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# Cabinet
# 8 February 2023

EASTBOURNE
Borough Council

Working in partnership with **Eastbourne Homes**

**Time and venue:**

**6.00 pm in the Court Room at Eastbourne Town Hall, Grove Road, BN21 4UG**

**Membership:**

**Councillor David Tutt (Chair); Councillors Stephen Holt (Deputy-Chair) Margaret Bannister, Peter Diplock, Alan Shuttleworth and Colin Swansborough**

**Quorum: 3**

*Published: Tuesday, 31 January 2023*

# Agenda

**1 Minutes of the meeting held on 14 December 2022 (Pages 5 - 10)**

**2 Apologies for absence**

**3 Declaration of members' interests**

**4 Questions by members of the public**

On matters not already included on the agenda and for which prior notice has been given (total time allowed 15 minutes).

**5 Urgent items of business**

The Chairman to notify the Cabinet of any items of urgent business to be added to the agenda.

**6 Right to address the meeting/order of business**

The Chairman to report any requests received to address the Cabinet from a member of the public or from a Councillor in respect of an item listed below and to invite the Cabinet to consider taking such items at the commencement of the meeting.

**7 Corporate performance - quarter 3 - 2022/23 (Pages 11 - 20)**

Report of Director of Finance and Performance
Lead Cabinet member: Councillor Colin Swansborough

**8 General Fund Revenue Budget 2023/24 and Capital Programme (Pages 21 - 64)**

Report of Director of Finance and Performance
Lead Cabinet member: Councillor Stephen Holt

9 **Treasury Management and Prudential Indicators 2023/24, Capital Strategy & Investment Strategy (Pages 65 - 126)**

Report of Director of Finance and Performance
Lead Cabinet member: Councillor Stephen Holt

10 **Housing Revenue Account (HRA) Revenue Budget and Rent Setting 2023/24 and HRA Capital Programme 2022-26 (Pages 127 - 140)**

Report of Director of Finance and Performance
Lead Cabinet member: Councillor Stephen Holt

11 **Congress and Devonshire Park Theatres - Future Governance Arrangements (Pages 141 - 148)**

Report of Chief Executive
Lead Cabinet member: Councillor David Tutt

# Information for the public

**Accessibility:**

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**Public participation:**

Please contact Democratic Services (see end of agenda) for the relevant deadlines for registering to speak on a matter which is listed on the agenda if applicable.

# Information for Councillors

**Disclosure of interests:**

Members should declare their interest in a matter at the beginning of the meeting.

In the case of a disclosable pecuniary interest (DPI), if the interest is not registered (nor the subject of a pending notification) details of the nature of the interest must be reported to the meeting by the member and subsequently notified in writing to the Monitoring Officer within 28 days.

If a member has a DPI or other prejudicial interest he/she must leave the room when the matter is being considered (unless he/she has obtained a dispensation).

**Councillor right of address:**

Councillors wishing to address the meeting who are not members of the committee must notify the Chairman and Democratic Services in advance (and no later than immediately prior to the start of the meeting).

# Democratic Services

For any further queries regarding this agenda or notification of apologies please contact Democratic Services.

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EASTBOURNE
Borough Council

Working in partnership with **Eastbourne Homes**

# Cabinet

**Minutes of meeting held in Court Room at Eastbourne Town Hall, Grove Road, BN21 4UG on 14 December 2022 at 6.00 pm.**

**Present:**

Councillor David Tutt (Chair).

Councillors Stephen Holt (Deputy-Chair), Margaret Bannister, Peter Diplock, Alan Shuttleworth and Colin Swansborough.

**Officers in attendance:**

Robert Cottrill (Chief Executive), Homira Javadi (Director of Finance and Performance (Chief Finance Officer)), Ian Fitzpatrick (Deputy Chief Executive and Director of Regeneration and Planning), Tim Whelan (Director of Service Delivery), Becky Cooke (Assistant Director for Human Resources and Transformation), Luke Dreeling (Performance Lead), Ola Owolabi (Deputy Chief Finance Officer - Corporate Finance) and Simon Russell (Head of Democratic Services).

## 29 Minutes of the meeting held on 2 November 2022

The minutes of the meeting held on 2 November 2022 were submitted and approved and the Chair was authorised to sign them as a correct record.

## 30 Apologies for absence

None were reported.

## 31 Declaration of members' interests

Councillors Holt declared a personal, non-prejudicial interest in agenda item 10 (Council Tax Base and Non-Domestic Rates income for 2023/24) as his employer (Your Eastbourne BID) had association with business rates collected. He remained in the room and voted on the item.

## 32 Cost of Living Update

The Cabinet considered the report of the Deputy Chief Executive and Director of Regeneration and Planning, updating them on steps taken to support residents through the cost-of-living crisis.

Thanks were expressed to all those involved for the measures taken, as set out in the report.

**Resolved (Non-key decision):**

To note the progress of measures taken to support residents through the cost-of-living crisis.

**Reason for decision:**

The Council has committed to a range of ongoing measures which are supporting residents and organisations across the Borough.

## 33 Corporate performance - quarter 2 - 2022/23

The Cabinet considered the report of the Chief Finance Officer, updating members on the Council's performance against Corporate Plan priority actions, performance indicators and targets for the second quarter of the year 2022-23.

Thanks were expressed to the Service Delivery team for their work during the quarter in collecting council tax and business rates, particular given the current economic climate.

Part B of the report detailed the Council's financial performance for the same quarter. The Council awaited the details of the financial statement from central government, that was expected later this month.

**Resolved (Non-key decision):**

(1) To note the achievements and progress against Corporate Plan priorities for 2022-23, as set out in Part A of this report.

(2) To note the General Fund, HRA and Collection Fund financial performance for the quarter, as set out in Part B of the report.

**Reason for decisions:**

To enable Cabinet members to consider the specific aspects of the Council's progress and performance.

## 34 Local Council Tax Reduction Scheme 2023/24

The Cabinet considered the report of the Director of Service Delivery, seeking their recommendation to Full Council that the 2022/23 Local Council Tax Reduction Scheme is adopted as the 2023/24 scheme.

Thanks were expressed to the Scrutiny Committee for their observations at the meeting on 5 December 2022.

**Recommended to Full Council (Budget and policy framework):**

(1) To recommend to Full Council that the 2022/23 Local Council Tax Reduction Scheme be adopted as the 2023/24 scheme.

(2) Subject to Full Council adoption of the Scheme, Cabinet grants the Director of Service Delivery delegated authority–

(a) to implement the Scheme, such delegated authority to include any measures necessary for or incidental to its management and administration; and

(b) if necessary, and in accordance with paragraph 2.3, to amend the Scheme in consultation with the Lead Member for Direct Assistance Services.

(3) That the Exceptional Hardship Scheme continues in 2023/24 subject to funds being available.

**Reason for decisions:**

The Council must review the scheme each year and adopt a scheme for the coming financial year.

## 35 Council tax and business rate base 2023/24

The Cabinet considered the report of the Chief Finance Officer, asking them to approve the Council Tax Base and net yield from Business Rate Income for 2023/24 in accordance with the Local Government Finance Act 1992.

Scrutiny Committee at its meeting on 5 December 2022, supported the officer recommendations to Cabinet, subject the following, additional recommendation being considered.

**(iv) That the Cabinet consider a review of the scope of the council tax base, including the parameters for exemptions and discounts that currently apply to Eastbourne Borough, and innovative schemes adopted by other authorities.**

The Cabinet advised that this request was already actioned and part of the existing process, therefore was not required to be part of a formal resolution.

**Resolved (Key decision):**

(1) To agree the provisional Council Tax Base of 35,294.8 for 2023/24.

(2) To agree that the Chief Finance Officer, in consultation with the Portfolio Holder for Financial Services, determine the final amounts for the Council Tax Base for 2023/24.

(3) To agree that the Chief Finance Officer, in consultation with the Portfolio Holder for Finance, determine net yield from Business Rate income for 2023/24.

**Reason for decisions:**

Cabinet is required to approve the Tax Base which will be used for the purposes of calculating the 2023/24 Council Tax.

## 36 Eastbourne Carbon Neutral 2030: Annual Report

The Cabinet considered the report of the Deputy Chief Executive and Director of Regeneration and Planning, noting progress to date and seeking approval to publish the Annual Update, as set out at Appendix 1 to the report.

Partnership working had contributed to the delivery of a variety of regional and local projects, including the Communication Action at the E-Hive and the Sustainable Business and Solar Summit that took place in November.

Thanks were also expressed to Kate Richardson, Sustainability Lead and various partners for the work detailed in the report, and also Councillor Dow for his efforts when he was Cabinet member for Climate Change.

**Resolved (Key decision):**

(1) To approve the 'Eastbourne Carbon Neutral 2030' Annual Update as attached at Appendix 1 to the report for publication on the website.

(2) To note progress to date on the strategy action plan as contained within Appendix 1.

**Reason for decisions:**

To progress towards the aims of achieving Eastbourne Carbon Neutral 2030 as resolved in July 2019.

## 37 Planning Local Validation List

The Cabinet considered the report of the Deputy Chief Executive and Director of Regeneration and Planning, seeking their approval for the adoption and publication of the Council Local Validation List. The list outlined the supporting and evidential requirements of planning applications.

**Resolved (Key decision):**

(1) To agree the publication and use of the Draft Local List of Planning Application Requirements contained at Appendix 1 & 2 to the report.

(2) To provide delegated authority to the Director of Regeneration and Planning, in consultation with the Portfolio Holder for Planning and Infrastructure, to make minor or technical amendments to the Planning Local Validation List to its publication or as otherwise required following publication.

**Reasons for decisions:**

(1) To publicise the Council's expectation for the delivery of a robust planning application validation process.

(2) To make minor amendments to address technical, drafting issues or to take account of changing legislative requirements.

The meeting ended at 6.24 pm

Councillor David Tutt (Chair)

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# Agenda Item 7

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|---|---|
| **Body:** | **Cabinet** |
| **Date:** | **8 February 2023** |
| **Subject:** | **Corporate Performance Quarter 3 2022-23** |
| **Report of:** | **Homira Javadi, Director of Finance and Performance (Chief Finance Officer – S151 Officer)** |
| **Cabinet member:** | **Councillor Colin Swansborough, Cabinet member for climate change, place services and special projects** |
| **Ward(s):** | **All** |
| **Purpose of the report:** | **To update Members on the Council's performance against Corporate Plan priority actions, performance indicators and targets for the third quarter of the year 2022-23.** |
| **Decision type:** | **Non Key** |
| **Recommendation:** | **Cabinet is recommended to :**<br><br>**i) Note the achievements and progress against Corporate Plan priorities for 2022-23, as set out at Appendix 1** |
| **Reasons for recommendations:** | **To enable Cabinet members to consider specific aspects of the Council's progress and performance.** |
| **Contact:** | **Luke Dreeling: Performance Lead**<br>**Tel: 07525 351757 or email:**<br>**luke.dreeling@lewes-eastbourne.gov.uk** |

**1.0 Consultation**

1.1 The priority themes in the Corporate Plan were developed in consultation with residents.

**2.0 Solution Sprints**

2.1 The council employed Solution Sprints (SS) pre-pandemic to realise service improvements. Associated SS work has been relaunched this year. As previously reported, quarters 1 and 2 saw the soft launch of SS and approval of associated governance arrangements via the Accelerating Change Steering Group.

In quarter three we have piloted SS approaches resulting in the launch of a new 'Contact Us' form on the council's website. This is helping to streamline emails to service areas and free up Customer First colleagues, to prioritise those customers with the greatest need. Associated process mapping methods have also been used this quarter to support the new Planning System project.

Within this quarter the Accelerating Change Steering Group have reviewed and refined a range of SS ideas. This has included research and initial scoping, with associated Sprint work prioritised and integrated into existing and forthcoming projects such as the new council website project commencing in Quarter 4. Quarter 4 will also see the Accelerating Change Steering Group reviewing SS approaches to date and, if appropriate, launching communications to pool wider ideas for continuous improvement activity from across the council.

**3.0 Financial appraisal**

3.1 Project and performance monitoring and reporting arrangements are contained within existing estimates. Corporate performance information should also be considered alongside the Council's financial update as there is a clear link between performance and budgets/resources.

3.2 All the financial implications are contained within the body of the report.

**4.0 Legal implications**

4.1 Comment from the Legal Services Team is not necessary for this routine monitoring report.

**5.0 Equality analysis**

5.1 The equality implications of individual decisions relating to the projects/services covered in this report are addressed within other relevant Council reports or as part of programmed equality analysis.

**6.0 Conclusion**

6.1 This report provides an overview of performance against the authority's priority actions and indicators for 2022-23.

**Appendices**

Appendix 1 – Q3 Performance Overview

**Appendix 1**

# Eastbourne Borough Council Corporate Performance Report Q3 2022-23

| Key | | | |
|---|---|---|---|
| | Performance that is at or above target<br>Project is on track | | Performance that is below target<br>Projects that are not expected to be completed in time or within requirements |
| | Project has been completed, been discontinued or is on hold | | Performance that is slightly below target but is within an acceptable tolerance<br>Projects : where there are issues causing significant delay, changes to planned activities, scale, cost pressures or risks |
| | Direction of travel on performance indicator : improving performance | | Direction of travel on performance indicator : declining performance |
| | Direction of travel on performance indicator : no change | | Data with no performance target |

