planned maintenance reserve	172
Borough elections reserve	(105)
Housing reserves	(102)
Local Development Fund reserve	(262)
New Homes Bonus reserve (net of £1.2M to and £176,000 from)	1,024
Collection Fund equalisation reserve	4,268
Other earmarked reserves*	(130)
Total transfers to earmarked reserves	**6,206**
Transfer to Asset Management Plan reserve	**2,000**
Transfer to Capital Receipts reserve	**2,270**

* includes small draws from reserves including the apprenticeship reserve, capacity building reserve and budget carry forward reserve.

Robustness of Estimates and Adequacy of Revenue Reserves

4.36 Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (Head of Finance & Revenues) to report on the robustness of the budget estimates and adequacy of reserves at the time the Council is deciding the level of Budget Requirement and Council Tax for the forthcoming year. This is shown in full detail in Annex 8.

Andover Special Expenses Levy

4.37 The detailed triennial calculation for the Andover Special Expenses Levy is set out in Annex 9.

4.38 For 2023/24, it is recommended to be reduced by £0.12 per Band D property from £19.82 to £19.70.

4.39 The overall income to be generated by the Levy in 2023/24 will be £343,667, which is a small increase on the £339,854 in 2022/23.

4.40 The reason that the charge has gone down whilst the overall cost has gone up is due to an increase in the tax base in the special expenses levy area.

5 Medium Term Forecast and Beyond

5.1 Annex 6 sets out the Medium Term Forecast for the General Fund budget up to the 2025/26 financial year. The figures shown in Annex 6 are reconciled to the revenue summary shown in Annex 5.

5.2 In order to maintain a balanced budget, current forecasts indicate a deficit of £400,600 in 2024/25 increasing by £1.443M to a deficit of £1.844M in 2025/26. This is the level of cumulative savings needed to close the forecast budget gap and assumes a full reset of business rates takes place from April 2025 in which all accumulated growth is lost but includes an assumption of £1M damping or other transitional protection.

5.3 This forecast also assumes a draw from the Collection Fund Equalisation Reserve that has been established to ameliorate the impact of a full rates re-set in 2025/26 of £1.5M.

5.4 Work to identify options for Councillors to consider meeting these savings targets will flow from the Corporate Challenge process which will commence in the summer. An initial forecast for 2024/25 based on a best, middle and worst case scenario will be presented to Cabinet in October 2023.

5.5 Looking further ahead, financial forecasts become less certain, but it is inevitable that, with fewer opportunities to make savings and efficiencies, pressure will increase on the Council to use its reserves to ensure financial stability.

5.6 The next update to the MTFS in October 2023 will also take account of the objectives and projects identified in the new Corporate Plan for 2023-27 and the updated Corporate Action Plan.

5.7 Clearly, other factors will come into play, e.g. a potential move to 75% retention of Business Rates, uncertainty over how long interest rates will remain high, inflation, Government policy and finance changes, but Cabinet is encouraged to keep this longer term uncertainty in mind when recommending a sustainable level of Council Tax for 2023/24 to Council.

6 Corporate Objectives and Priorities

6.1 The Budget encompasses all elements of the Council's activities and therefore contributes to all the Council's Corporate Objectives and Priorities.

7 Consultations

7.1 Consultation on the Budget has been carried out with the Leader, Deputy Leader, individual Portfolio Holders, Overview & Scrutiny Committee, local business groups (as detailed in the report to Cabinet in January 2023) and Heads of Service.

8 Risk Management

8.1 A risk assessment has been completed in accordance with the Council's Risk Management Methodology and has identified significant (Red or Amber) risks as detailed in paragraph 2.6 of Annex 8.

9 Equality Issues

9.1 An EQIA screening has been completed in accordance with the Council's EQIA methodology and no potential for unlawful discrimination or negative impact have been identified, therefore a full EQIA.

10 Impact of a changing climate

10.1 The Council has recently been successful in securing government funding towards the installation of energy efficiency measures at the Bourne House depot in the south of the borough, through the Public Sector Decarbonisation Scheme.

10.2 This has required a matched contribution of over £200,000 from our own revenue reserves and demonstrates the commitment being made to reduce the environmental impact the Council has in delivering its services.

10.3 Delivering on the objectives of our Climate Emergency Action Plan will continue to be a priority in the coming financial year and into the medium term.

11 Conclusion and reasons for recommendation

11.1 This report is the culmination of a process that started in the summer of 2022. It shows the savings and additional income that have been identified to enable the Council to propose a balanced budget for 2023/24.

11.2 If approved, the recommendations of this report will be considered by Council on 24 February 2023.

Background Papers (Local Government Act 1972 Section 100D) Final local government finance settlement: England, 2023 to 2024 - GOV.UK (www.gov.uk)			
Confidentiality It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	9	File Ref:	N/A
(Portfolio: Finance and Resources) Councillor M Flood			
Officer:	Jenni Carter	Ext:	8236
Report to:	Cabinet	Date:	22 February 2023