## KPIs

| KPI Description | Annual Target 2022/23 | Q2 2022/23 | Q3 2022/23 | | | | Latest Note |
|---|---|---|---|---|---|---|---|
| | | Value | Value | Target | Status | Short Trend | |
| 1. Finance: Percentage of Council Tax collected during the year - Eastbourne | **96.80%** | **54.97%** | **81.45%** | **82.44%** | | ↑ | The collection rate was not achieved, falling (0.99%) below target. The cost-of-living crisis is continuing to impact and is expected to do so until at least the end of the financial year. |
| 2. Finance: Percentage of Business Rates collected during the year - Eastbourne | **97%** | **57.99%** | **81.28%** | **81.10%** | | ↑ | The collection rate has exceeded target by 0.18% and remains on track. The significant increase is mainly due to the award of Covid Additional Relief Fund in the 2021/22 financial year to eligible businesses resulting in overpayments on their accounts in most cases. The credits were subsequently transferred into the 2022/23 financial year on each account earlier this year putting most businesses ahead of their current instalment plans. |
| 3. Benefits: Average days to process new claims for housing/council tax benefit | **22** | **25** | **26** | **22** | | ↓ | The national average number of days to process a new claim has increased. This can be attributed to the number of different government schemes that councils' Benefit sections have had to administer and the nationwide challenges in recruiting and retaining staff.<br><br>An additional factor is the increase in the number of 'Homeless' claims that the service are dealing with. It often takes longer to gather the information needed to process new claims relating to homelessness/potential homelessness. |
| 4. Benefits: Average days to process change of circs (housing/council tax benefit) | **6** | **12** | **9** | **6** | | ↑ | Whilst the target has not been achieved, Q3 performance at 9 days shows a great improvement and trend from Q2 (12 days).<br><br>Actions taken to improve performance are starting to have a positive impact. |
| 5. Customers: Increase the percentage of calls to the contact centre answered within 60 seconds | **80%** | **18.6%** | **41.45%** | **80%** | | ↑ | Due to system issues with our telephone provider, we were unable to collect the exact data although weekly monitoring showed continued improvement from previous quarters. Exact figures will be provided in Q4 and updated as soon as available. We are working with IT to resolve this as soon as possible.<br><br>During January the improvement has continued with the average speed of answer at under 2 minutes with an average of 63% of calls answered within 60 seconds and 6% of calls abandoned We have 6 new starters on our customer contact training programme.<br><br>Customer contact continues to remain of a complex nature and Customer Advisors are spending longer assisting with enquiries endeavouring to resolve them at that first contact. |
| 6. Customers: Reduce the numbers of abandoned calls to the contact centre - Ebn | **5%** | **34.63%** | **16.34%** | **5%** | | ↑ | Please see above commentary |
| 7. Housing: Number of households living in emergency (nightly paid) accommodation | Data only | **207** | **247** | **Data only** | | ↓ | The cost-of-living crisis continues to impact this measure, in addition to this we continue to see an increase in single placements due to mental health issues and family breakdown. |
| 8. Customers: Number of new sign-ups to the Councils' social media channels | **650** | **611** | **577** | **162.5** | | ↓ | During each month in Q3 2022-23 we consistently exceeded the target for new social media followers across both sets of profiles. |

| KPI Description | Annual Target 2022/23 | Q2 2022/23 | Q3 2022/23 | | | | Latest Note |
|---|---|---|---|---|---|---|---|
| | | Value | Value | Target | Status | Short Trend | |
| 9. Customers: Number of people registering for our email service (GovDelivery) | **2,000** | **1,315** | **876** | **500** | | | The good level of new email alert subscribers was maintained during each month of Q3 2022-23. |
| 10. Customers: Percentage of local searches that are returned within 10 working days of receipt | **80%** | **99.68%** | **100%** | **80%** | | | Q3 performance above target. 222 out of 222 local searches returned within 10 working days. |
| 11. Growth: Town centre vacant retail business space | **11.8%** | **9.24%** | **8.78%** | **11.8%** | | | Town centre vacancy reporting has improved marginally due to temporary Christmas pop up shops returning 8.78% against a national average of 11.2%. Smaller units in the town centre attract new operators whilst larger retail units continue to remain vacant. |
| 12. Housing: Average void relet time key to key (month & YTD) | **20.0** | **53.3** | **48.7** | **20.0** | | | Void improvement plan now in place with a meeting structure to support improvements operationally and strategically across Homes First.<br><br>There have been a large number of candidate rejections particularly in retirement housing 2-beds and studios and some delays due to adaptations. General turnover remains low, particularly in larger family accommodation, which means that the Housing Register is not reducing in number and pressure on accommodation remains acute. Housing register review due to be complete in Q4 which will help to resolve rejections. |
| 13. Housing: DFGs - Time taken from council receiving a fully complete application to the council approving the grant | 14 days | **6 days** | | **14 days** | | | Unfortunately, due to timescales within Q3, this PI information is not yet available |
| 14. Housing: Number of Licensed HMO's Inspected per Quarter | 50 (12.5 Quarterly) | **16** | | **12.5** | | | Unfortunately, due to timescales within Q3, this PI information is not yet available |
| 15. Housing: Rent arrears of current tenants (expressed as a percentage of rent debit) | **3%** | **3.5%** | **3.77%** | **3%** | | | Rent arrears are 0.77% below target and is at its highest level since April. In monetary terms arrears stood at £557,318 in April and have increased to £587,638.<br><br>Cost of living continues to drive contact of a more complex nature. We have 2 new starters on our rents Training programme and increasing debt support training has been delivered to the team, to manage the additional demand of rent increases in 23/24.<br><br>Work continues with Mobysoft to implement improvements to the software we use and we have benchmarked our performance against all other councils in the South East of England showing a decrease since April 21 of the number of tenants in arrears against an increase in the other authorities. |
| 16. Planning: Increase the percentage of Major Planning Applications processed within 13 weeks | **65%** | **80%** | **67%** | **65%** | | | Exceeds National PI |
| 17. Increase the percentage of minor planning applications processed within 8 weeks | **75%** | **85%** | **89%** | **75%** | | | Exceeds National PI |

| KPI Description | Annual Target 2022/23 | Q2 2022/23 | Q3 2022/23 | | | | Latest Note |
|---|---|---|---|---|---|---|---|
| | | Value | Value | Target | Status | Short Trend | |
| 18. Increase the percentage of other planning applications processed within 8 weeks | **75%** | **84%** | **91%** | **75%** | | | Exceeds National PI |
| 19. Recycling & Waste: % Container Deliveries on Time (SLA) | **99%** | **81.2%** | **85.7%** | **99%** | | | This quarter has seen an improvement by 4.5% compared to Q2 (81.2%) |
| 20. Recycling & Waste: Missed Assisted Collections | **1%** | **0.11%** | **0.1%** | **1%** | | | This quarter remains comparable to Q2, but with a good improvement for December, attributed to Christmas. |
| 21.Recycling & Waste: Number of missed bins (per 100,000) | **100** | **71** | **39** | **100** | | | This quarter sees a good improvement compared to Q2 (71) and attributed to Christmas. |
| 22. Recycling & Waste: Percentage of household waste sent for reuse, recycling and composting | **45.00%** | **37.48%** | **37.48%** | **45.00%** | | | Updated figures given for Q2 and used as estimated data for Q3.<br>Quarter 2 is slightly down on the previous quarter average of 39.90% and attributed to the reduction in garden waste because of the extra dry summer and residents being cautious because of the cost-of-living crisis. |
| 23. Recycling & Waste: Total number of reported fly-tipping incidents | **480** | **128** | **159** | **120** | | | Reported incidents breakdown: Oct 61, Nov 66 and Dec 32.<br>Hotspot wards: Devonshire, Hampden Park, Langney and Meads.<br>**Most common type of fly-tips this quarter are:**<br>• Those on council land, roads, pavements<br>• Household items, builders waste, garden waste<br>• Equivalent to a small van load in volume |
| 24. Staff: Average days lost per FTE employee due to sickness (J) | 8.0 days | **1.67 days** | **1.4 days** | 2.0 days | | | This is the third quarter of reporting average days lost due to sickness for 2022/23. Sickness levels remain below target in Q3 where we recorded an average of just 1.4 days absence which is a decrease from Q2 (1.67 days) but remains stable and well within target. Absences for Covid-19 (those staff reporting symptoms) for Q2 was 28 which is a reduction of 14 from Q2.<br>The figure of 1.4 days for Q3 means we remain on track to meet our annual target of 8 days per annum.<br>It is worth noting that that this figure will increase as sickness notifications are still being received for December following the Christmas break and a further calculation will be undertaken at the end of this week and figures updated.<br>HR Business Partners continue to support managers in managing any attendance issues that arise. |

## Projects

| Project / Initiative | Description | Target completion |
|---|---|---|
| Winter Garden Improvements | Phase 1 is complete. Phase 2 work in design/planning stage (comprises new façade and refurbishment of South Pavilion). | Q4 2024/25 |
| Sovereign Centre Review | Under review/Ongoing | To be confirmed |
| Hampden Retail Park | The acquisition and development of Hampden Retail Park as part of the Property Acquisition and Investment Strategy (PAIS). | Ongoing. Phase 1 ended March 2022. |

# Devolved ward budget scheme 2022/2023 – Summary by ward to end of Quarter 3 (1 April – 31 December 2022)

| Ward | Project | Description | Project Spend to Date |
|---|---|---|---|
| Devonshire | Devonshire Collective partnership project | To support a community partnership between Devonshire Collective and Take the Space to provide free cultural activities for Eastbourne residents, with focus on the most disadvantaged communities using space in the former TJ Hughes building. | £500.00 |
| | | **Total spend to end of Quarter 3** | **£500.00** |
| Hampden Park | Tree protection | Tree protection measures, including cages to trees to help stop damage (as damage has been stopped this way in other areas) | £1,470.00 |
| | | **Total spend to end of Quarter 3** | **£1,470.00** |
| Langney | Treebourne | To support Treebourne's wild meadow initiative in Sevenoaks Park. | £500.00 |
| | Volunteer Networks at Community Centre | To support cost of living initiatives run by the Volunteers Network at the Langney Community Centre. | £1,000.00 |
| | | **Total spend to end of Quarter 3** | **£1,500.00** |
| Meads | St Johns Church Jubilee BBQ | To help St John's Church put on a Jubilee BBQ for residents. | £1,011.24 |
| | 360 Camera Vision for Eastbourne | To help buy a 360 camera for use by a number of different Eastbourne community projects. | £456.00 |
| | Meads Magic | To support the annual Meads Magic community event. | £500.00 |
| | | **Total spend to end of Quarter 3** | **£1967.24** |
| Old Town | Bridge repair in Motcombe Gardens | Internal funding request for repairs to bridge in Motcombe Gardens. | £400.00 |
| | bulb and flower planting | Bulb and flower planting at various sites around the ward, with support from Victoria Baptist Church. | £100.00 |

| Ward | Project | Description | Project Spend to Date |
|---|---|---|---|
| | Summer Holiday breakfast club | To support a breakfast club scheme during summer holidays | £200.00 |
| | Ocklynge School SEND garden | To create a SEND garden for the school. | £400.00 |
| | Tennis Courts security | To provide match funding for security measures to protect well used tennis courts facility | £1,000.00 |
| | Tree planting - Vicarage Drive | Tree planting in Vicarage Drive | £250.00 |
| | St Michael's Christmas | To support a family Christmas event hosted at St Michael's and All Angels Church. | £200.00 |
| | | **Total spend to end of Quarter 3** | **£2550.00** |
| Ratton | Bulb planting in Kings Drive | Bulb planting in Kings Drive area | £1,000.00 |
| | Tree planting in Ratton Ward | To fund planting of 8 new trees in Ratton Ward. | £2,000.00 |
| | | **Total spend to end of Quarter 3** | **£3,000.00** |
| St Anthony's | Park bench | New park bench - supplied and installed via Neighbourhood First team. | £1,726.00 |
| | | **Total spend to end of Quarter 3** | **£1,726.00** |
| Sovereign | Christmas boxes | To help provide Christmas boxes for Kingsmere children | £300.00 |
| | Armed Forces support | To fund new flags for armed forces day event | £460.80 |
| | | **Total spend to end of Quarter 3** | **£760.80** |
| Upperton | Hanging baskets | Funds to Eastbourne Allotments to provide hanging baskets for Crown Street | £239.77 |
| | cordless drill for Grow Eastbourne | Funding to provide a cordless drill for use by the volunteer group Grow Eastbourne | £70.00 |
| | Planting for Eastbourne Station | Planting for Eastbourne Station | £250.00 |
| | St Mary's church lighting | To fund electricity to keep outside lighting on at St Mary's church through winter. | £195.00 |
| | | **Total spend to end of Quarter 3** | **£754.77** |
| | | | |

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|---|---|
| **Number of schemes to end of Quarter 3** | **23** |
| **All wards total spend to end of Quarter 3** | **£14,228.81** |

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| **Report to:** | **Cabinet** |
| **Date:** | **8 February 2023** |
| **Title:** | **General Fund Revenue Budget 2023/24 and Capital Programme** |
| **Report of:** | **Homira Javadi, Director of Finance and Performance (Chief Finance Officer – S151 Officer)** |
| **Cabinet member:** | **Councillor Stephen Holt, Deputy Leader of the Council, Cabinet Member for Finance** |
| **Ward(s):** | **All** |
| **Purpose of report:** | **To agree the General Fund Budget 2023/24 and updated Medium Term Financial Strategy, together with the updated Capital Programme and Treasury Management position** |
| **Decision type:** | **Budget and Policy Framework** |
| **Officer recommendation(s):** | **1. Members are asked to recommend the following proposals to Full Council:** |

**1.1. The General Fund Budget 2023/24 (original) and projected MTFS as set out in Appendix 1.**

**1.2. The General Fund Budget 2022/23 (revised) as set out in Appendix 2.**

**1.3. An increase in the Council Tax for Eastbourne Borough Council of 2.99% (per annum) resulting in a Band D charge for general expenses of £269.68 (per annum) for 2023/24.**

**1.4. The revised General Fund Capital Programme 2023/24 as set out in Appendix 6.**

**1.5. The Council introduce from 1 April 2024 a new discretionary Council Tax premium on second homes of up to 100% and apply a premium of up to 100% on homes which have been empty for longer than 1 year following the Levelling Up and Regeneration Bill becoming law.**

**1.6. To note the Section 151 Officer's sign off as outlined in the report.**

**1.7. To give delegated authority to the Section 151 Officer in consultation with the Cabinet member for finance to**

| | |
|---|---|
| | **make any late adjustments necessary following the announcement of final financial settlement, prior to Full Council submission.** |
| **Reason for recommendations:** | **The Cabinet must recommend to Full Council the setting of a revenue budget and associated Council Tax for the forthcoming financial year by law.** |
| **Contact Officer:** | **Name: Homira Javadi**<br>**Post title: Director of Finance & Performance (CFO & S151)**<br>**E-mail: Homira.Javadi@lewes-eastbourne.gov.uk**<br>**Telephone number: 01273 085011** |

## 1 Opening Remarks

1.1 With austerity, Brexit, Covid-19, the war in Ukraine and now spiking inflation, the last decade has seen an unprecedented squeeze on the finances of councils across the country. Most councils have had to make difficult decisions and face reductions to their services and planned investments.

1.2 Several councils have declared bankruptcy, and others have said they may face that outcome in the coming year/s. Eastbourne Borough Council (EBC) also has faced its share of challenges. However, it has maintained key services, and has even managed to invest in new facilities. This has been done by delivering saving efficiencies and redirecting resources to key priorities.

1.3 The council has generated significant net savings, both from the Recovery and Stabilisation Programme (R&SP) and tighter management of its stretched resources. For example, EBC has been able to increase its provision of emergency and temporary accommodation by making use of properties within the Eastbourne Housing Investment Company estate and create additional support for those residents with greater vulnerability during these challenging economic climate.

1.4 In addition, by making use of external funding, such as the Levelling Up fund, Community Infrastructure Levy contributions and the UK Shared Prosperity Fund we have been able to secure further funding for the borough. Improvements such as Black Robin Farm, the Towner and Terminus Road have been possible because of this.

1.5 But nonetheless, the scale of the financial challenge faced by all councils, including Eastbourne, is unprecedented. This year’s work on the budget started early, and for the last five months every team across the organisation has been tasked with finding new ways to generate income or save money. Initially, the Council needed to find an additional £2.5m in 2023/24 but helped by the tremendous hard work from every team across the council, a balanced budget has been achieved. Most importantly, this has been done without making any reductions to front-line services.