ANNEX 1

GENERAL FUND REVENUE SUMMARY

(1) Actual Spend 2021/22 £'000	(2) Original Estimate 2022/23 £'000	(3) Forecast 2022/23 £'000		(4) Gross Expend. 2023/24 £'000	(5) Gross Income 2023/24 £'000	(6) Original Estimate 2023/24 £'000
			Service Requirements			
0.0	0.0	0.0	Chief Executive's Office	872.1	(872.1)	0.0
3,120.6	2,843.3	3,719.1	Community & Leisure	8,029.5	(4,550.4)	3,479.1
6,592.5	6,024.5	6,131.4	Environmental Service	11,866.1	(5,401.9)	6,464.2
1,679.4	1,666.4	1,725.0	Finance & Revenues	4,322.2	(2,455.6)	1,866.6
3,231.7	2,751.7	2,303.1	Housing & Environmental Health	8,052.5	(4,820.6)	3,231.9
12.0	0.0	0.0	I.T.	1,817.9	(1,817.9)	0.0
0.0	0.0	0.0	Legal & Democratic	2,033.6	(2,033.6)	0.0
3,121.5	2,200.7	2,943.8	Planning & Building	4,397.7	(1,752.7)	2,645.0
1,827.7	1,920.6	2,401.8	Planning Policy & Economic Development	2,460.0	(113.6)	2,346.4
(5,291.1)	(5,385.0)	(5,435.9)	Property & Asset Management	11,212.5	(17,174.3)	(5,961.8)
0.0	0.0	0.0	Strategy & Innovation	911.5	(911.5)	0.0
14,294.3	**12,022.2**	**13,788.3**		**55,975.6**	**(41,904.2)**	**14,071.4**
			Other Requirements			
(36.0)	(20.8)	69.5	Net Cost of Benefit Payments	17,444.6	(17,444.6)	0.0
1,850.5	2,072.8	2,141.8	Corporate & Democratic Core	7,424.2	(5,279.9)	2,144.3
16,108.8	**14,074.2**	**15,999.6**	**Net Cost of Services**	**80,844.4**	**(64,628.7)**	**16,215.7**
			Corporate Requirements			
0.0	481.3	46.2	Contingency Provision	861.1	0.0	861.1
(3,975.5)	(4,554.1)	(5,075.9)	Depreciation Reversal and Deferred Charges	0.0	(5,180.9)	(5,180.9)
(448.4)	(542.2)	(1,959.3)	Investment Income	0.0	(2,753.9)	(2,753.9)
155.0	151.3	151.3	Borrowing Costs	145.9	0.0	145.9
195.5	199.9	199.9	Minimum Revenue Provision	204.4	0.0	204.4
(5,012.5)	(5,347.0)	(5,347.0)	Small Business Rate Relief & other S31 grants	0.0	(5,873.2)	(5,873.2)
(1,681.8)	(652.0)	(693.1)	Other Government Grants	0.0	(1,600.5)	(1,600.5)
(2,567.9)	(2,104.7)	(2,104.7)	New Homes' Bonus	0.0	(1,199.8)	(1,199.8)
2,613.5	2,559.4	2,559.4	Provision for NDR surplus 'levy'	3,119.8	0.0	3,119.8
(193.4)	(398.6)	(398.6)	100% Retention of NDR from Renewable Energy	0.0	(505.1)	(505.1)
7.3	0.0	0.0	Year End Write Offs	0.0	0.0	0.0
5,200.6	**3,867.5**	**3,377.8**	**Net General Fund Expenditure**	**85,175.6**	**(81,742.1)**	**3,433.5**
2,067.2	1,062.0	2,026.7	Transfer to Earmarked Reserves	7,167.0	(960.8)	6,206.2
487.9	1,956.1	1,481.1	Transfer to Asset Management Reserve	2,000.0	0.0	2,000.0
2,490.3	2,490.3	2,490.3	Transfer to Capital Balances	3,645.0	0.0	3,645.0
(4,358.9)	0.0	0.0	Transfer to Pension Reserve	0.0	0.0	0.0
0.0	0.0	0.0	Transfer to / (from) General Reserves	0.0	0.0	0.0
5,887.1	**9,375.9**	**9,375.9**	**General Fund Requirements**	**97,987.6**	**(82,702.9)**	**15,284.7**
0.0	0.0	0.0	Revenue Support Grant	0.0	0.0	0.0
(5,041.5)	(3,079.5)	(3,079.5)	Business Rates Retained	21,142.9	(25,666.9)	(4,524.0)
1,763.1	1,847.8	1,847.8	Parish Precepts	1,983.4	0.0	1,983.4
(101.1)	(108.2)	(108.2)	Surplus on Previous Years' Collection Fund - Ctax	0.0	(167.0)	(167.0)
7,081.4	2,053.1	2,053.1	(Surplus)/Deficit on Previous Years' Collection Fund - NDR	0.0	(1,991.8)	(1,991.8)
9,589.0	**10,089.1**	**10,089.1**	**Council Tax Requirement**	**121,113.9**	**(110,528.6)**	**10,585.3**
(7,492.6)	(7,901.4)	(7,901.4)	Test Valley Borough Council precept	0.0	(8,258.2)	(8,258.2)
(1,763.1)	(1,847.8)	(1,847.8)	Parish Precepts	0.0	(1,983.4)	(1,983.4)
(333.3)	(339.9)	(339.9)	Andover Special Expenses Levy	0.0	(343.7)	(343.7)
(9,589.0)	**(10,089.1)**	**(10,089.1)**	**Summary of Council Tax Requirement**	**0.0**	**(10,585.3)**	**(10,585.3)**

ANNEX 2

SUMMARY OF INCOME GENERATION PROPOSALS

Service	Function	Savings Option Proposed	2023/24 £'000	2024/25 £'000	2025/26 £'000
Legal & Democratic	Legal	Increased Legal Fee income based on previous year's actuals	8	8	8
Property & Asset Mgmt	Investment Properties	Additional income identified based on rent reviews to date and approved acquisitions of new properties	505	647	647
Property & Asset Mgmt	Public Halls	Increase in Hire of Halls following reduction due to Covid	15	15	15
Environmental Services	Waste Collection	Sale of dry, mixed recycling. This has been volatile but higher in last couple of years. Increased in line with expectations from last year. Short term only as HCC retaining income from 2024	200	200	0
Environmental Services	Green Waste	Garden waste subscriptions income increased to be in line with current income levels	100	100	100
Environmental Services	Waste & Recycling	Sale of glass. Increased in line with expectations from current and prior year. May be short-term with waste reform plans.	36	36	0
Environmental Services	Street Cleaning	Trolley returns income increased to be more in line with current trend and prior year.	20	20	20
Planning and Building	Development Control & Enforcement	Increase in legal fees to reflect higher than expected income this year	10	10	10
Community & Leisure	Managed Sports Facilities	Indexation of management fee income	175	175	175
	Total Income Generation Proposals - per Medium Term Strategy		**1,069**	**1,211**	**975**

SUMMARY OF INCOME GENERATION PROPOSALS

Service	Function	Savings Option Proposed	2023/24 £'000	2024/25 £'000	2025/26 £'000
Multi	Chantry Centre	Income arising from bringing in-house management functions associated with managing the Chantry Centre	83	83	83
Community & Leisure	Outdoor Sports Facilities	Increased draw from s106 contributions	48	48	48
Environmental Services	Multi	Increase in income from grounds maintenance contracts; bulky waste; and garden waste	69	69	69
Environmental Services	Recycling	Increase in glass recycling income to reflect current market tonnage prices. Only for two years as not guaranteed in long-term	82	82	
Property & Asset Mgmt	Investment Properties	Further increase in forecast rental income above that reported in the Medium Term Financial Strategy	169	247	247
Property & Asset Mgmt	Chantry Centre	Net income above base case when centre purchased. To be transferred to Chantry Centre reserve	172		
	Income generation proposals identified in January budget update		**623**	**529**	**447**
Community & Leisure	Managed Sports Facilities	Increased indexation of management fee income	66	66	66
	Income generation proposals identified in February budget update		**66**	**66**	**66**
	Total income generation proposals 2023/24		**1,758**	**1,806**	**1,488**