1.6 That said, like all Councils across the country there remain financial challenges over the medium term not only in terms of increased demand for key services and loss of revenue but the uncertainty surrounding local government funding reforms, which means the financial planning work continues.

1.7 The proposed financial plans makes additional budgetary provisions for measures to invest in energy efficiency across the council's housing stock and includes plans to introduce more environmentally efficient waste services.

1.8 In 2022/23, the Council makes additional provision to support its residents badly impacted by the rising living expenses by increasing its Cost of Living Crisis fund by £0.1m. This fund was set up in 2022/23 to support the local voluntary and community sector with practical support for those in most need. Providing addition resource to this fund in the coming year will ensure this vital community support continues.

1.9 These are exactly the sort of services that are threatened by cuts elsewhere. Investments for service purposes are taken or held primarily and directly for the delivery of public services rather than commercial gain. Some future projects will include elements of both purposes, so judgments are taken on the primary purpose. In 2023/24, the Council is planning capital expenditure of £63.9m (and £146.0m over the next three years). Please see appendix 6 of this report for more details.

1.10 We also plan to consult on charging extra council tax on second homes as and when the law changes to allow us to do so, we believe it is right that those with the luxury of a second home make a fair contribution to local services.

1.11 This has been an extremely challenging budget to put together. I am proud that, despite the financial squeeze, we are continuing to invest in the Borough. Ultimately, we want to make Eastbourne a fairer and more equal place to live, and we think this Budget helps us to achieve that.

## 2 Introduction

2.1 This report sets out the Council's Medium Term Financial Strategy (MTFS) and associated spending plans for the four years 2023/24 to 2026/27 and gives interested parties the opportunity to comment and be consulted on the Council's budget proposals for the financial year (2023/24). The report covers all aspects of the Council's spend:

- General Fund revenue expenditure funded by the council taxpayer,
- Government grant and other sources of income,
- Housing Revenue Account (HRA) expenditure, funded by council tenants' rents, and
- the Council's Capital Programmes (General Fund and HRA) funded by capital receipts.

2.2 The proposed Medium Term Financial Strategy reports:

(a) Financially balanced in 2023/24 with the remaining three years to be balanced through a combination of the use of reserves and additional savings and efficiencies, to mitigate currently projected budget gaps.

(b) Assumes Fairer Funding reforms to business rates, which are likely to disadvantage the Council, are further delayed by the Government beyond the next General Election.

(c) Assumes New Homes Bonus continues largely unaltered over the MTFS until formal consultation on fair funding reforms are announced, and its replacement.

(d) Assumes a council tax increase of 2.99% for 2023-24 and 2024-25 and annual Council Tax increases of 1.99% thereafter. This rate has been confirmed in the Autumn Statement as the rate at which there is no requirement for a referendum. Although this rate has not been confirmed for 2024-25 there are indications in the Autumn Statement that, this will be the case.

(e) Assumes an increase in council house rents of 7% in 2023-24 following the outcome of the Autumn consultation and Government policy announcement in December 2022.

(f) Facilitates capital investment of £146.0m over the period.

For ease of reading, this report is split into four sections:

2.3 Section 3 - Economic context, our priorities and budget setting strategy
Section 4 - General Fund Revenue Budget
Section 5 - Housing Revenue Account (HRA) Budget
Section 6 - Capital Programme

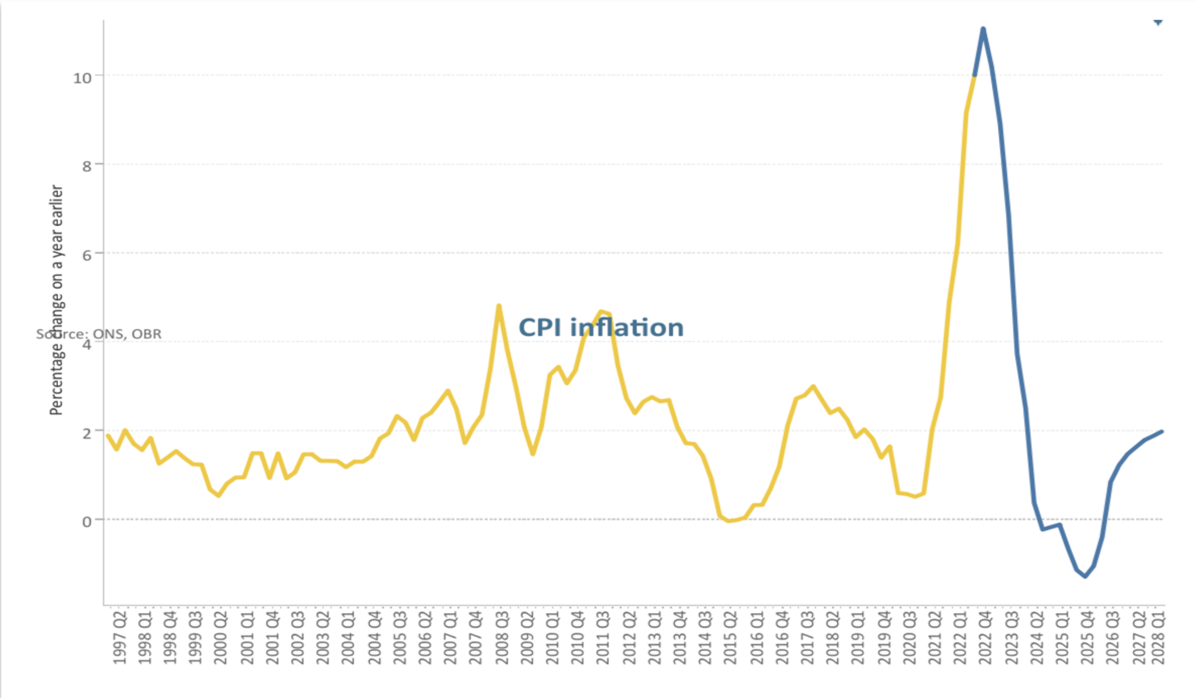
## 3 Economic Context, Our Priorities and Budget Setting Strategy

3.1 This report sets out the Council's financial plans for the period 2023/24 to 2026/27. The plans make assumptions about income from Government grants, Council Tax and rents. The plans underpin service provision and the Council's vision of "Ensuring the best possible use of limited resources to deliver high quality customer service, value for money services and responsibly manage risk".

3.2 The Council operates a 'priority-based budgeting 'model which seeks to support and maintain services from income stream driven from fees and charges and financial returns from our wholly owned companies.

3.3 In October 2022 CPI inflation rose to 11.1% against the 12 months previous, considerably higher than the Bank of England target of 2%. It is expected that this measure will peak at close to 11% in quarter 4 of 2022 although it is expected to fall shortly in the middle of next year. The latest forecasts by the Office for Budget Responsibility (OBR) are that inflation for this year will be 9.1% before falling to 7.4% in 2023 and then 0.6% in 2024. This is in comparison to the highest period of annual inflation since the year 2000, in 2011 when inflation reached 4.1%.

*Table 1: UK Inflation Forecasts*




3.4 However, falling rates of inflation don't necessarily mean prices are coming down. Living costs are expected to remain far higher than pre-Covid levels, with energy bills likely to remain more than double historical levels even after taking account of the government's energy price guarantee, keeping up the pressure on households and businesses.

- Economic activity slowed sharply in recent months as consumers tighten their belts in response to soaring living costs, while business investment has slumped amid concerns over the strength of the UK and global economy.

- Britain remains the only G7 economy with Gross Domestic Product (GDP) below its pre-pandemic level. The Bank of England expects the recession to last for at least the whole of 2023 and the first half of 2024, before only a gradual recovery thereafter.

- Continuing high energy prices are expected to weigh on activity, while higher borrowing costs for businesses and households after sharp rate increases from the Bank of England will also act as a drag. Company bosses warn that business investment will remain weak, with added headwinds from Brexit red tape and additional costs for exporters.

- On the 3 November 2022 the Bank of England base rate increased by 0.75% from 2.25% to 3% this is the eighth successive rise from a rate of only 0.1% in December of last year. Link Asset Management, the Councils Treasury advisors, have given their view on interest rate forecasts as shown below:

‘Base rates will continue to increase, peaking at 4.5% before starting to fall back from June 2024 onwards. Investment earnings will likewise rise as illustrated in 3-12 month money whilst borrowing will equally rise and then fall as indicated. Interest rates on PWLB loans continue to be at a record low’.

| 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 |

*Table 2: Interest Rate Forecasts from December 2022 to December 2025*

The Council capital programme is heavily financed by borrowing although the Council currently uses internal funds, as these are the cheapest form of borrowing. As the Capital Financing Requirement increases so will the need to undertake external borrowing.

**Autumn Statement 2022**

3.5 The Chancellor’s Autumn Statement originally planned for 31 October was finally announced on 17 November. The current economic crisis gave rise to a substantial reported gap in Government finances of around £55 billion. The Autumn Statement fully funded this gap from departmental efficiencies and tax rises, with significant elements of this freezing tax thresholds. The main implications for local Government are:

Council Tax

3.6 From April 2023 (2023/24 only but expected to be for 2024/25 additionally), the referendum limit for increases in council tax will rise to 3% per year or £5, whichever is greater.

3.7 In addition, local authorities with social care responsibilities will be able to increase the adult social care precept by up to 2% per year in 2023/24.

Business Rates

3.8 It is stated that local authorities will be fully compensated for the loss of income as a result of the new business rates measures detailed below and local authorities will receive new burdens funding for administrative and ICT costs.

Revaluation: from 1 April 2023, business rate bills in England will be updated to reflect changes in property values since the last revaluation in 2017. A package of support worth £13.6 billion over the next 5 years will support businesses as they transition to their new bills.

3.9 Multipliers: business rates multipliers will be frozen in 2023-24 at 49.9 pence and 51.2 pence, preventing them from increasing to 52.9 pence and 54.2 pence. This will mean bills are 6% lower than without the freeze, before any reliefs are applied.

3.10 Transitional relief scheme: Upwards Transitional Relief will support properties by capping bill increases caused by changes in rateable values at the 2023 revaluation. This £1.6 billion of support will be funded by the Exchequer rather than by limiting bill decreases, as at previous revaluations. The ‘upward caps’ will be 5%, 15% and 30%, respectively, for small, medium, and large properties in 2023-24. They will be applied before any other reliefs or supplements.

3.11 Retail, Hospitality and Leisure Relief: support for eligible retail, hospitality, and leisure businesses is being extended and increased from 50% to 75% business rates relief up to £110,000 per business in 2023-24.

Capital Investment

3.12 Levelling Up Fund (LUF): the second round of LUF will go ahead. It will allocate at least £1.7 billion to priority local infrastructure projects. Successful bids will be announced before the year end.

Social Housing

3.13 Rents for social housing will be capped at 7% in 2023-24.

Household Support Fund

3.14 This will be extended for the whole of 2023-24 with total funding of £1 billion. Funding will presumably continue to be channelled through county and unitary councils.

National Living Wage

3.15 This will increase for individuals aged 23 and over by 9.7% to £10.42 an hour from 1 April 2023.

3.16 It is noticeable that the autumn statement is silent on a number of key points including:

i) Government plans to implement increases to planning fees
ii) New Homes Bonus - replacement
iii) Business rates re-set
iv) Fair Funding Review
v) The future of DEFRA’s waste consistency reforms
vi) The length of this year’s local government funding settlement

Local Government Finance Settlement

3.17 The Local Government Finance Settlement released in the week commencing 19 December 2022, confirmed what had already been expected with no major changes or surprises from pre-published material already circulating within local government finance networks. The Settlement announced limited changes to service grants and the replacement of the previous Lower Tier services grant with the Funding Guarantee Grant, in essence a recalculation of the remaining revenue support grant to councils to maintain their spending powers.

3.18 Although the settlement included the levels of New Homes Bonus and Business Rates reliefs as per previous years and underlying assumptions the settlement continued the silence of policy guidance regarding key areas of local government funding set out in 3.17.

Consultation and Planning

3.19 As in previous years the budget has been prepared in line with corporate priorities, as set out in the corporate plan This plan was consulted on widely at the time of production. The budget will be considered first by Cabinet and then by Full Council in February 2023.

3.20 The Service and Financial Planning review has been undertaken by:

- Reviewing all four years assumptions around changes to the base budget
- Introducing officer proposals to reduce spend or in some instances increase income where it is prudent to do so
- Liaison with the Council's wholly owned companies on their future business plans and adjusting the amount of financial return and dividend to the Council accordingly. Maximising the use of the assets that we hold
- Using reserves to smooth out fluctuations in the General Fund over the four year period whilst ensuring that such reserves are not depleted further over the over the four year period.

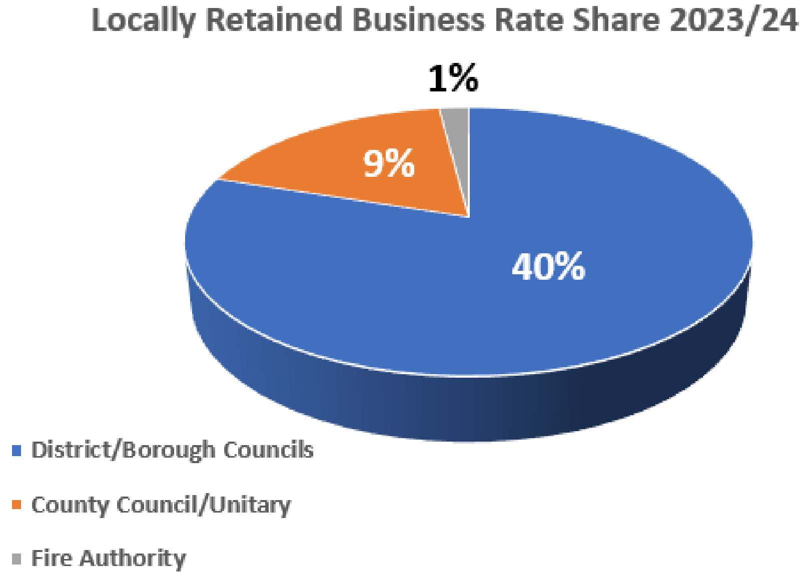
3.21 Taking account of this review the key assumptions are outlined below.

## 4 General Fund Revenue Budget

Retained Business Rates

4.1 Business rates income collected by Eastbourne Borough Council as billing authority is split 50/50 with central government with the billing authority's 50% share split to be distributed based on the following local shares:

Chart 2: Split of Local Share of Business Rates




4.2 The recent Spending Review was not explicit in terms of the reforms in respect of Business Rates Retention, (known as fairer funding). The implementation of these reforms has been delayed for the past 3 years and is likely to be delayed again since there is insufficient time for the Government to implement these changes by 1 April 2023.

4.3 The assumption for budgeting purposes is that this change will be delayed for a further year and beyond resulting in a one-off increase in business rates income over that previously assumed in the interim MTFS of £0.636m in 2023/24. The Provisional Finance Settlement on 21 December provided little indication of future reforms and has therefore been assumed to continue at this stage and will be kept under review.