SUMMARY OF SAVINGS PROPOSALS

Service	Function	Savings Option Proposed	2023/24 £'000	2024/25 £'000	2025/26 £'000
Environmental Services	Multi	Reduction in budget for red DERV	10	10	10
Corporate & Democratic	Software costs	Reduced budget for software upgrade provision to forecast requirement	18	18	18
Property & Asset Mgmt	Property Management	Reductions in budget deliverable through reduction in estimated utility usage	96	96	96
	Savings proposals identified in January budget update		**124**	**124**	**124**
Multi	Employee costs	Employer's pension discount from prepayment of contributions	50	150	250
Multi	Employee costs	Increase in vacancy management target	58	58	58
Multi	Multi	Miscellaneous savings	35	35	35
	Savings proposals identified in February budget update		**143**	**243**	**343**
	Total savings proposals 2023/24		**267**	**367**	**467**

SUMMARY OF REVENUE PRESSURES

Service / Ref	Service area	Item	2023/24 £'000	2024/25 £'000	2025/26 £'000
PAM	Parking	Increase in car park maintenance requirements, particularly linked to Chantry Centre multi-story car park.	32	32	32
Environmental Services	Vehicle Workshop	Increases in fuel prices	30	20	20
IT	Infrastructure	To cover the cost of new Teams / digital back up solution.	7	7	7
Plan Pol & Econ Dev	Local Development Framework	To fund salary, legal and project costs, beyond amount held in LDF reserve.	63	139	100
	Total Pressures - per Medium Term Strategy		**132**	**198**	**159**
Community & Leisure	The Lights	Increased software maintenance fees for e-ticketing system	10	10	10
Community & Leisure	Cemeteries	Costs associated with transfer of St Andrew's church yard, Mottisfont	4	4	4
Community & Leisure	Town Centre Events	Budget to sustain ongoing town centre events programme	32	32	32
Environmental Services	Vehicle Workshop	Increased costs associated with lifting operations and lifting equipment regulations	6	6	6
Finance & Revenues	Finance Service	Increased software maintenance costs	13	13	13
Housing & EH	Housing and homelessness	Increased costs of bed & breakfast payments to reflect current cost to the Council	83	83	83
Housing & EH	Housing and homelessness	Contractual obligation to meet certain costs related to Aster contracts previously not enforced	30	30	30
IT	Corporate Systems	Increase in software costs	32	32	32
Legal & Democratic	Elections	The net cost of holding the 2023 borough election after drawing the full balance of the reserve established for this purpose	158		
Planning & Building	Ecology	Increased responsibilities due to Environment Act and biodiversity net gain requirements	52	52	52
Planning & Building	Development Control	Anticipated reduction in income levels to planning application and associated fee income, based on current actuals	100	100	100

SUMMARY OF REVENUE PRESSURES

Service / Ref	Service area	Item	2023/24 £'000	2024/25 £'000	2025/26 £'000
Plan Policy & Economic Dev't	Climate Change	Establishment of a base budget for scoping / feasibility works	20	20	20
Plan Policy & Economic Dev't	Regeneration	Forecast requirement to be drawn from the Regeneration Reserve for projects and legal costs in the year	86		
Plan Policy & Economic Dev't	Economic Development	Increased costs to run the Junior Graduation programme	8	8	8
Property & Asset Management	Car Parking	Increased costs for repairs and maintenance	21	21	21
Strategy & Innovation	Communications	Increased staffing costs to cover maternity leave during 2023/24	18		
Corporate	Democratic Services	Increased software and hosting costs for Modern.gov	7	7	7
Corporate	External Audit Fees	Increase in audit fees for new 5-year contract following national procurement exercise	41	41	41
Corporate	Housing Benefit	Reduction in the net amount of subsidy / housing benefit overpayments received.	20	20	20
Multi	Multi	Increase in net business rates payable as a result of valuation changes taking effect from 1st April 2023.	108	108	108
	Pressures identified in January budget update		**849**	**587**	**587**
Environmental Services	Vehicle Workshop	Increases in fuel prices	90	90	90
Multi	Multi	Increase in net business rates payable as a result of valuation changes taking effect from 1st April 2023.	17	17	17
	Pressures identified in February budget update		**107**	**107**	**107**
	Total budget pressures 2023/24		**1,088**	**892**	**853**

ANNEX 5

GENERAL FUND REVENUE SUMMARY

(1) Actual Spend 2021/22 £'000	(2) Original Estimate 2022/23 £'000	(3) Forecast 2022/23 £'000		(4) Gross Expend. 2023/24 £'000	(5) Gross Income 2023/24 £'000	(6) Original Estimate 2023/24 £'000
			Service Requirements			
(180.2)	0.0	0.0	Chief Executive's Office	872.1	(872.1)	0.0
2,017.5	1,491.2	1,643.0	Community & Leisure	6,130.7	(4,550.4)	1,580.3
4,868.2	5,212.1	5,453.8	Environmental Service	11,026.2	(5,401.9)	5,624.3
1,076.4	1,666.4	1,725.0	Finance & Revenues	4,322.2	(2,455.6)	1,866.6
2,307.7	2,762.3	2,363.7	Housing & Environmental Health	8,063.1	(4,820.6)	3,242.5
(250.6)	(109.0)	(74.4)	I.T.	1,693.7	(1,817.9)	(124.2)
(265.3)	0.0	0.0	Legal & Democratic	2,033.6	(2,033.6)	0.0
2,502.5	2,200.7	2,943.8	Planning & Building	4,397.7	(1,752.7)	2,645.0
1,640.4	1,920.6	2,401.8	Planning Policy & Economic Development	2,460.0	(113.6)	2,346.4
(6,383.5)	(6,291.0)	(6,359.1)	Property & Asset Management	10,269.1	(17,174.3)	(6,905.2)
(178.2)	0.0	0.0	Strategy & Innovation	911.5	(911.5)	0.0
7,154.9	**8,853.3**	**10,097.6**		**52,179.9**	**(41,904.2)**	**10,275.7**
			Other Requirements			
(36.0)	(20.8)	69.5	Net Cost of Benefit Payments	17,444.6	(17,444.6)	0.0
2,031.0	2,063.1	2,132.1	Corporate & Democratic Core	7,414.5	(5,279.9)	2,134.6
9,149.9	**10,895.6**	**12,299.2**	**Net Cost of Services**	**77,039.0**	**(64,628.7)**	**12,410.3**
			Corporate Requirements			
0.0	481.3	46.2	Contingency Provision	861.1	0.0	861.1
(448.4)	(542.2)	(1,959.3)	Investment Income	0.0	(2,753.9)	(2,753.9)
155.0	151.3	151.3	Borrowing Costs	145.9	0.0	145.9
195.5	199.9	199.9	Minimum revenue Provision	204.4	0.0	204.4
(5,012.5)	(5,347.0)	(5,347.0)	Small Business Rate Relief & other S31 grants	0.0	(5,873.2)	(5,873.2)
(1,681.8)	(652.0)	(693.1)	Other Government Grants	0.0	(1,600.5)	(1,600.5)
(2,567.9)	(2,104.7)	(2,104.7)	New Homes' Bonus	0.0	(1,199.8)	(1,199.8)
2,613.5	2,559.4	2,559.4	Provision for NDR surplus 'levy'	3,119.8	0.0	3,119.8
(193.4)	(398.6)	(398.6)	100% Retention of NDR from Renewable Energy	0.0	(505.1)	(505.1)
7.3	0.0	0.0	Year End Write Offs	0.0	0.0	0.0
2,217.2	**5,243.0**	**4,753.3**	**Net General Fund Expenditure**	**81,370.2**	**(76,561.2)**	**4,809.0**
2,067.2	1,062.0	2,026.7	Transfer to Earmarked Reserves	7,167.0	(960.8)	6,206.2
487.9	1,956.1	1,481.1	Transfer to Asset Management Reserve	2,000.0	0.0	2,000.0
1,114.8	1,114.8	1,114.8	Transfer to Capital Balances	2,269.5	0.0	2,269.5
0.0	0.0	0.0	Transfer to General Reserves	0.0	0.0	0.0
5,887.1	**9,375.9**	**9,375.9**	**General Fund Requirements**	**92,806.7**	**(77,522.0)**	**15,284.7**

ANNEX 6

MEDIUM TERM FINANCIAL PLAN

	Original Estimate 2023/24 £'000	Base Changes £'000	Budget Forecast 2024/25 £'000	Base Changes £'000	Budget Forecast 2025/26 £'000
Service Requirements					
Chief Executive's Office	0.0	0.0	0.0	0.0	0.0
Community & Leisure	1,580.3	11.7	1,592.0	82.3	1,674.3
Environmental Service	5,624.3	306.0	5,930.3	318.0	6,248.3
Finance & Revenues	1,866.6	0.0	1,866.6	0.0	1,866.6
Housing & Environmental Health	3,242.5	(102.4)	3,140.1	0.0	3,140.1
I.T.	(124.2)	(77.4)	(201.6)	0.0	(201.6)
Legal & Democratic	0.0	(297.7)	(297.7)	0.0	(297.7)
Planning & Building	2,645.0	0.0	2,645.0	0.0	2,645.0
Planning Policy & Economic Development	2,346.4	(304.0)	2,042.4	(39.0)	2,003.4
Property & Asset Management	(6,905.2)	2.2	(6,903.0)	246.8	(6,656.2)
Strategy & Innovation	0.0	(46.8)	(46.8)	0.0	(46.8)
Inflation	0.0	800.0	800.0	800.0	1,600.0
	10,275.7	**291.6**	**10,567.3**	**1,408.1**	**11,975.4**
Other Requirements					
Net Cost of Benefit Payments	0.0	0.0	0.0	0.0	0.0
Corporate & Democratic Core	2,134.6	(100.0)	2,034.6	(100.0)	1,934.6
Net Cost of Services	**12,410.3**	**191.6**	**12,601.9**	**1,308.1**	**13,910.0**
Corporate Requirements					
Contingency Provision	861.1	0.0	861.1	0.0	861.1
Investment Income	(2,753.9)	200.0	(2,553.9)	0.0	(2,553.9)
Borrowing Costs	145.9	(5.5)	140.4	(6.5)	133.9
Minimum Revenue Provision	204.4	4.5	208.9	4.7	213.6
Small Business Rate Relief & other S31 grants	(5,873.2)	3,811.3	(2,061.9)	2,061.9	0.0
Other Government Grants	(1,600.5)	0.0	(1,600.5)	1,448.3	(152.2)
New Homes' Bonus	(1,199.8)	0.0	(1,199.8)	1,199.8	0.0
Provision for NDR Levy	3,119.8	(1,039.7)	2,080.1	(2,080.0)	0.1
100% Retention of NDR from Renewable Energy	(505.1)	0.0	(505.1)	0.0	(505.1)
Net General Fund Expenditure	**4,809.0**	**3,162.2**	**7,971.2**	**3,936.3**	**11,907.5**
Transfer to / (from) Earmarked Reserves	6,206.2	(3,914.1)	2,292.1	(2,864.1)	(572.0)
Transfer to Asset Management Reserves	2,000.0	0.0	2,000.0	(500.0)	1,500.0
Transfer to Capital Reserves	2,269.5	0.0	2,269.5	(500.0)	1,769.5
Transfer to General Reserves	0.0	0.0	0.0	0.0	0.0
Total General Fund Expenditure	**15,284.7**	**(751.9)**	**14,532.8**	**72.2**	**14,605.0**
FURTHER SAVINGS TO BE IDENTIFIED	**0.0**	**(400.6)**	**(400.6)**	**(1,443.4)**	**(1,844.0)**
General Fund Requirements	**15,284.7**	**(1,152.5)**	**14,132.2**	**(1,371.2)**	**12,761.0**

ANNEX 7

GENERAL FUND REVENUE ACCOUNT

SUMMARY ESTIMATES

Service Requirements	Final Outturn 2021/22 £'000	Original Estimate 2022/23 £'000	Forecast 2022/23 £'000	Original Estimate 2023/24 £'000
Chief Executive's Office	(180.2)	0.0	0.0	0.0
Community & Leisure	2,017.5	1,491.2	1,643.0	1,580.3
Environmental Service	4,868.2	5,212.1	5,453.8	5,624.3
Finance & Revenues	1,076.4	1,666.4	1,725.0	1,866.6
Housing & Environmental Health	2,307.7	2,762.3	2,363.7	3,242.5
IT	(250.6)	(109.0)	(74.4)	(124.2)
Legal & Democratic	(265.3)	0.0	0.0	0.0
Planning & Building	2,502.5	2,200.7	2,943.8	2,645.0
Planning Policy & Economic Development	1,640.4	1,920.6	2,401.8	2,346.4
Property & Asset Management	(6,383.5)	(6,291.0)	(6,359.1)	(6,905.2)
Strategy & Innovation	(178.2)	0.0	0.0	0.0
	7,154.9	**8,853.3**	**10,097.6**	**10,275.7**
Other Requirements				
Net Cost of Benefit Payments	(36.0)	(20.8)	69.5	0.0
Corporate & Democratic Core	2,031.0	2,063.1	2,132.1	2,134.6
Net Cost of Services	**9,149.9**	**10,895.6**	**12,299.2**	**12,410.3**