4.4 Business Rates work continues to be finalised as the Council nears the end of the financial year and the statutory returns required to inform next year's baselines. Cabinet and Council will be updated as more detailed information is available and if this requires updates to the likely business rates income assumptions for budgeting purposes.

<u>East Sussex Business Rates Pool Arrangements</u>

4.5 For 2023-24 as in previous years the East Sussex Business Rates Pool consisting of East Sussex County Council (ESCC), Lewes District Council (LDC), Hasting Borough Council (HBC), Rother District Council (RDC), Wealden District Council (WDC) and Eastbourne Borough Council (EBC) will continue. This is to optimise the local financial return to pool members given the interaction of levy payments to Government.

4.6 Eastbourne Borough Council benefits from the pooling arrangements which are estimated to amount to £0.212m in 2023/24.

Levelling Up and Regeneration Bill

4.7 The Levelling Up and Regeneration Bill, given its first reading on 11 May 2022 is a key component of the Government's wider programme to level up the country, as set out in the Levelling Up White Paper published in February 2022. The bill in currently making its way through Parliament. Within the bill there is provision to allow local authorities to:

a) Introduce a new discretionary council tax premium on second homes of up to 100%; and,
b) Apply a council tax premium of up to 100% on homes which have been empty for longer than one year rather than the two years that local authorities are currently able to do.

4.8 The Local Government Finance Act 1992 requires that such amendments can only be made one year after the billing authority has made a determination to implement and not before financial year beginning 1 April 2024 i.e. a determination by the Council made in this year's budget process, assuming the Levelling Up and Regeneration Bill is enacted may only be implemented from 1 April 2024.

4.9 Based on current numbers of second homes and dwellings that are empty for between one and two years approving the amendments could raise around £0.2m additional council tax income per annum assuming a reasonable attrition rate.

New Homes Bonus (NHB)

4.10 For 2022-23 the Government made a one-off New Homes Bonus payment of £0.013m to the Council but this did not come with the four year legacy payments that existed under the previous methodology. The Local Government Finance Settlement in December confirmed NHB payments to Eastbourne of £0.015m for 2023/24.

Council Tax

4.11 The Autumn Statement included provision to increase the council tax referendum levels to 3% or £5 whichever is the higher for District Councils for 2023-24. Although there is no mention of this referendum level for 2024-25 the indication is that the level will be the same as 2023-24.

4.12 The recommendation is to increase council tax by 2.99% for 2023-24 with a similar increase assumed for 2024-25 before returning back to 1.99% for the remainder of the MTFS period. Each 1% increase in Council Tax represents approximately £0.2m in additional annual income for the Council, although movements in the underlying taxbase also affects any potential increase.

Investment Interest

4.13 On the 3 November 2022 the Bank of England increased base rates by 0.75% to 3%, the eighth consecutive interest rate rise since December 2022. It is also assumed that the base rate will continue to increase further as Bank of England tries to meet its target of keeping inflation at 2%. Latest figures show inflation is currently about five times that target. Analysts currently predict that the base rate could reach 4.75% next year. These interest rate rises will ultimately feed through to increases in PWLB borrowing and the council's investments.

4.14 Increases in PWLB rates will have an adverse impact on the council's capital financing costs directly and indirectly including HRA and its wholly owned housing companies since PWLB is its main source of capital financing. This could ultimately impact on the council's financial return.

4.15 Eastbourne Homes Investment Company Ltd (EHICL) – The Council provides subsidy control compliant loans to its wholly owned company EHICL and makes a return above that which it borrows from PWLB. The average interest charge is currently at 4.3%. The Council has made loans of approximately £14.2m. Since the company provides housing provision support to the council and in doing so helps to reduce EBC's growing cost of temporary (TA) and emergency accommodation (EA) housing need, the company's financing cost has been adjusted to reflect the corresponding reduction in the housing need costs. Based on average market rents, a placement within an EHICL property could save the Council up to £10k per annum per property compared with external TA and EA costs. Due to the current economic climate, any interest due is accrued rather than paid. At this point the total of accrued interest is £0.6m.

Inflation

4.16 Most budgets are cash limited. The Consumer Prices Index (CPI) rose by 11.1% in the 12 months to October 2022 up from 10.1% in September. The most significant impact is on materials purchased in respect of repairs and maintenance and the Council's capital programme, for which budgetary provision has been made. Provision has been made for specific contracts the Council has which contractual holds the Council to awarding inflationary increases many of which are linked to nationally recorded metrics such as CPI, these total £0.034m.

Utility Costs

4.17 Budgeted expenditure on electricity and gas in respect of council buildings is around £1.2m per annum. The Government have placed a unit cap on the maximum amount that will be paid by business and residents for a 14 month period ending 31 March 2023. Although further measures will be extended for some households beyond this period.

4.18 Due to the ongoing volatility within global energy markets and the potential ending of Government support to businesses an additional budgeted provisional increase of £0.562m has been made within the 2023/24 budget allowing for the price cap not to continue beyond March 2023. This is following advice from the Council's external energy consultants.

4.19 However, Government have now confirmed that support to businesses beyond March 2023 will take the form of a discount on the underlying market unit prices for energy rather than a cap on the unit price. This although welcome will mean businesses and the Council will be subject to increased uncertainty on the costs of energy due to the volatility of global markets.

4.20 Therefore, the proposed budgeted provision will be held corporately and used to support service budgets as clarity on price caps, government support and market rates become clearer. Monthly budget reporting during 2023/24 will provide updates on demand and allocation of this provision which is to be delegated to the Director of Finance and Performance in consultation with the Portfolio Holder for Finance.

4.21 If the proposed budget increase in 2023/24 is agreed the Council will have increased its budgets for gas and electricity by some £0.701m over the past 24 months. It is assumed that energy rates will return to long term averages during the financial year 2026/27 of the MTFS and result in a budgeted reduction of that value. This will be kept under review as more information and time progresses, with the next review being undertaken next year.

Pay Assumptions

4.22 The 2023/24 budget includes provisional pay costs of £0.835m, this is a reduction of £0.248m previously shown in the interim MTFS presented in November/December due to a refresh of assumptions and calculation of increments

4.23 The budgeted provision for cost of living award in 2023/24 will be held as a corporate provision until such time as the actual pay award is agreed. Service budgets at the point of award and payroll transaction will be uplifted to reflect the correct and agreed pay award ensuring that budgets across the Council are representative of agreed values and reported against accurately.

4.24 Pay related cost incorporated into the budget include the following:

- Adjustment to the base budget to reflect the final 2022/23 staff pay award of £1,925 per FTE post agreed in November 2022, compared to the base budget position of 2.5%.
- Adjustment to the base budget to reflect the final 2021/22 staff pay award of 1.75% compared to the base budget of 2.50%.
- Contractual increments where staff are not at the top of their pay grade for 2023/24, resulting in a budgeted provision of £0.039m

4.25 Cost of living assumptions and the associated budgeted values over the MTFS are as follows:

| MTFS Financial Year | Budget Assumption | Budget Provision - General Fund £m |
|---|---|---|
| 2023/24 | 4.0% | £0.334 |
| 2024/25 | 3.0% | £0.363 |
| 2025/26 | 2.5% | £0.310 |
| 2026/27 | 2.5% | £0.318 |

<u>Pensions</u>

4.26 The MTFS includes an increase from the current contribution in line with pay inflation increases. The next triennial review will be with effect from 1 April 2023. The approach will be consistent with the actions agreed following the current actuarial review of the East Sussex Local Government Pension Fund as at 31 March 2022; the outcome has been profiled into the budget for the three years to 2025/26.

4.27 The 2022 valuation confirmed that the Fund's total assets, which as at 31 March 2022 were valued at £194.0m. There was an improvement in the reported funding level from 102.2% to 116.8% and a change in the funding surplus from £3.22m to a surplus of £28.0m.

4.28 Each employer has a contribution requirement set at the valuation, with the aim of achieving full funding within an agreed time horizon and probability measure, as set out in the Fund's Funding Strategy Statement. Individual employers' contributions from April 2023 to March 2026 have been set in accordance with this requirement.

4.29 For Eastbourne BC the employer pension contribution rates for 2023/24, 2024/25, & 2025/26 will be 18.65% per annum, which were based on an annual primary rate of 19.7% reduced by 1.8% secondary rate plus 0.75% relating to the Early Retirement and Voluntary Severance (ERVS) Scheme.

4.30 The next actuarial review will be at 31 March 2025 and the revised contribution schedule with any budget implications will be built into budgets for 2026/27 onwards. An allowance of 18.65% has been built into 2026/27 as an initial estimate.

4.31 For 2023/24 this budget reflects the outcome of the 2022 Pension Fund Revaluation and the funding options offered to employers by the Fund.

4.32 As part of budget-setting 2023/24, the approved approach will be:

- To pay the primary employer contribution rate at 19.7% of salaries. This has been factored into the 2023/24 base budget.
- To reduce the annual primary contribution above by the secondary employer credit/rate at -1.8%.

- To pay the 0.75% relating to the Early Retirement and Voluntary Severance (ERVS) Scheme.

To continue to rebuild the Pensions Reserve ready for the next revaluation in 2025

Capital Financing

4.33 Capital financing for the draft Capital Programme is detailed in Section 6. Given the budgetary pressures experienced by the Council no revenue contributions have been assumed to finance capital which is largely funded by borrowing, the revenue implications of which have been included in the budget.

The MTFS assumes no growth in the financing cost of capital programme other those for health and safety purposes or where there is a clear business case that helps the Council maintain financial stability.

4.34 Revised Budget 2022/23

At Cabinet on the 14 December the Council reported a projected outturn overspend of £1.188m for 2022/23 as part of the Q2 corporate performance monitoring. This was against a backdrop of the impact of price inflation on energy costs, increased cost of goods and services and pressures in services due to rising volumes in the number of homelessness and rough sleeper placements.

4.35 There were also pressures following the conclusion and agreement of the pay award for 2022/23 which was significantly above (£0.469m) the budgeted pay award of 2.5% allowed for.

4.36 Through careful planning and re-profiling during the 2021/22 year-end, the Council was able to provide resilience by setting aside specific reserves to address and mitigate as far as practicable to provide financial support to relevant and emerging cost pressures.

4.37 At the December Cabinet it was agreed for further work to be undertaken regarding the Council's financial position for 2022/23 and review additional support to ensure a balanced position for the year.

A proposed balanced revised budget for 2022/23 is available in Appendix 2.

4.38 Contingencies

The 2022-23 budget included a general contingency of £0.25m funded from general fund reserves if required. This contingency has proved useful in managing the budget for the current financial year and therefore the draft budget proposes to maintain it for 2023-24.

4.39 The general contingency is to cover any associated risks within the budget and will be available to adjust budgets if necessary, given:

i) The emerging pressures in relation to utilities and inflation.

ii) the uncertainty of COVID, ongoing financial implications from it, and uncertainty of the government funding associated with it

iii) the uncertainty of the economic recovery and subsequent demand for services. The release of this contingency will be at the discretion of the Director of Finance & Performance in consultation with the Finance portfolio holder.

Fees and Charges

4.40 Although infection levels arising from the COVID 19 pandemic appear to be reducing the financial impact on businesses and the local authority's finances continues to be felt. Income level forecasts from the main income streams continue to be an issue although many of these forecasts set last year there has been a review of fees and charges as part of the budget setting process.

Fees and Charges are set for the council's discretionary services. These have been reviewed in light of the current economic trends, market forces and inflationary movements but crucially, recovering the costs of providing the services and incorporated into the budget resulting in a proposed increase in income of £0.119m.

Budget Growth

4.41 Budget growth splits into three distinct categories.

Unavoidable budget pressures

4.42 These are changes and additions to the baseline 2022/23 budget in order to reflect the anticipated cost of current service provision and adjusted for the anticipated demand for services in 2023/24.

4.43 These can be seen in Appendix 3b, the most material of these pressures are as follows:

- Homelessness Pressures £0.510m – The number of individuals and families requiring support due to homelessness has risen significantly during 2022/23 (75% increase in numbers). The proposal provides further budget to support this over the coming 12-18 months.
- Energy Costs £0.562m – increased base budget provision for the likely increasing costs of energy for the council following the end of government support and underlying unit costs of energy remaining significantly above the long-term averages.
- Contractual fee for SEESL £0.490m – the increase in the contractual fee for South East Environmental Services Limited (SEESL) the Council's LATC to allow for cost increases covering areas such as staff pay, interest and inflationary pressures.
- External Audit Fees £0.102m – The Public Sector Audit Appointments (PSAA) have advised the council, along with most councils in the country,

that the next external audit appointments will cost approximately 150% more than previous appointments.

Service Investment

4.44 These can be seen in Appendix 3c, the most material of these investments are as follows:

- Cost of Living Support Scheme £0.10m – this proposal provides for further support during 2023/24 for residents and households during the cost of living crises.
- Investment in energy surveys £0.07m – the investment provides the budget to allow for a comprehensive implementation of energy surveys across the Councils estate.
- Provision for increase in Members allowances £0.05m
- Resourcing increase – Election Team £0.034m
- Provision for additional resources £0.193m – various investment in services supporting household, communities & individuals

One off or time limited budget pressures

4.45 This budget growth includes growth where there is uncertainty about the timing or impact of some changes, for time limited projects, invest to save schemes or to fund something for a defined period of time.

4.46 Efficiencies and Income Generation

A total of -£0.518m efficiencies and -£1.082m income generation are included in the budget for 2023/24, full details are provided in Appendix 3d, the most material of these are as follows:

- Homelessness Prevention Grant (HPG) -£0.698m – the HPG is a ringfenced grant provided from government to support homelessness provision/services within the district. Previously this grant has been considered an un-ringfenced income and included as part of general financing/income along with council tax and therefore it is not new income but purely a presentational change. The proposal embeds the grant into the income budget of the service to support and fund the provision of homelessness rather than using general financing/income to fund the support. The expenditure budget of the service is unaffected.
- Agency and temporary staffing costs -£0.50m – this efficiency looks to challenge and deliver a reduction in the expenditure on agency and temporary staffing across all areas of the Council with each department allocated with a cash target.
- Interest Receivable -£0.265m – the council is projecting an increase in the income received from bank deposits and investments due to the underlying increase in the bank base rates seen over the past 12 months.

Technical Adjustments total £0.04m

4.47 Essentially, these are adjustments to the budget to reflect previous decisions relating to taking out of the budget those items that had previously been incorporated as one-off budget items and/or technical adjustments that do not directly affect service budget such as capital financing arrangements. They are therefore reversed in the following year's budget to ensure they do not remain in the base budget as they are no longer required.

4.48 Appendix 1 sets out the Net Budget Requirement (NBR) for 2023/24 and for each year of the Council's MTFS, after allowing for the assumptions on funding and income set out in the report. The additional savings/efficiencies projected at this time to be found over the MTFS term is likely to be in the region of some £1.12m although it should be noted that this is based on existing assumptions which may change.