ANNEX 7

CHIEF EXECUTIVE'S OFFICE

SUMMARY ESTIMATES

Principal Activities	Final Outturn 2021/22 £'000	Original Estimate 2022/23 £'000	Forecast 2022/23 £'000	Original Estimate 2023/24 £'000
Chief Executive's Office	(85.4)	0.0	0.0	0.0
Human Resources Service	(116.1)	(44.7)	(34.8)	(44.7)
Human Resources Function	21.3	44.7	34.8	44.7
Net Total Expenditure / (Income)	**(180.2)**	**0.0**	**0.0**	**0.0**

ANNEX 7

COMMUNITY & LEISURE SERVICE

SUMMARY ESTIMATES

Principal Activities	Final Outturn 2021/22 £'000	Original Estimate 2022/23 £'000	Forecast 2022/23 £'000	Original Estimate 2023/24 £'000
Leisure Management	**(48.4)**	**0.0**	**0.0**	**0.0**
Parks, Countryside & Sport				
Managed Sports Facilities	(39.4)	(1,778.7)	(1,853.7)	(1,979.9)
Outdoor Sports Facilities	415.6	325.8	364.7	464.7
Playgrounds	83.2	40.9	74.1	37.5
Sports Development	25.7	26.5	19.4	18.4
Cemeteries	(74.1)	(66.1)	(70.4)	(61.6)
Grounds Maintenance	592.3	133.7	82.2	90.3
Nature Reserves	252.9	166.1	157.3	151.3
Urban Parks & Open Spaces	(1,026.8)	438.9	425.4	498.2
Total - Parks, Countryside & Sport	**229.4**	**(712.9)**	**(801.0)**	**(781.1)**
Community Development				
Community Engagement	1,154.9	1,338.7	1,511.1	1,460.8
Total - Community Development	**1,154.9**	**1,338.7**	**1,511.1**	**1,460.8**
Arts & Culture				
Andover Summit Events	65.7	203.3	244.7	209.3
Arts Function	37.2	33.1	75.4	34.1
The Lights	523.3	568.7	612.3	656.7
Heritage	55.4	60.3	0.5	0.5
Total - Arts & Culture	**681.6**	**865.4**	**932.9**	**900.6**
Net Total Expenditure	**2,017.5**	**1,491.2**	**1,643.0**	**1,580.3**

ANNEX 7

ENVIRONMENTAL SERVICE

SUMMARY ESTIMATES

Principal Activities	Final Outturn 2021/22 £'000	Original Estimate 2022/23 £'000	Forecast 2022/23 £'000	Original Estimate 2023/24 £'000
Grounds Maintenance	1,224.4	1,254.2	1,484.9	1,466.2
Waste Collection	2,380.9	2,446.6	2,423.5	2,581.3
Green Waste Collection	(258.4)	(177.3)	(220.1)	(255.5)
Street Cleansing	897.5	997.4	1,107.0	1,130.8
Vehicle Workshop	174.6	101.6	120.5	164.3
ES Technical	528.3	582.8	513.1	517.3
Depot costs	(79.1)	6.8	24.9	19.9
Net Total Expenditure	**4,868.2**	**5,212.1**	**5,453.8**	**5,624.3**

ANNEX 7

FINANCE & REVENUES SERVICE

SUMMARY ESTIMATES

Principal Activities	Final Outturn 2021/22 £'000	Original Estimate 2022/23 £'000	Forecast 2022/23 £'000	Original Estimate 2023/24 £'000
Finance	(165.6)	0.0	0.0	0.0
Customer Services Unit	(127.6)	(6.5)	0.0	(6.2)
Revenues				
Local Taxation Services	787.9	939.9	997.5	1,064.0
Council Tax Support Administration	374.7	480.2	476.9	519.3
Housing Benefit - Rent Allowances Administration	207.0	252.8	250.6	289.5
Total Revenues	**1,369.6**	**1,672.9**	**1,725.0**	**1,872.8**
Net Total Expenditure	**1,076.4**	**1,666.4**	**1,725.0**	**1,866.6**

ANNEX 7

HOUSING & ENVIRONMENTAL HEALTH SERVICE

SUMMARY ESTIMATES

Principal Activities	Final Outturn 2021/22 £'000	Original Estimate 2022/23 £'000	Forecast 2022/23 £'000	Original Estimate 2023/24 £'000
Housing Management	**(47.4)**	**0.0**	**0.0**	**0.0**
Housing Options	862.5	1,063.3	727.7	1,583.2
Hampshire Home Choice	7.9	1.8	0.5	0.6
Housing Development	175.1	273.0	222.9	253.7
Housing Total	**1,045.5**	**1,338.1**	**951.1**	**1,837.5**
Pest Control	123.0	127.1	134.4	122.7
Environmental Protection	422.8	409.6	415.9	395.4
Housing Standards	300.8	261.9	280.7	281.2
Animal Welfare	93.7	105.5	94.4	98.9
Health Protection	369.3	520.1	487.2	506.8
Environmental Health Total	**1,309.6**	**1,424.2**	**1,412.6**	**1,405.0**
Net Total Expenditure	**2,307.7**	**2,762.3**	**2,363.7**	**3,242.5**

ANNEX 7

I.T. SERVICE

SUMMARY ESTIMATES

Principal Activities	Final Outturn 2021/22 £'000	Original Estimate 2022/23 £'000	Forecast 2022/23 £'000	Original Estimate 2023/24 £'000
Management	(1,342.7)	(1,200.7)	(1,573.9)	(1,301.6)
Service Desk	124.0	138.7	121.3	140.2
Infrastructure	503.4	533.9	576.2	530.4
Corporate Services	464.7	409.0	761.1	495.7
Cloud Services	0.0	10.1	40.9	11.1
Net Total Income	**(250.6)**	**(109.0)**	**(74.4)**	**(124.2)**