Reserves

4.49 The unallocated General Reserve is forecast to be £3.18m by 31 March 2023 which is within the appropriate levels and £1.18m above the recommended minimum level of £2m. The final budget report to Full Council will include a review of reserves and their adequacy as part of the Section 151 Officer's Section 25 Report. This will also include a more detailed narrative on the application and purpose of each reserve and will also include review of the budget proposals robustness.

4.50 Appendix 5 sets out the reserves position projected at year-end 2022/23 with this position to be updated as part of the financial year-end outturn and closedown 2022/23.

Risks

4.51 The main risks to the balanced position of the General Fund budget are that:

a) Savings from efficiencies and transformation not achieved
b) Council income streams continue to be affected by the pandemic beyond the provisions already made in the MTFS
c) Failure or uncertainty of major partners to deliver
d) Pay negotiations are more than budgeted from April 2023 onwards
e) Reduction assumption in future inflationary rates are incorrect
f) Additional cost capital
g) Companies do not perform as well as expected leading to reduced income to the Council
h) Business Rates income is lower than forecast
i) Variations in interest rates or non-performance of property portfolio and other delivery vehicles effecting returns to council
j) Slippage in the capital programme adversely affects revenue savings and additional income in the MTFS

k) Cuts by partner organisations such as the County Council adversely affect service provision

**Capital Programme**

4.52 Sets out capital expenditure plans over the medium term. This is aligned with the Revenue Budget where it results in costs of borrowing and income streams. Capital Investment Strategy is updated on an annual basis and sets out the framework for investing in capital assets over the medium term, with the objectives:

- Ensure capital expenditure contributes to the achievement of the Council's organisational strategy
- Set a Capital Programme which is affordable and sustainable
- Maximise the use of assets
- Provide a clear framework for decision making and prioritisation relating to capital expenditure
- Establish a corporate approach to the review of asset utilisation Treasury Management Investment Strategy. Sets out the approach to managing the cash available to the Council and how to maximise its value. Also sets out the Council's investment and borrowing arrangements and controls

<u>General Fund Capital Programme</u>

4.53 The latest General Fund Programme covering 2023/24 to 2026/27, shown in Appendix 6, amounts to around £79.7 million. The current Capital Investment Strategy was reported to Cabinet in February 2022, and it sets out a framework for funding and investment decisions in respect of capital assets, in the context of the Council vision and priorities and available financial resources. The Capital Investment Strategy demonstrates that the Council take capital expenditure and investment decisions in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability.

4.54 The programme sets out the long-term context in which capital expenditure and investment decisions are made and considers the risk, reward and impact on the achievement of the Council's priority outcomes. When setting its capital programme, the Council takes into consideration the following:

- Service objectives – the capital spending plans should be consistent with the Corporate Plan;
- Stewardship of assets – as demonstrated by our asset management planning approach;
- The value for money offered by investment plans – as demonstrated by the appraisal of the options;
- The prudence and sustainability of investment plans – their implications for external borrowing;
- The affordability of capital investment plans – the implications for the council tax; and

- The practicality of capital expenditure plans – whether the forward plan is achievable.

4.55 Decisions on the Capital Programme have an impact on the Revenue Budget, in relation to:

- The revenue costs of financing capital, including prudential borrowing; and
- The ongoing running costs and/or income generated by new capital assets such as buildings. Capital investment decisions therefore have implications for the Revenue Budget

4.56 The revenue costs over the lifetime of each proposed capital project are considered when the project is being developed to ensure that the impact can be incorporated within the financial plans and to demonstrate that the capital investment is affordable. The revenue and capital budgets are integrated with the financial impact of the proposed Capital Programme, being reflected in the Revenue Budget estimates.

4.57 The Council will only invest where capital spending plans are affordable, prudent and sustainable. The key constraint on capital investment is the scope to afford the financial implications in terms of acceptable council tax levels. As supported by the Capital Investment Strategy, the Council's capital investment plans over the next 4 years are set out in the Capital Programme.

4.58 The efficient and effective use of capital resources, including sound asset management, is fundamental to achieving the Council long- and medium-term aims and objectives. It is also critical to achieving the delivery of the required savings and income across the Council to secure a balanced budget.

4.59 The Council's Capital and Investment Strategy is reviewed and reported to Full Council on an annual basis to reflect the changing needs and priorities of the Council including residents, businesses and places.

Medium Term Capital Programme

4.60 While Revenue Budget expenditure is concerned with the day-to-day running of services, the Capital Programme is concerned with investment in the assets required to deliver services or the delivery of new income streams. The Medium-Term Capital Programme sets out how capital resources will be used to achieve the Council's vision and corporate priorities.

4.61 The strategic objectives of our Capital Programme can be summarised as follows:

- To maintain a four-year rolling Capital Programme which remains within the approved affordable, sustainable and prudential limits;
- To ensure capital resources are aligned with our strategic vision and corporate priorities by ensuring all schemes are prioritised according to the Council's prioritisation methodology;
- To identify opportunities for investment in new schemes that result in capital growth and/or new revenue income streams;

- To maximise available resources by actively seeking external funding to support Council priorities and disposing of surplus assets; and
- To use internal resources alongside external resources where appropriate to support the Capital Programme and minimise any borrowing costs.
- That decisions on the financing of the capital programme are taken with consideration to the impact on the revenue budget, the treasury management strategy and the investment strategy

Capital Programme 2022/23 to 2026/27

4.62 The Council forecasts its Capital Programme over a 4-year period and the latest position is set out below:

| **CAPITAL PROGRAMME - Summary** | **Revised** | **Proposed Programme** | | | |
|---|---|---|---|---|---|
| | **2022/23** | **2023/24** | **2024/25** | **2025/26** | **2026/27** |
| | **£000** | **£000** | **£000** | **£000** | **£000** |
| | | | | | |
| HRA Housing | 14,495 | 13,591 | 10,344 | 9,928 | 5,450 |
| General Fund Housing | 1,871 | 1,200 | 1,200 | 1,200 | 1,200 |
| Loans to Housing Companies | 2,302 | 751 | 0 | 0 | 0 |
| Community Services | 1,377 | 3,136 | 698 | 3,160 | 315 |
| Tourism & Leisure | 198 | 150 | 50 | 50 | 0 |
| Corporate Services | 1,629 | 570 | 400 | 400 | 400 |
| Regeneration (Levelling Up Fund) | 4,436 | 17,947 | 333 | 430 | 100 |
| Asset Management | 3,099 | 4,256 | 1,740 | 555 | 100 |
| **Total HRA & GF Programme** | **29,407** | **41,601** | **14,765** | **15,723** | **7,565** |
| | | | | | |
| **FINANCING** | | | | | |
| Total HRA Financing | 14,495 | 13,591 | 10,344 | 9,928 | 5,450 |
| Total GF Financing | 14,912 | 28,010 | 4,421 | 5,795 | 2,115 |
| **Total HRA & GF Financing** | **29,407** | **41,601** | **14,765** | **15,723** | **7,565** |

Capital Programme – Revenue Budget Implications

4.63 As explained above, with the exception of earmarked s106 funds, the Council no longer has significant capital reserves, therefore, while a small number of schemes will continued to be funded from capital grants and other contributions, the majority of the approved Capital Programme must be funded through prudential borrowing.

4.64 The costs of repaying this borrowing fall on the revenue budget as treasury management costs in central budgets. Treasury management budgets have been updated to reflect the costs of borrowing for the approved Capital Programme for 2023/24 onwards net of interest on forecast balances and company loan repayments. Details are set out in the Treasury Management Strategy for 2023/24 that will be approved in February 2023.

4.65 The ongoing running costs and/or income generated by new capital assets such as buildings are embedded in the revenue account budgets.

Capital Programme Oversight Board

4.66 A Capital Programme Oversight Board (CPOB) has been established to provide strategic direction, oversight and corporate assurance for the General Fund capital programme and Housing Revenue Account (HRA) Business Plan across Council. The CPOB will be responsible for addressing programme issues, reviewing risk and financial implications, driving through the Assurance Review recommendations in respect of the capital programme and move towards a fully sustainable capital programme and asset release.

**CPOB Responsibilities are to:**

- Be responsible and accountable for feeding into the annual Service & Financial Planning process;
- Establish and embed a robust and effective governance framework through which all Councils capital projects will be evaluated, prioritised for development and delivery, subject to Member approval;
- Provide oversight of the capital programme and the Housing Revenue Account (HRA) Business Plan;
- Agree recommendations to relevant Committee(s), as required, to ensure the programme achieves its objectives in-line with initial proposals, Business Cases and assessed options appraisals;
- Scrutinise and challenge programmes and projects at a strategic level in relation to budgets, actual spend, timing, and overall financial strategy;
- Monitor the achievement of the capital programme's core aims and objectives;
- Monitor the HRA Business Plan assumptions in line with Section 76 of the Local Government and Housing Act 1989;
- Monitor the critical path for delivery across the capital programme and take timely decisions as the capital programme evolves, while ensuring that the capital programme is delivered in a joined-up way across Council departments.
- Assist with resolving issues across Council departments while ensuring appropriate resources, capacity and capability are in place to deliver the capital programme and where necessary, commit resources as required;
- Ensure risks are being effectively managed and updated, and mitigations are identified appropriately required.

## Housing Revenue Account Capital Programme

4.67 The draft HRA Capital Programme is intrinsically linked to the HRA Business Plan since the resources to fund the Programme are largely generated through housing rents. Appendix 6 shows the existing HRA capital programme over the next four years totalling £39.3 million.

## Legal Implications

4.68 Section 151 of the Local Government Act 1972 requires that every local authority make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.

4.69 Sections 42A of the Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating their budget requirement.

4.70 The Chief Finance Officer, appointed under section 151 mentioned above, has a duty to report on the robustness of estimates and adequacy of reserves under section 25 of the Local Government Act 2003.

## Financial Implications

4.71 These are covered within the main body of the report, under Section 30 of the Local Government Finance Act 1992 requires that a local authority 'must set a balanced budget and council tax before the 11 March in the financial year preceding that for which it is set'.

4.72 Consultation will be undertaken with the General Public for a period of six weeks in accordance with CIPFA Guidance.

4.73 The Local Government Act 2000 in particular Section 9 states that it is the responsibility of the full council, on the recommendation of the executive to approve the budget and related council tax demand.

4.74 The Local Government Act 2003, section 25 requires the Council's Section151 Officer to report to the council on the robustness of the estimates made and the adequacy of the proposed financial reserves assumed in the budget calculations. This will be done at Council in February 2023 when the Budget is approved.

4.75 Failure to set a legal budget may lead to intervention from the Secretary of State under section 15 of the Local Government Act 1999.

## Risks

4.76 The pandemic, COVID 19 resulted in a significant reduction in the Council's income streams over the last year with the negative impact on some of these income streams some as commercial rents, lettings and car parks still being experienced with some unlikely to return to pre COVID levels, as organisations like ours change their ways of working.

4.77 The delayed Autumn Statement has done little to clarify Government thinking at an individual authority level as to the general direction of business rates income retained by the authority.

4.78 In spite of these issues and other risks around expenditure which are explained in the report the Council has been able to set a balanced budget in 2023/24 albeit with a further drawdown of £1.26m reserves, which has been planned and is considered prudent.

Equalities And Fairness Analysis

4.79 An Equality & Fairness Analysis has been undertaken on the councils Budget for 2023-24. This has concluded that the only significant equality implication relates to the additional allocation of £0.10m being made for the Cost of Living Fund.

4.80 The cost of living crisis is likely to continue to impact household budgets across the board, with utilities, food products and fuel increasing in price. Working-age people on low-incomes or squeezed budgets are likely to impacted more as the year progresses, as well as older people particularly by increased heating costs in autumn and winter.

4.81 People reliant on cars, including those in rural locations, could be impacted by increased running costs. Food items have already seen some price increases, and households – particularly larger ones – are likely to feel that increased cost.

4.82 Other proposals set out in the budget may have equality implications which will be considered in more detail as part of future reporting.

4.83 It is hoped these proposals will go some way towards helping to mitigate some of the current cost of living challenges. The full Equality Analysis is available from the report author.

Conclusion

4.84 The council continues to face significant financial uncertainty for the MTFS planning period, covering the financial years 2023/24 to 2026/27. The uncertainty relating to future government financial settlements is exacerbated by the ongoing impact of the pandemic alongside increases in base budget pressures from inflation, national living wage, and waste services.

4.85 The MTFS forecasts at this stage would indicate a significant budget gap next year and the need for additional savings to be identified for 2024/25.

4.86 The application of reserves to balance the budget is not a sustainable solution to the financial challenges we face. Whilst the review is undertaken and until there is greater clarity, the programmes and projects funded from a range of earmarked reserves will need to be paused at this time.

4.87 Planning will continue in relation to the identification of further savings to enable future years budgets to be balanced, which alongside the review of reserves will ensure the council is able to respond to the immediate financial forecasts whilst developing its longer term plans.

**Appendices**

- Appendix 1 – Budget Summary 2023/24 and MTFS
- Appendix 2 – Budget Summary 2022/23 Base & Revised
- Appendix 3a – Budget Proposals - Pay Related
- Appendix 3b – Budget Proposals – Unavoidable Budget Pressures
- Appendix 3c – Budget Proposals – Service Investment
- Appendix 3d – Budget Proposals – Efficiencies and Income Generation
- Appendix 3e – Budget Proposals – Budget Pressures – One-Off (funded from reserves) and Technical Adjustments
- Appendix 4 - Budget Summary by Directorate & Service 2023/24
- Appendix 5 - Reserves
- Appendix 6 – Capital Programme

4.88 The background papers used in compiling this report were as follows:

- Local Government Finance Settlement 2023/24
- Interim Medium Term Financial Strategy 2023/24 to 2026/27

Appendix 1 – Budget Summary 2023/24 and MTFS

**Eastbourne Borough Council**
**Budget Summary**

| | 2023/24 £ | 2024/25 £ | 2025/26 £ | 2026/27 £ |
|---|---|---|---|---|
| | | | | |
| **Net Budget Requirement b/f** | **16,105,550** | **17,972,867** | **17,969,307** | **18,257,653** |
| | | | | |
| **Adjustments to Base Budget** | | | | |
| Pay Related costs | 835,249 | 363,463 | 310,158 | 317,857 |
| Contract Inflation | 0 | 0 | 0 | 0 |
| Unavoidable Budget Pressures | 1,816,180 | (170,000) | 0 | (700,810) |
| Service Investment | 577,294 | (750,256) | (73,994) | 0 |
| Budget Pressures - One-Off (funded by reserves) | 200,000 | (200,000) | 0 | 0 |
| Efficiencies | (517,748) | 0 | 0 | 0 |
| Income Generation | (1,081,658) | (317,767) | (126,818) | (135,818) |
| Technical Adjustments | 38,000 | 1,071,000 | 179,000 | 0 |
| **Net Budget Movement** | **1,867,317** | **(3,560)** | **288,346** | **(518,771)** |
| | | | | |
| **Net Budget Requirement** | **17,972,867** | **17,969,307** | **18,257,653** | **17,738,882** |
| | | | | |
| **FINANCED BY:** | | | | |
| Council Tax | (9,518,253) | (9,856,517) | (10,107,696) | (10,365,277) |
| Council Tax (Surplus)/Deficit | (121,000) | (121,000) | (121,000) | (121,000) |
| National Non-Domestic Rates Baseline | (3,788,858) | (3,999,941) | (3,999,941) | (3,999,941) |
| Business Rates Retained Growth | (603,661) | (1,683,377) | (1,683,377) | (1,683,377) |
| Business Rates Equalisation Reserve | (539,524) | 745,511 | 745,511 | 745,511 |
| Business Rates Retention Pooling Levy | (212,000) | (212,000) | (212,000) | (212,000) |
| SFA Multiplier Compensation | (645,397) | (645,397) | (645,397) | (645,397) |
| New Homes Bonus | (14,840) | (14,840) | (14,840) | (14,840) |
| Better Care Fund (BCF) - Conversion | (878,658) | (790,792) | (711,713) | (640,541) |
| Services Grant | (141,870) | (141,870) | (141,870) | (141,870) |
| Funding Guarantee Grant | (246,268) | (246,268) | (246,268) | (246,268) |
| Transfers (From)/Into Reserves* | (1,262,539) | 0 | 0 | 0 |
| **TOTAL FINANCING** | **(17,972,867)** | **(16,966,490)** | **(17,138,590)** | **(17,324,999)** |
| | | | | |
| **FORECAST BUDGET GAP £** | **(0)** | **1,002,817** | **1,119,063** | **413,882** |
| **FORECAST BUDGET GAP %** | **0.00%** | **5.58%** | **6.13%** | **2.33%** |

| ***Transfers from and/or into reserves to fund:** | |
|---|---|
| Election Reserve - One-off budget pressures in 2023/24 | 200,000 |
| Commercial Reserve - Increase in contractual fee 23/24 for SEESL | 489,950 |
| Commercial Reserve - SEESL 23/24 pay related award | 108,600 |
| Contribution from general reserves | 463,989 |
| **Total** | **1,262,539** |

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Appendix 2 – Budget Summary 2022/23 Base & Revised

**Eastbourne Borough Council**
**Budget Summary Base & Revised**

| General Fund Budget Summary | 2022/23 Base Budget £ | 2022/23 Revised Budget £ | 2023/24 Draft Budget £ |
|---|---|---|---|
| **Corporate Services** | | | |
| Business Transformation | 1,305,050 | 1,305,050 | 1,330,483 |
| Corporate Management Team | 79,850 | 79,850 | 95,000 |
| Finance & Performance | 1,771,400 | 1,774,400 | 1,774,053 |
| Human Resources | 370,250 | 370,250 | 370,250 |
| Legal and Local Democracy | 928,500 | 923,000 | 1,338,531 |
| Local Land Charges | (85,750) | (85,750) | (83,705) |
| **Total Corporate Services** | **4,369,300** | **4,366,800** | **4,824,612** |
| | | | |
| **Regeneration and Planning** | | | |
| Director of Regeneration & Planning | 42,750 | 42,750 | 42,750 |
| Estates and Property | (1,354,000) | (1,104,000) | (1,261,223) |
| LDC EHL Rechargeable Salaries | 0 | 0 | 0 |
| Head of Commercial Business and Property | 43,350 | 43,350 | 25,602 |
| Housing Delivery Team | 75,250 | 75,250 | 75,250 |
| Planning | 390,700 | 594,700 | 390,700 |
| Regeneration | 218,650 | 218,650 | 218,650 |
| **Total Regeneration and Planning** | **(583,300)** | **(129,300)** | **(508,271)** |
| | | | |
| **Service Delivery** | | | |
| Customer First Retention Team | 870,200 | 912,500 | 1,437,650 |
| Director of Service Delivery | 15,700 | 295,700 | 15,700 |
| Neighbourhood First | 2,598,450 | 2,654,100 | 2,598,450 |
| Environment First | 3,630,700 | 3,690,700 | 3,630,700 |
| Homes First | 567,650 | 881,150 | 558,992 |
| **Total Service Delivery** | **7,682,700** | **8,434,150** | **8,241,492** |
| | | | |
| **Tourism and Culture** | | | |
| Towner | 420,400 | 420,400 | 420,400 |
| Events | 220,150 | 220,150 | 220,150 |
| Seafront | 51,450 | 51,450 | 51,450 |
| Sports Delivery | 605,900 | 605,900 | 605,900 |
| Theatres | 59,950 | 59,950 | 59,950 |
| Tourism and Culture | 688,150 | 1,443,772 | 688,150 |
| **Total Tourism and Culture** | **2,046,000** | **2,801,622** | **2,046,000** |
| | | | |
| **Central** | | | |
| Corporately Managed Budgets | 2,590,850 | 2,590,850 | 3,369,034 |
| Pay Award 2022/23 | 0 | 436,692 | 0 |
| | | | |
| **Net Budget Requirement** | **16,105,550** | **18,500,814** | **17,972,867** |
| FINANCED BY: | | | |
| Council Tax | (9,100,300) | (9,100,300) | (9,518,253) |
| Council Tax (Surplus)/Deficit | (121,000) | (121,000) | (121,000) |
| Retained Business Rates including growth and pooling benefit | (4,037,100) | (4,037,100) | (4,604,520) |
| Retained Business Rates (Surplus)/Deficit | (141,000) | (141,000) | 0 |
| Section 31 grant - additional business rates reliefs & equalisation | (1,241,000) | (1,241,000) | (539,524) |
| SFA Multiplier Compensation | (300,000) | (300,000) | (645,397) |
| New Homes Bonus | (12,800) | (12,800) | (14,840) |
| Better Care Fund (BCF) - Conversion | 0 | (792,642) | (878,658) |
| Homelessness Prevention Grant | (690,600) | (690,600) | 0 |
| Localising CT Support Admin Grant / Services Grant | (131,950) | (131,950) | (141,870) |
| Funding Guarantee Grant | (329,800) | (329,800) | (246,268) |
| Transfer From Reserves* | 0 | (1,602,622) | (1,262,539) |
| **Net Budget Requirement** | **(16,105,550)** | **(18,500,814)** | **(17,972,867)** |
| **Net Budget Deficit** | **0** | **0** | **(0)** |

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# Appendix 3a – Budget Proposals - Pay Related

| Proposal Ref | Directorate | Service | Proposal Title | Proposal Description and service impact | 2023/24 £ | 2024/25 £ | 2025/26 £ | 2026/27 £ |
|---|---|---|---|---|---|---|---|---|
| **Pay Related Costs** | | | | | | | | |
| EBC2324001 | Central | Corporately Managed Budgets | 2021/22 Base Budget Pay Inflation Adjustment | The budgeted award (2.5%) in 2021/22 loaded into service budgets was high than the actual pay award (1.75%). Therefore an adjustment to reduce service salaries budgets is required of 0.55% to ensure that budgets match actuals pay levels. | -83,375 | | | |
| EBC2324002 | Central | Corporately Managed Budgets | 2022/23 Base Budget NI Adjustment | The budgeted pay award for 2022/23 was based on an employer NI rate of 15.05%. However the Government have now reversed the initial 1.25% point increase effective from Nov 22. The base budgets for NI need adjusting to allow for the reduced costs of NI for the Council pay bill. | -32,677 | | | |
| EBC2324003 | Central | Corporately Managed Budgets | 2022/23 Pay Award Adjustment | The budgeted pay award for 2022/23 was based on a 2.5% uplift across all salary bands. However, the most likely pay award assumption for 2022/23 is a fixed award of £1,925 per scale point. This respresents an increase over the initial budgeted base figure. | 469,369 | | | |
| EBC2324004 | Central | Corporately Managed Budgets | Budget growth in respect of increments linked to nationally negotiated pay inflation. | Budget growth in respect of SCP incremental progression over previous base budget calculations linked to nationally negotiated pay inflation. | 39,073 | | | |
| EBC2324005 | Central | Corporately Managed Budgets | Budget growth in respect of nationally negotiated pay inflation. | Budget growth in respect of nationally negotiated pay inflation. | 334,259 | 363,463 | 310,158 | 317,857 |
| EBC2324006 | Central | Corporately Managed Budgets | Budget growth in respect of nationally negotiated pay inflation related to SEESL contract | | 108,600 | | | |
| **Pay Related Costs Total** | | | | | **835,249** | **363,463** | **310,158** | **317,857** |

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## Appendix 3b – Budget Proposals – Unavoidable Budget Pressures

| Proposal Ref | Directorate | Service | Proposal Title | Proposal Description and service impact | 2023/24 £ | 2024/25 £ | 2025/26 £ | 2026/27 £ |
|---|---|---|---|---|---|---|---|---|
| **Unavoidable Budget Pressures** | | | | | | | | |
| EBC2324007 | Central | Corporately Managed Budgets | External Audit Fees | Following communication from PSAA external audit fees are to increase by 150% from 2023/24 | 101,625 | | | |
| EBC2324008 | Corporate Services | Legal and Local Democracy | Election Costs | The cost of running local elections is not currently budgeted for and there is no provision. This proposal is to baseline a yearly pro rata figure to ensure a provision exists to fund election costs as they occur. | 88,200 | | | |
| EBC2324009 | Central | Corporately Managed Budgets | Energy costs | Likely costs of increase in energy costs assuming no support from Government | 562,310 | | | |
| EBC2324010 | Central | Corporately Managed Budgets | Energy Costs | Assumption that the cost of energy will return to underlying average levels | | | | -700,810 |
| EBC2324011 | Regeneration and Planning | Estates and Property | Facilities Costs | Adjustment to base budget following the conclusion of the R&S programme | 30,000 | | | |
| EBC2324055 | Service Delivery | Homes First | Homelessness Demand Pressures | The number of individuals and families requiring support due to homelessness has risen significantly during 2022/23. The proposal provides further budget to support this over the coming 12-18 months | 510,000 | -170,000 | | |
| EBC2324012 | Corporate Services | Local Land Charges | Contractual inflation uplifts linked to published Government indices | Modern Democracy | 2,045 | | | |
| EBC2324013 | Corporate Services | Legal and Local Democracy | Contractual inflation uplifts linked to published Government indices | Idox Election Trainer | 252 | | | |
| EBC2324014 | Corporate Services | Legal and Local Democracy | Contractual inflation uplifts linked to published Government indices | Modern.gov | 1,218 | | | |
| EBC2324015 | Corporate Services | Finance & Performance | Contractual inflation uplifts linked to published Government indices | Project Systems Software (Ideagen) | 2,653 | | | |
| EBC2324016 | Corporate Services | Corporate Management Team | Contractual inflation uplifts linked to published Government indices | Civica Contracts | 15,150 | | | |
| EBC2324017 | Regeneration and Planning | Estates and Property | Contractual inflation uplifts linked to published Government indices | Plant Maintenance (TSS) | 6,060 | | | |
| EBC2324018 | Regeneration and Planning | Estates and Property | Contractual inflation uplifts linked to published Government indices | Electrical Services (GM Monk) | 5,909 | | | |
| EBC2324019 | Regeneration and Planning | Estates and Property | Contractual inflation uplifts linked to published Government indices | Fire Safety (GM Monk) | 808 | | | |
| EBC2324020 | Service Delivery | Customer First Retention Team | Increase in contractual fee for SEESL | | 489,950 | | | |
| **Unavoidable Budget Pressures Total** | | | | | **1,816,180** | **-170,000** | **0** | **-700,810** |

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# Appendix 3c – Budget Proposals – Service Investment

| Proposal Ref | Directorate | Service | Proposal Title | Proposal Description and service impact | 2023/24 £ | 2024/25 £ | 2025/26 £ | 2026/27 £ |
|---|---|---|---|---|---|---|---|---|
| **Service Investment** | | | | | | | | |
| EBC2324021 | Corporate Services | Legal and Local Democracy | Proposal to increase the capacity of the Elections Team | Proposal to increase the capacity of the Elections Team by the addition of a Electoral Outreach Canvasser - EBC | 33,502 | | | |
| EBC2324022 | Corporate Services | Legal and Local Democracy | Transfer of LDC Legal Team to LDC t&c | Alignment of staff terms and conditions | 9,859 | | | |
| EBC2324023 | Corporate Services | Legal and Local Democracy | Proposal to increase Member Allowances | Provision for a potential increase in Member Allowances in 2023/24 | 50,000 | | | |
| EBC2324024 | Central | Corporately Managed Budgets | Provisional Funding Cost of Living Support | Provision of financial support for cost of living in 2023/24 | 100,000 | -100,000 | | |
| EBC2324025 | Corporate Services | Business Transformation | Transfer of BTT to Base Budget funding | Provision of resources for delivery of the transformation programme | 25,433 | -27,256 | -40,994 | |
| EBC2324026 | Service Delivery | Customer First Retention Team | Investment in renewable diesel | This proposal moves the Council towards its | | 200,000 | | |
| EBC2324027 | Service Delivery | Homes First | Energy surveys | Investment in energy surveys | 73,000 | -73,000 | | |
| EBC2324028 | Service Delivery | Customer First Retention Team | Ash dieback management | | 50,000 | -50,000 | | |
| EBC2324029 | Service Delivery | Customer First Retention Team | Beachy Head training fence | | 5,000 | -2,000 | | |
| EBC2324030 | Service Delivery | Homes First | Review allocations and CBL policy | | 15,000 | -15,000 | | |
| EBC2324031 | Service Delivery | Homes First | Implement Housemark data review | | 20,000 | | | |
| EBC2324032 | Service Delivery | Homes First | Housholds action plan | | 15,000 | | | |
| EBC2324033 | Service Delivery | Homes First | Prevention HUB set up & delivery | | 25,000 | | | |
| EBC2324034 | Service Delivery | Homes First | Retirement schemes - marketing/incentives | | 15,000 | -15,000 | | |
| EBC2324035 | Service Delivery | Homes First | Community safety - contibution to Offensive Weapon Homiside Reviews | | 3,000 | | | |
| EBC2324036 | Service Delivery | Customer First Retention Team | Statutory debt repayment plan - implementation | | 5,000 | | | |
| EBC2324037 | Service Delivery | Homes First | Interim rental vehicles for cleansing | | 13,000 | -13,000 | | |
| EBC2324038 | Corporate Services | Legal and Local Democracy | CCTV - compliance with policy | | 7,000 | -7,000 | | |
| EBC2324039 | Corporate Services | Legal and Local Democracy | Member Induction | | 15,000 | -15,000 | | |
| EBC2324040 | Corporate Services | Legal and Local Democracy | Committee webcasting - ongoing system maint. | | 5,000 | | | |
| EBC2324041 | Regeneration and Planning | Estates and Property | Correction of R&S Expenditure Target | The base budget expenditure for contract cleaning has been adjusted twice for Grove Road and Town Halland a correction needs to take place to ensure the budget is reflective of actual R&S agreement/approval | 50,000 | | | |
| EBC2324042 | Service Delivery | Customer First Retention Team | Ascendent annual data contract | Contract to support business activity i.e. recovery of debts and vulnerability profiling. | 12,500 | | | |
| EBC2324043 | Service Delivery | Customer First Retention Team | Telesolutions 'treble touch' recovery comms portal | Used to recover overpaid housing benefit investment | 5,000 | | | |
| EBC2324054 | Central | Corporately Managed Budgets | Interest Payable Adjustment | Adjustment to the budget interest payable following underlying changes to the interest rates the Council is incurring | 25,000 | -633,000 | -33,000 | |
| **Service Investment Total** | | | | | **577,294** | **-750,256** | **-73,994** | **0** |