ANNEX 7

LEGAL & DEMOCRATIC SERVICE

SUMMARY ESTIMATES

Principal Activities	Final Outturn 2021/22 £'000	Original Estimate 2022/23 £'000	Forecast 2022/23 £'000	Original Estimate 2023/24 £'000
Legal				
Legal Service	(372.5)	(183.0)	(209.6)	(490.5)
Land Charges	(76.9)	(68.7)	(59.7)	(66.6)
Legal Total	**(449.4)**	**(251.7)**	**(269.3)**	**(557.1)**
Democratic				
Council Elections	153.0	174.4	196.3	485.1
Registration of Electors	46.7	93.2	77.3	88.5
Lotteries, Amusements and Gaming Permits	(5.1)	(3.9)	(4.1)	(3.2)
Alcohol and Entertainment Licensing	(24.1)	(25.6)	(12.3)	(27.4)
Scrap Metal Dealers	2.0	1.5	1.2	1.6
Hackney Carriages and Private Hire Vehicles	11.6	12.1	10.9	12.5
Democratic Total	**184.1**	**251.7**	**269.3**	**557.1**
Net Total Expenditure / (Income)	**(265.3)**	**0.0**	**0.0**	**0.0**

ANNEX 7

PLANNING & BUILDING SERVICE

SUMMARY ESTIMATES

Principal Activities	Final Outturn 2021/22 £'000	Original Estimate 2022/23 £'000	Forecast 2022/23 £'000	Original Estimate 2023/24 £'000
Development Control & Enforcement	2,380.3	2,143.7	2,760.0	2,565.4
Building Control	122.2	57.0	183.8	79.6
Net Total Expenditure	**2,502.5**	**2,200.7**	**2,943.8**	**2,645.0**

ANNEX 7

PLANNING POLICY & ECONOMIC DEVELOPMENT SERVICE

SUMMARY ESTIMATES

Principal Activities	Final Outturn 2021/22 £'000	Original Estimate 2022/23 £'000	Forecast 2022/23 £'000	Original Estimate 2023/24 £'000
Planning Policy	1,166.8	1,204.0	1,286.7	1,500.7
Local Development Framework	90.6	432.3	354.1	399.9
Climate Change	11.6	0.0	24.3	20.0
Total Planning Policy	**1,269.0**	**1,636.3**	**1,665.1**	**1,920.6**
Economic Development and Promotion	111.6	105.4	76.6	111.4
Promotion of Tourism	100.7	108.1	155.2	157.5
Total Economic Development and Promotion	**212.3**	**213.5**	**231.8**	**268.9**
Town Centre Management	**9.7**	**20.8**	**31.8**	**20.8**
Regeneration	**149.4**	**50.0**	**473.1**	**136.1**
Net Total Expenditure	**1,640.4**	**1,920.6**	**2,401.8**	**2,346.4**

ANNEX 7

PROPERTY & ASSET MANAGEMENT SERVICE

SUMMARY ESTIMATES

Principal Activities	Final Outturn 2021/22 £'000	Original Estimate 2022/23 £'000	Forecast 2022/23 £'000	Original Estimate 2023/24 £'000
Estates Support Unit	**(120.0)**	**53.9**	**63.7**	**58.7**
Rental Income				
Andover Market	88.1	77.1	98.3	89.1
Business Park Development	(5,958.5)	(5,823.9)	(5,995.7)	(6,440.9)
Union Street	(48.5)	(53.4)	(42.5)	(48.5)
Chantry Centre	(371.7)	(268.0)	(497.0)	(262.7)
Investment Properties	(1,040.0)	(1,083.2)	(1,105.6)	(1,130.8)
Corporate Properties	(300.3)	(300.0)	(281.5)	(314.2)
Total - Rental Income	**(7,630.9)**	**(7,451.4)**	**(7,824.0)**	**(8,108.0)**
Premises Management				
Public Halls	617.7	286.3	335.5	293.0
Leisure Facilities	55.7	74.0	109.3	0.0
Public Conveniences	170.1	161.1	169.1	163.9
Office Accommodation	131.8	67.6	86.4	76.3
Andover Magistrates Court	90.1	90.6	(62.8)	1.1
Depot Costs	(43.3)	(77.9)	(73.3)	(89.3)
Andover Bus Station	125.4	113.1	137.6	134.1
Building Maintenance	208.3	211.3	219.3	229.2
Building Cleaning	102.1	103.3	121.7	122.5
Maintenance Works	0.0	271.2	170.8	257.7
Total - Premises Management	**1,457.9**	**1,300.6**	**1,213.6**	**1,188.5**
Transport				
Engineers	257.3	216.7	224.8	172.3
Highways	3.0	16.6	17.9	36.7
Parking	(393.0)	(482.4)	(110.1)	(308.4)
Community Transport	42.2	55.0	55.0	55.0
Total - Transport	**(90.5)**	**(194.1)**	**187.6**	**(44.4)**
Net Total Income	**(6,383.5)**	**(6,291.0)**	**(6,359.1)**	**(6,905.2)**

ANNEX 7

STRATEGY & INNOVATION

SUMMARY ESTIMATES

Principal Activities	Final Outturn 2021/22 £'000	Original Estimate 2022/23 £'000	Forecast 2022/23 £'000	Original Estimate 2023/24 £'000
Strategy & Innovation	(178.2)	0.0	0.0	0.0
Net Total Income	**(178.2)**	**0.0**	**0.0**	**0.0**

ANNEX 7

NET COST OF BENEFITS PAYMENTS

SUMMARY ESTIMATES

Principal Activities	Final Outturn 2021/22 £'000	Original Estimate 2022/23 £'000	Forecast 2022/23 £'000	Original Estimate 2023/24 £'000
Council Tax Benefits	(7.5)	0.0	0.0	0.0
Housing Benefit - Rent Allowances	(28.5)	(20.8)	69.5	0.0
Net Total Income	**(36.0)**	**(20.8)**	**69.5**	**0.0**

ANNEX 7

CORPORATE & DEMOCRATIC CORE

SUMMARY ESTIMATES

Principal Activities	Final Outturn 2021/22 £'000	Original Estimate 2022/23 £'000	Forecast 2022/23 £'000	Original Estimate 2023/24 £'000
Corporate Management				
Corporate Management	653.4	534.2	576.8	638.2
Delivering Public Services Electronically	10.5	21.5	24.2	25.5
Corporate Public Relations, Information and Consultation	20.7	18.3	20.3	20.3
Best Value & Performance	10.4	12.2	53.2	14.0
Emergency Planning	36.5	36.6	37.3	38.3
Total - Corporate Management	**731.5**	**622.8**	**711.8**	**736.3**
Democratic Representation and Management				
Councillors	465.9	487.8	497.1	547.1
Councillor Meetings	311.2	346.5	306.0	354.5
Mayoral Office	28.0	43.7	43.1	46.4
Civic Ceremonies	4.7	13.5	11.2	10.5
Subscriptions	26.2	26.4	30.0	30.0
Representing Local Interests		0.0		
Other Democratic Activities	24.7	25.8	26.1	26.8
Total - Democratic	**860.7**	**943.7**	**913.5**	**1,015.3**
Allocated Central Overheads	**189.1**	**239.8**	**269.1**	**128.3**
Non-Distributable Costs	**249.7**	**256.8**	**237.7**	**254.7**
Net Total Expenditure	**2,031.0**	**2,063.1**	**2,132.1**	**2,134.6**