# Appendix 3d – Budget Proposals – Efficiencies and Income Generation

**Eastbourne Borough Council**
**Budget Proposals 2023/24 to 2026/27**

| Proposal Ref | Directorate | Service | Proposal Title | Proposal Description and service impact | 2023/24 £ | 2024/25 £ | 2025/26 £ | 2026/27 £ |
|---|---|---|---|---|---|---|---|---|
| **Efficiencies** | | | | | | | | |
| EBC2324044 | Regeneration and Planning | Head of Commercial Business and Property | Proposal to increase the efficiency of the Commercial Business Team by reducing the establishment | Removal of the post of Commercial Property Development Officer | -17,748 | | | |
| EBC2324045 | Central | Corporately Managed Budgets | Reduced use of agency and temporary staff across all departments/teams | | -500,000 | | | |
| **Efficiencies Total** | | | | | **-517,748** | **0** | **0** | **0** |
| **Income Generation** | | | | | | | | |
| EBC2324047 | Central | Corporately Managed Budgets | General review of EBC Fees & Charges | Proposal of general increase in Fees & Charges across all services with increases implemented at various points within the financial year as regulatory notice periods and systems allow | -119,000 | -249,000 | | |
| EBC2324048 | Central | Corporately Managed Budgets | General increases in F&C | Proposal of general increase in F&C of bought half way through the financial years | | -67,909 | -135,818 | -135,818 |
| EBC2324050 | Service Delivery | Homes First | Homelessness Prevention Grant - ringfenced to support local housing and homelessness in the area | Proposal based on Government notification of 2 year settlement over 2023/24 and 2024/25 | -697,658 | -9,858 | 0 | 0 |
| EBC2324051 | Central | Corporately Managed Budgets | Interest Receivable Adjustment | Adjustment to the budget interest receivable following underlying changes to the interest rates the Council is receiving | -265,000 | 9,000 | 9,000 | |
| **Income Generation Total** | | | | | **-1,081,658** | **-317,767** | **-126,818** | **-135,818** |

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# Appendix 3e – Budget Pressures – One-Off (funded from reserves) and Technical Adjustments

**Eastbourne Borough Council**
**Budget Proposals 2023/24 to 2026/27**

| Proposal Ref | Directorate | Service | Proposal Title | Proposal Description and service impact | 2023/24 £ | 2024/25 £ | 2025/26 £ | 2026/27 £ |
|---|---|---|---|---|---|---|---|---|
| **Budget Pressures - One-Off (funded from reserves)** | | | | | | | | |
| EBC2324046 | Corporate Services | Legal and Local Democracy | Local Council Elections for Eastbourne Borough Council in 2023/24 | | 200,000 | -200,000 | | |
| **Budget Pressures - One-Off (funded from reserves)** | | | | | **200,000** | **-200,000** | **0** | **0** |
| **Technical Adjustments** | | | | | | | | |
| EBC2324052 | Central | Corporately Managed Budgets | Adjsuments to the MRP provision | Following review there is a one-off benefit on the MRP charge for the Council | -860,000 | 860,000 | | |
| EBC2324053 | Central | Corporately Managed Budgets | Adjustment to the underlying base of MRP charge | The charge for MRP has been reviewed and the impact modelled over the next 3 year | 898,000 | 211,000 | 179,000 | |
| **Technical Adjustments Total** | | | | | **38,000** | **1,071,000** | **179,000** | **0** |

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# Appendix 4 – Budget Summary by Directorate & Service 2023/24

**Eastbourne Borough Council**
**Budget Summary By Directorate & Service 2023/24**

| Directorate | Service | Base Gross Budget £ | Service Pressures, inflation and service investment £ | Efficiencies £ | Gross Budget £ | Income Generation Proposals £ | Service Income £ | Technical Adjustments £ | Net Budget £ |
|---|---|---|---|---|---|---|---|---|---|
| Corporate Services | Business Transformation | 2,483,800 | 25,433 | 0 | 2,509,233 | 0 | (1,178,750) | 0 | 1,330,483 |
| Corporate Services | Corporate Management Team | 300,950 | 15,150 | 0 | 316,100 | 0 | (221,100) | 0 | 95,000 |
| Corporate Services | Finance & Performance | 4,042,800 | 2,653 | 0 | 4,045,453 | 0 | (2,271,400) | 0 | 1,774,053 |
| Corporate Services | Human Resources | 971,600 | 0 | 0 | 971,600 | 0 | (601,350) | 0 | 370,250 |
| Corporate Services | Legal and Local Democracy | 1,334,750 | 410,031 | 0 | 1,744,781 | 0 | (406,250) | 0 | 1,338,531 |
| Corporate Services | Local Land Charges | 59,450 | 2,045 | 0 | 61,495 | 0 | (145,200) | 0 | (83,705) |
| Regeneration and Planning | Director of Regeneration & Planning | 169,800 | 0 | 0 | 169,800 | 0 | (127,050) | 0 | 42,750 |
| Regeneration and Planning | Estates and Property | 2,737,900 | 92,777 | 0 | 2,830,677 | 0 | (4,091,900) | 0 | (1,261,223) |
| Regeneration and Planning | LDC EHL Rechargeable Salaries | 62,300 | | | 62,300 | | (62,300) | | 0 |
| Regeneration and Planning | Head of Commercial Business and Property | 86,300 | 0 | (17,748) | 68,552 | 0 | (42,950) | 0 | 25,602 |
| Regeneration and Planning | Housing Delivery Team | 222,200 | 0 | 0 | 222,200 | 0 | (146,950) | 0 | 75,250 |
| Regeneration and Planning | Planning | 2,323,500 | 0 | 0 | 2,323,500 | 0 | (1,932,800) | 0 | 390,700 |
| Regeneration and Planning | Regeneration | 361,650 | 0 | 0 | 361,650 | 0 | (143,000) | 0 | 218,650 |
| Service Delivery | Customer First Retention Team | 41,002,750 | 567,450 | 0 | 41,570,200 | 0 | (40,132,550) | 0 | 1,437,650 |
| Service Delivery | Director of Service Delivery | 127,850 | 0 | 0 | 127,850 | 0 | (112,150) | 0 | 15,700 |
| Service Delivery | Neighbourhood First | 4,429,300 | | | 4,429,300 | | (1,830,850) | | 2,598,450 |
| Service Delivery | Environment First | 4,571,700 | 0 | 0 | 4,571,700 | 0 | (941,000) | 0 | 3,630,700 |
| Service Delivery | Homes First | 7,749,600 | 689,000 | 0 | 8,438,600 | (697,658) | (7,181,950) | 0 | 558,992 |
| Tourism and Culture | Towner | 420,400 | 0 | 0 | 420,400 | 0 | 0 | 0 | 420,400 |
| Tourism and Culture | Events | 1,187,800 | 0 | 0 | 1,187,800 | 0 | (967,650) | 0 | 220,150 |
| Tourism and Culture | Seafront | 832,450 | 0 | 0 | 832,450 | 0 | (781,000) | 0 | 51,450 |
| Tourism and Culture | Sports Delivery | 1,865,700 | 0 | 0 | 1,865,700 | 0 | (1,259,800) | 0 | 605,900 |
| Tourism and Culture | Theatres | 5,928,250 | 0 | 0 | 5,928,250 | 0 | (5,868,300) | 0 | 59,950 |
| Tourism and Culture | Tourism and Culture | 3,648,700 | 0 | 0 | 3,648,700 | 0 | (2,960,550) | 0 | 688,150 |
| Central | Corporately Managed Budgets | 3,724,050 | 1,624,184 | (500,000) | 4,848,234 | (384,000) | (1,133,200) | 38,000 | 3,369,034 |
| **NET EXPENDITURE** | | **90,645,550** | **3,428,723** | **(517,748)** | **93,556,525** | **(1,081,658)** | **(74,540,000)** | **38,000** | **17,972,867** |

Appendix 5 – Reserves

**Eastbourne Borough Council**
**Statement of Reserves**

| Description | Balance as at 31/03/2022 £ | 2022/23 Net Commitments £ | Expected Balance as at 01/04/2023 £ | 2023/24 Net Commitments £ | Expected Balance as at 31/03/2024 £ |
|---|---|---|---|---|---|
| General Fund Earmarked Reserves | 43,172 | | 43,172 | | 43,172 |
| Strategic Change Reserve | (10,318) | | (10,318) | | (10,318) |
| Cost of Living Emergency Support | (250,000) | | (250,000) | | (250,000) |
| Inflation Reseve | (200,000) | | (200,000) | | (200,000) |
| Election Reserve | 0 | | 0 | 111,800 | 111,800 |
| Fuel and Energy Cost Reserve | (150,000) | 150,000 | 0 | | 0 |
| Bad Debt & Arrears Provision Reserve | (400,000) | | (400,000) | | (400,000) |
| Cultural Reserves | (755,622) | 755,622 | 0 | | 0 |
| Capital Programme Reserve | (335,933) | | (335,933) | | (335,933) |
| Revenue Grant Reserve | (1,492,463) | 307,000 | (1,185,463) | | (1,185,463) |
| Regeneration Reserve | (12,419) | | (12,419) | | (12,419) |
| ICE Reserve | (2,070,000) | | (2,070,000) | | (2,070,000) |
| Commercial Reserve | (936,966) | | (936,966) | 598,550 | (338,416) |
| Business Rates Equalisation Reserve | 0 | (782,959) | (782,959) | 539,524 | (243,435) |
| Carry Forwards and Strategic Reserves | (2,220,332) | 390,000 | (1,830,332) | | (1,830,332) |
| SHEP GF Properties Major Works Reserve | (611) | | (611) | | (611) |
| **Total Earmarked Reserves** | **(8,791,492)** | **819,663** | **(7,971,829)** | **1,249,874** | **(6,721,955)** |
| Collection Fund (timing difference) | (5,634,000) | 5,634,000 | 0 | | 0 |
| **General Fund Revenue Account** | **(3,172,129)** | | **(3,172,129)** | **463,989** | **(2,708,140)** |

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Appendix 6

| EBC CAPITAL PROGRAMME 2022/23 to 2026/27 | Revised Programme 2022/23 £ | Proposed Programme 2023/24 £ | Proposed Programme 2024/25 £ | Proposed Programme 2025/26 £ | Proposed Programme 2026/27 £ |
|---|---|---|---|---|---|
| **HRA Housing** | | | | | |
| Major Works | 5,816,000 | 5,000,000 | 5,000,000 | 5,000,000 | 5,000,000 |
| Disabled Adaptations | 450,000 | 450,000 | 450,000 | 450,000 | 450,000 |
| New Build | 6,013,000 | 6,688,000 | 568,000 | - | - |
| **Acquisitions General** | 2,216,000 | 1,453,000 | 4,326,000 | 4,478,000 | - |
| **Total HRA Housing** | **14,495,000** | **13,591,000** | **10,344,000** | **9,928,000** | **5,450,000** |
| **General Fund Housing** | | | | | |
| Disabled Facilities Grants | 1,855,792 | 1,200,000 | 1,200,000 | 1,200,000 | 1,200,000 |
| BEST Grant (housing initiatives) | 14,732 | - | - | - | - |
| **Total General Fund Housing** | **1,870,524** | **1,200,000** | **1,200,000** | **1,200,000** | **1,200,000** |
| **Loans to Housing Companies** | | | | | |
| EHIC - 24 Acacia Road | 26,400 | - | - | - | - |
| EHIC - Elm Park Mansions | - | 416,000 | - | - | - |
| EHIC - Gowland Court | - | 50,000 | - | - | - |
| AH - Credit facility | - | 35,000 | - | - | - |
| AH - Loan 183 Langney Rd | 542,800 | - | - | - | - |
| AH - RTB Grant 183 Langney Rd | 468,000 | - | - | - | - |
| AH - Loan Victoria Mansion | 838,700 | - | - | - | - |
| AH - RTB Grant Victoria Mansion | 425,800 | - | - | - | - |
| AH - Street Acquisitions (Affordable) | - | 250,000 | - | - | - |
| **Total Loans to Housing Companies** | **2,301,700** | **751,000** | **-** | **-** | **-** |
| **Total HRA & GF Housing** | **18,667,224** | **15,542,000** | **11,544,000** | **11,128,000** | **6,650,000** |
| **General Fund Non-Housing** | | | | | |
| **Community Services** | | | | | |
| Coast Defences Beach Management | 595,000 | 300,000 | 300,000 | 300,000 | 300,000 |
| Cycling Strategy | 40,600 | - | - | - | - |
| Play Area Sovereign Harbour | 27,000 | - | - | - | - |
| Refurbishment of Public Facilities | 50,000 | 50,000 | 50,000 | 50,000 | - |
| Play Equipment - Palesgate | - | 35,000 | - | - | - |
| Play Equipment - Vancouver Rd | - | 35,000 | - | - | - |
| Crematorium - Road Improvements | 15,000 | - | - | - | - |
| Crematorium - Cesspit Replacement | 35,540 | - | - | - | - |
| Crematorium - Chapel Improvements | 120,000 | - | - | - | - |
| Shinewater Toilets & Kiosk | - | 190,000 | - | - | - |
| Motcombe Pool | - | 200,000 | - | - | - |
| Changing Places | - | 154,000 | - | - | - |
| SEESL Loan | 254,100 | - | - | - | - |
| Waste & Recycling Equipment | 174,046 | - | - | - | - |
| 5 Fleet Vans | 65,600 | - | - | - | - |
| Waste & Recycling Equipment | - | 150,000 | - | - | - |
| Procurement of Fleet (SEESL/EBC) | - | 1,770,000 | - | 2,750,000 | - |
| EBC Bin Stock for Food Waste 1 | - | - | 300,000 | 15,000 | 15,000 |
| EBC Mixed/dual waste bin stock | - | 15,000 | - | - | - |
| Dog Bin Replacement | - | 32,000 | 48,000 | - | - |
| Charging Infrastructure | - | - | - | 10,000 | - |
| Digitalisation of burial records | - | 50,000 | - | - | - |
| Crematorium - New lighting at EB | - | 15,000 | - | - | - |
| Crematorium - New lighting outside family chapel | - | 15,000 | - | - | - |
| Car park machines upgrade to card readers | - | 125,000 | - | - | - |
| Golf course / Devonshire Park - equipment | - | - | - | 35,000 | - |
| **Total Community Services** | **1,376,886** | **3,136,000** | **698,000** | **3,160,000** | **315,000** |
| **Tourism & Leisure** | | | | | |
| Sovereign Centre - Existing building | 198,408 | 150,000 | 50,000 | 50,000 | - |
| **Total Tourism & Leisure** | **198,408** | **150,000** | **50,000** | **50,000** | **-** |
| **Corporate Services** | | | | | |
| IT - Block Allocation | 233,542 | 150,000 | 150,000 | 150,000 | 150,000 |
| Contingency | 230,000 | 250,000 | 250,000 | 250,000 | 250,000 |
| Recovery & Stabilisation | 959,354 | - | - | - | - |