ANNEX 8

Statement on the Robustness of Estimates and Adequacy of Revenue Reserves

1. Introduction

1.1 There are a range of safeguards in place to help prevent local authorities over-committing themselves financially. These include:

- the balanced budget requirement of the Local Government Finance Act 1992
- the chief finance officer's duty to report on robustness of estimates and adequacy of reserves (under section 25 of the Local Government Act 2003) when the authority is considering its budget requirement (England and Wales)
- legislative requirements for each local authority to make arrangements for the proper administration of their financial affairs and that the chief finance officer (CFO) / proper officer has responsibility for the administration of those affairs (section 151 of the Local Government Act 1972)
- the requirements of the Prudential Code
- auditors' consideration of whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based, in the context of auditors' statutory responsibility to satisfy themselves that the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

1.2 These requirements are reinforced by section 114 of the Local Government Finance Act 1988 which requires the CFO in England and Wales to report to all the authority's councillors, in consultation with the Monitoring Officer, if (in broad terms) there is or is likely to be unlawful expenditure or an unbalanced budget.

Local Government Act 2003

1.3 The 2003 Local Government Act places specific responsibilities on Chief Finance Officers in England and Wales. The Act requires the CFO to report on the robustness of the budget and the adequacy of proposed financial reserves. This statement meets this statutory requirement and the Council is required to have regard to this report when it sets the budget.

2. Robustness of Estimates

2.1 In terms of the robustness of the estimates, all known factors have been considered and the financial implications have been assessed at the point of preparation. Various budget assumptions have been made including the treatment of inflation and interest rates, estimates on the level and timing of capital receipts, the treatment of demand-led pressures, the treatment of planned efficiency savings and levels of income, financial risks inherent in any new arrangements and capital developments and the availability of funds to deal with unforeseen items of expenditure. In each of these areas the Council's financial standing, management and track record has been considered in order to prepare robust budget proposals.

ANNEX 8

2.2 The accountancy team, working with individual budget holders, have undertaken a detailed analysis of budget variances arising in prior years to ensure than budgets are set based on realistic forecasts of likely income and expenditure. This exercise identified several areas where additional income can be built in to the budget for the coming year.

2.3 The preparation of the detailed estimates has also identified savings / additional income proposals together with areas where essential cost growth is known to be needed. These items have been set out more fully in Annexes 2-4.

2.4 I have discussed the estimates with my Accountancy staff to the extent that I deem necessary. The processes followed are sound, well-established and very similar to those that have produced robust estimates in the past. The Council has also demonstrated that it has a sound system of internal control in place.

2.5 I am therefore satisfied that the draft budgets are sufficient to meet the expenditure commitments, of which I have been made aware, for next year and are adequate for the purpose of setting the council tax rate for 2023/24. Subject to some important reservations listed in the paragraph below, a reasonable degree of assurance can be given about the robustness of the estimates and the adequacy of reserves.

2.6 The exceptions relate to the provision of estimates for items outside the direct control of the Council:

- Income from grants provided by external funders.
- Demand for an increased level of existing services.
- External competition and changing markets, e.g. commercial rents.
- Macro-economic factors – such as interest rates and inflation.

Budgets will continue to be regularly monitored throughout the year with variances reported to Members in line with the existing budgetary cycle.

3. Adequacy of Revenue Reserves

3.1 Reserves are an integral part of the annual and medium term financial planning process and are held for two main purposes:

- A working balance (known as the General Fund balance) to help cushion the impact of uneven cash flows and minimise unnecessary temporary borrowing in any year, and

- A means of building up funds to meet known or predicted liabilities. These are known as earmarked reserves.

In addition, the Council builds a small contingency into its budget each year to cushion the impact of unexpected events or emergencies. For 2023/24 an additional sum has been recommended to enable the Council to respond to increased pressures arising from the continuing high levels of inflation.

3.2 The General Fund reserve held a balance at the end of 2021/22 of £2.6M. The forecast for the next three-year period does not include any draws or addition to this balance. I consider that it represents a prudent minimum level of working balances.

ANNEX 8

3.3 I have also reviewed the Council's estimated earmarked reserves to assess their adequacy and appropriateness over the medium term. It is clear that if these reserves are to fulfil their purpose, i.e. to meet known or predicted liabilities, then the amount held in them must be sufficient to meet these liabilities.

3.4 The Council currently has a range of earmarked revenue reserves with balances and projected balances as follows:

	Earmarked Revenue Reserves:	At 31/3/22 £000s	Forecast at 31/3/26 £000s
	Equalisation Reserves		
	Investment Equalisation Reserve	250	850
	Budget Equalisation Reserve	1,182	339
	Income Equalisation Reserve	300	300
	Pension Fund Equalisation Reserve	500	1,235
	Collection Fund Equalisation Reserve	4,698	5,829
	Total – Equalisation Reserves	**6,930**	**8,553**
	Reserves Held For Future Growth		
	New Homes Bonus	10,476	12,246
	Rejuvenation Projects Reserve	2,267	3,802
	Capacity Building Reserve	375	260
	Special Projects Reserve	295	0
	Enterprise and Innovation Reserve	315	315
	Total – Reserves Held For Future Growth	**13,728**	**16,623**
	Reserves Held For Specific Purposes		
*	Asset Management Plan	3,070	3,070
*	Developer Commuted Sums	7,297	7,297
*	Chantry Centre Planned Maintenance Reserve	1,481	1,481
*	Local Development Framework	548	548
	Environment Act delivery	300	0
	All Risks Self-Insurance Reserve	93	85
	Valley Housing Ltd Reserve	250	90
*	Housing Reserve	811	811
	COVID grants	673	0
	Other Earmarked Reserves	667	715
	Total – Other Earmarked Revenue Reserves	**15,190**	**14,097**
	Total:	**35,848**	**39,273**

* The reserves marked with an asterisk are used to support ongoing activities with unpredictable levels of expenditure and compensating income. It is therefore impossible to accurately assess what the reserve levels will be in 2026. Therefore, the current balance has been included as a comparator. I have reviewed the forecast calls on these reserves over the medium term and am satisfied that the balances shown are adequate for their respective purposes over this period.

ANNEX 8

3.5 The greatest risk to the Medium Term Financial Strategy is the potential for the government to re-set business rates baselines, leading to a loss of retained income from that source. The re-set has again been deferred, until at least 2025/26, which provides certainty for two years; however, it also increases the cliff-edge faced later in the medium term period.

3.6 The forecast balance on the Collection Fund Equalisation Reserve at March 2026 is significant. However, in the context of retained growth of c£3M per annum which could be lost, it will be necessary to have a sizeable contingency to ameliorate the impact of potential losses, should they arise.

3.7 The medium term forecast allows for the re-inflation of the pension fund equalisation reserve and the investment equalisation reserve. Both of these reserves were previously utilised to mitigate years of sustained low investment income receipts and increased contributions to the pension fund. With interest rates having increased over the past year and a positive triennial valuation of the pension fund assets and liabilities in 2022, these reserves can be re-established over the medium term.

3.8 All of the “equalisation” reserves will be available to smooth the impact of volatility from key income streams.

3.9 Other earmarked reserves, such as the Asset Management Plan reserve and the Chantry Centre Planned Maintenance reserve also have an important role to play as they have been set up to ensure that the Council has adequate financing available for planned maintenance and renewal of assets.

3.10 The balance of the New Homes Bonus will continue to be important to the Council, not only as a source of financing for the Community Asset and Revenue Funds, but also for financing other appropriate community-based schemes in the Capital Programme.

3.11 I am satisfied that the earmarked revenue reserves are adequate for their particular purposes, but given the uncertainties highlighted in paragraph 2.6, there is little room for manoeuvre. With this in mind, I have to emphasise the importance of:

- achieving all of the savings options put forward for 2023/24
- continuing with the systematic review of all budget areas ahead of the next Medium Term Financial Strategy update
- seizing procurement and capital investment opportunities
- exploring different ways of working, in particular taking advantage of the opportunities presented by more agile working and ways of enabling services to be delivered online.
- keeping financial forecasts up-to-date in order to plan and adapt to changing circumstances, and
- maintaining firm budgetary control and effective monitoring processes.

Carl Whatley FCCA
Head of Finance & Revenues

ANNEX 9

Andover Special Expenses Levy Calculation

Overview

The Andover Special Expenses Levy for 2023/24 has been calculated using the 2023/24 budget for each relevant cost centre.

Depreciation and capital charges have been excluded as these are excluded from the calculation of council tax.

Grounds maintenance charges have been allocated to each area of the levy and are included in the figures shown in the table below.

The proposed levy for 2023/24 has been calculated as follows:

Description	Levy
Cemeteries	(£7,824)
Outdoor Sports Facilities	£149,704
Playgrounds	£67,165
Urban Parks & Open Spaces	£134,622
Grand Total	**£343,667**
Andover Tax base 2023/24	*17,444*
Levy per Band D property	**£19.70**

This represents a reduction of £0.12 per Band D property from £19.82 in 2022/23, and an increase in income to the Council of £3,800.

Cemeteries

The costs for Andover and Charlton cemeteries are included in full. Although Charlton cemetery is not in the Andover Town Council area it is considered to be the main burial ground for the people of Andover.

Romsey and Woodley cemeteries are excluded in full as they are not in Andover.

54.9% of the cemeteries general costs are included as the Andover and Charlton cemeteries form 54.9% of the total cemeteries budgeted costs in 2023/24.

ANNEX 9

Cost centre	23/24 Budget £'000s	Charge / (credit) to Levy £'000s
Andover Cemetery	(1.8)	(1.8)
Charlton Cemetery	(46.5)	(46.5)
Cemeteries - General	7.3	4.0
Romsey and Woodley Cemeteries	(39.5)	0.0
Grounds maintenance	66.3	36.5
Total	**(14.2)**	**(7.8)**

Outdoor Sport Facilities

The costs included in the levy are in respect of London Road, Saxon Fields, Picket Twenty, Picket Piece and East Anton sports grounds and pavilions, all of which lie within the Andover Town Council area. In addition, 43.5% of the general outdoor sports facilities expenses (after adjustments to deduct non- outdoor sports facilities expenses) are included as these sports grounds make up 43.5% of the total sports facilities costs for 2023/24.

Charlton Sports Centre, Romsey Sports Centre, Hunts Farm Sports Centre, Ganger Farm and Abbotswood Pavilion are all excluded.

Outdoor Sports Facilities	23/24 Budget £'000s	Charge to Levy £'000s
London Road	12.6	12.6
Saxon Fields	5.1	5.1
Picket Twenty	28.0	28.0
East Anton	13.7	13.7
Picket Piece	3.9	3.9
Outdoor Sports Facilities – General	60.3	26.3
Charlton, Romsey, Hunts Farm, Ganger Farm and Abbotswood	82.3	0.0
Grounds Maintenance	138.1	60.1
Total	**344.0**	**149.7**

ANNEX 9

Playgrounds

The number of playgrounds that the Council maintains in Andover is 63. The total number of playgrounds that the Council maintains across the borough is 109. Therefore 57.8% of the total playgrounds costs including grounds maintenance of £116,200 are relevant to the levy at £67,200.

Urban Parks and Open Spaces

The budget for urban parks and open spaces general costs (after adjusting for non-relevant expenses) including grounds maintenance totals £232.9k and has been apportioned to the levy using the same percentage as the playgrounds, 57.8% giving a charge of £134,600.

Costs for the adopted woodland at Valley Park, Abbotswood Basin and the War Memorial Park have been excluded in full.

ITEM 14 Exclusion of the Public

Recommended:

That, pursuant to Regulation 4 of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012, the public be excluded from the meeting for the consideration of the following report on the following matters on the grounds that they involve the likely disclosure of exempt information as defined in the following Paragraphs of Part 1 of Schedule 12A of the Local Government Act 1972, as amended, indicated below. The public interest in maintaining the exemption outweighs the public interest in disclosing the information for the reason given below:

Valley Housing Matters **Paragraph 3**

It is considered that this report contains exempt information within the meaning of paragraph 3 of Schedule 12A of the Local Government Act 1972, as amended. It is further considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information because the information relates to the financial or business affairs of both the Council and third parties.