| | | | | | |
|---|---|---|---|---|---|
| JTP Finance Transformation | 185,552 | 150,000 | - | - | - |
| Sculpture | 20,500 | - | - | - | - |
| CCTV Enhancements (Dev Park) | - | 20,000 | - | - | - |
| **Total Corporate Services** | **1,628,948** | **570,000** | **400,000** | **400,000** | **400,000** |
| | | | | | |
| **Regeneration** | | | | | |
| Black Robin Farm (LUF 1) | 1,079,380 | 10,056,757 | - | - | - |
| Towner Centenary Project (LUF 1) | 818,381 | 219,000 | - | - | - |
| Victoria Place Pedestrianisation (LUF 1) | 2,114,632 | 5,508,630 | - | - | - |
| Shinewater | 80,000 | - | - | - | - |
| Hampden Retail Park | 343,785 | 1,830,000 | - | - | - |
| Pevensey Coastal Management (EBC) | - | - | - | 50,000 | 50,000 |
| Beach management | - | - | - | 50,000 | 50,000 |
| UK Shared Prosperity Fund Investment Plans (EB( | - | 333,000 | 333,000 | 330,000 | - |
| **Total Regeneration** | **4,436,178** | **17,947,387** | **333,000** | **430,000** | **100,000** |
| | | | | | |
| **Asset Management** | | | | | |
| Winter Garden | 101,282 | 850,000 | - | - | - |
| Dev Park Theatre (H&S) | 82,779 | - | 300,000 | - | - |
| Victoria Mansions Commercial | 70,902 | - | - | - | - |
| Congress Theatre Roof | 300,000 | 125,000 | - | - | - |
| Bandstand & Promenade Renovations | 871,015 | 125,000 | - | 50,000 | - |
| EDGC Improvements | 100,000 | - | - | - | - |
| Seafront Lighting | 304,592 | 140,000 | - | - | - |
| Leisure Estate | 249,550 | 250,000 | 250,000 | 250,000 | - |
| Food Street | 41,198 | - | - | - | - |
| Asset Value Improvement Fund | 300,000 | - | - | - | - |
| Redoubt - new mains supply for café and Fort | 50,000 | - | - | - | - |
| Town Hall - annual allocation to keep operational | 50,000 | 50,000 | 50,000 | - | - |
| The Point Improvements - annual allocation | 30,000 | 30,000 | 30,000 | - | - |
| Stage Door - fire upgrade | 20,000 | - | - | - | - |
| ILTC - Improvements | 64,369 | - | - | - | - |
| Towner Improvements | 198,800 | - | - | - | - |
| Fort Fun | 40,000 | - | - | - | - |
| 1 Grove Road | 50,000 | 50,000 | 50,000 | - | - |
| Asset Management - Block Allocation | 174,436 | 100,000 | 100,000 | 100,000 | 100,000 |
| Redoubt incl Colonnade demolition | - | 1,000,000 | - | - | - |
| ILTC - Fire alarms & Lighting | - | 70,000 | 45,000 | - | - |
| Winter Garden Health & Safety | - | 875,000 | - | - | - |
| Town Hall Health and Safety works | - | 360,000 | 200,000 | 125,000 | - |
| Cornish New Barn | - | - | 250,000 | - | - |
| Pavilion Café - metered electrical supply | - | 20,000 | - | - | - |
| Chalk Farm - entrance and car park | - | 50,000 | - | - | - |
| Bridges at Princes Park | - | 91,000 | - | - | - |
| Seafront Railing | - | 30,000 | 30,000 | 30,000 | - |
| Hampden Park community centre | - | 40,000 | - | - | - |
| Downland Water Supply | - | - | 300,000 | - | - |
| Crematorium Generator Lease | - | - | 125,000 | - | - |
| Golf Course Lighting | - | - | 10,000 | - | - |
| **Total Asset Management** | **3,098,923** | **4,256,000** | **1,740,000** | **555,000** | **100,000** |
| | | | | | |
| **Total General Fund Non-Housing** | **10,739,343** | **26,059,387** | **3,221,000** | **4,595,000** | **915,000** |
| | | | | | |
| **Total HRA & GF Programme** | **29,406,567** | **41,601,387** | **14,765,000** | **15,723,000** | **7,565,000** |
| **FINANCING** | | | | | |
| ***HRA*** | | | | | |
| External Borrowing | 1,511,000 | 3,623,000 | 4,133,000 | 3,513,000 | - |
| Retained Receipts | 1,873,000 | 3,318,000 | 568,000 | 456,000 | - |
| Homes England Grant | 2,118,000 | 1,200,000 | - | - | - |
| Major Repairs Reserve | 6,266,000 | 5,450,000 | 5,450,000 | 5,450,000 | 5,450,000 |
| Revenue Contributions | 2,727,000 | - | 193,000 | 509,000 | - |
| ***GF*** | | | | | |
| Capital Receipts GF | 642,252 | 250,000 | 250,000 | 250,000 | 250,000 |
| DFG Grant | 1,855,792 | 1,200,000 | 1,200,000 | 1,200,000 | 1,200,000 |
| Government Grants | 5,595,926 | 18,836,387 | 633,000 | 680,000 | 350,000 |
| Developer Contributions - S106 | 27,000 | - | - | - | - |
| Revenue | 50,000 | 50,000 | 50,000 | - | - |
| Borrowing GF | 6,740,598 | 7,674,000 | 2,288,000 | 3,665,000 | 315,000 |
| **Total Financing** | **29,406,567** | **41,601,387** | **14,765,000** | **15,723,000** | **7,565,000** |

| | |
|---|---|
| **Report to:** | **Cabinet** |
| **Date:** | **8 February 2023** |
| **Title:** | **Treasury Management and Prudential Indicators 2023/24, Capital Strategy & Investment Strategy** |
| **Report of:** | **Homira Javadi, Director of Finance and Performance (Chief Finance Officer – S151 Officer)** |
| **Cabinet member:** | **Councillor Stephen Holt, Deputy Leader of the Council, Cabinet Member for Finance** |
| **Ward(s):** | **All** |
| **Purpose of the report:** | **To approve the Council's Annual Treasury Management Strategy, Capital Strategy & investment Strategy together with the Treasury and Prudential Indicators.** |
| **Decision type:** | **Budget and policy framework** |
| **Recommendation:** | **Cabinet is asked to recommend the following proposals to full Council to :**<br>**a. Approve the Treasury Management Strategy and Annual Investment Strategy for 2023/24 as set out in Appendix A;**<br>**b. Approve the Minimum Revenue Provision Policy Statement 2023/24 (Appendix A - section 8);**<br>**c. Approve the Prudential and Treasury Indicators 2023/24 to 2025/26 (Appendix A - section 6);**<br>**d. Approve the Capital Strategy (Appendix A - appendix E).** |
| **Reasons for recommendations:** | **It is a requirement within the budget setting process for the Council to review and approve the Prudential and Treasury indicators, Treasury Strategy, Capital Strategy and Investment Strategy.** |
| **Contact Officer:** | **Ola Owolabi, Deputy Chief Finance Officer**<br>**Telephone: 01323 415083**<br>**E-mail address: Ola.Owolabi@lewes-eastbourne.gov.uk** |

## 1. Introduction

1.1 The Prudential and Treasury Indicators and Treasury Strategy covers:

- the capital prudential indicators;
- the Minimum Revenue Provision 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 management);
- Capital Strategy.

1.2 The Council has adopted CIPFA's Treasury Management code of Practice and this code is supported by treasury management practices (TMPs) that set out the manner in which the council seeks to achieve the treasury management strategy and prescribes how it manages and controls those activities.

1.3 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."

1.4 The Council will continue to regularly review the position on its long-term borrowing requirement, it affordability and the capital financing costs impact on the Council future financial planning. Borrowing will only be undertaken for temporary liquidity or to fund the capital programme and will be undertaken as necessary in accordance with the 2023/24 borrowing strategy. The Council will continue to assess all financing options when making long term borrowing decisions to achieve best financial value for the Council.

1.5 CIPFA has published the updated Treasury Management and Prudential Codes, and has stated that after a soft introduction of the Codes, Local Authorities are expected to fully implement the required reporting changes within the Treasury Management Strategy reports from 2023/24.

1.6 The Department for Levelling Up, Housing and Communities (DLUHC) is proposing to tighten up regulations around local authorities financing capital expenditure on investments in commercial projects for yield and has already closed access to all PWLB borrowing if such schemes are included in an authority's capital programme. The new CIPFA codes have adopted a similar outlook to discourage further capital expenditure on commercial investments for yield.

DLUHC is also conducting a consultation on amending MRP regulations/guidance for England. The latest information is that any changes will take effect from 2024/25 at the earliest.

1.7 Prudential Code changes from 1 April 2023 – There are a number of changes to be implemented for CIPFA Code revisions for the 2023/24 financial year as follow:

**a.** Adopting a new liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;

**b.** Long-term treasury investments, (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case;

**c.** Pooled funds are to be included in the indicator for principal sums maturing in years beyond the initial budget year;

**d.** Amendment to the knowledge and skills register for officers and members involved in the treasury management function;

**e.** Reporting to members is to be done quarterly. Specifically, the Chief Finance Officer (CFO) is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly.

**f.** Environmental, social and governance (ESG) issues to be addressed within an authority's treasury management policies and practices.

1.8 This report includes the Capital Strategy (Appendix E), which provides a longer-term focus on the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The aim of the capital strategy is to ensure that all elected members on the Full Council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. The Capital Strategy covers the following:

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

**Potential impact on climate change and the environment**

1.9 Fund managers will be required to consider ESG (Environmental, Social and Governance) factors in their investment process. All the fund managers would be expected to have signed up to the UN Principles for Responsible Investment (PRI). PRI argues that active participation in ESG and exercising shareholder rights on this basis can help to improve the performance of companies which may otherwise not address such concerns and so being an engaged corporate stakeholder is a more effective way to bring about change in corporate behaviour on ethical issues. Further requirements from those identified above are not practical given the limited ability to directly influence any immediate change in the financial markets.

1.10 The Council recognises the importance of supporting sustainability and ethical investments and as part of future investment strategy, consideration will be given to potential opportunities to invest in environmentally focussed instruments or organisations locally and/or countrywide. 'Ethical, Social and Governance' (ESG) investment criteria will be considered and, where viable in adherence to the policies laid out in this strategy, will only be entered into following satisfactory assessment of the instrument and/or organisation. This will ensure the Council complies with the CIPFA investment guidance that makes it clear that all investing must adopt SLY principles – security, liquidity and yield: ethical issues will play a subordinate role to those priorities.

1.11 **Policy on the use of external service providers**

The Council uses Link Market Services as its external treasury management advisor, and recognises that responsibility for treasury management decisions remains with the Council at all times. It also recognises that there is value in employing external providers of treasury management services in order to have access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

**2. End of year investment report**

2.1 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

**3. Outcome expected and performance management**

3.1 Loans, Investments and Prudential Indicators will be monitored regularly during 2023/24 and performance will be reported to members quarterly.

**4. Financial appraisal**

4.1 These are included in the main body of the report.

**5. Legal implications**

5.1 This report covers the requirements of the Local Government Act 2003, the CIFPA Prudential Code, the CLG MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

**6. Equality analysis**

6.1 The equality implications of decisions relating to Treasury Management covered in this report are addressed within other relevant Council reports or as part of programmed equality analysis.

**7. Minimum Revenue Provision (MRP)**

7.1 The Council has adopted an annuity method, under this methodology, MRP will be lower in the early years and increase over time. This is considered a prudent approach as it reflects the time value of money (i.e. the impact of inflation) as well as providing a charge that is better matched to how the benefits of the asset financed by borrowing are consumed over its useful life. That is, a method that reflects the fact that asset deterioration is slower in the early years of an asset and accelerates towards the latter years. The MRP Policy Statement (Section 8) reflects this policy.

## 8. Conclusion

8.1 Capital prudential indicators are set to demonstrate plans for borrowing are affordable. The movement in the Capital Financing Requirement (CFR) forecasts for 2023/24, 2024/25 and 2025/26 are set as £9.3m, £2.2m, and £5.5m, respectively. This borrowing has been reflected in the Capital Financing Requirement, which sets out the Council's outlining requirement for borrowing, and includes both the use of internal resources and external borrowing.

8.2 The Minimum Revenue Provision Policy has been updated to ensure that prudent provision is made for the repayment of borrowing.

8.3 All Treasury indicators have been set to reflect the treasury strategy and funding requirements of the capital programme.

**Appendices**

| | |
|---|---|
| **A** | Treasury Management Strategy Statement, Minimum Revenue Provision and Annual Investment Strategy |
| **B** | The Treasury Management Role of the Section 151 Officer |
| **C** | Counterparty List |
| **D** | Link Asset Services on the Economic Background and Forward View |
| **E** | Capital Strategy |
| **F** | Glossary: Local Authority Treasury Management Terms |

**Background papers**

The background papers used in compiling this report were as follows:

- CIPFA Treasury Management in the Public Services code of Practice (the Code);
- Cross-sectorial Guidance Notes;
- CIPFA Prudential Code;
- Treasury Management Strategy and Treasury Management Practices;
- Council Budget 8 February 2023;
- Finance Matters and Performance Monitoring Reports 2022;
- CIPFA Prudential Property Investment.

To inspect or obtain copies of background papers please refer to the contact officer listed above.

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# Treasury Management Strategy, Annual Investment Strategy, Capital Strategy and Minimum Revenue Provision Policy

# 2023/24

# CONTENTS

## 1. INTRODUCTION

The Treasury Management Policy and Strategy is one of the Council's key financial strategy documents and sets out the Council's approach to the management of its treasury management activities.

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 initially before considering investment return.

The second main 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. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a 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.

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.

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."*

The Local Government Act 2003 and supporting regulations require the Council to 'have regard to' the CIPFA Prudential Code and the Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Council to set out its treasury management strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing investments and for giving priority to the security and liquidity of those investments.

This strategy is updated annually to reflect changes in circumstances that may affect the strategy.

**2021 revised CIPFA Treasury Management Code and Prudential Code**

CIPFA has published the revised Codes and has stated that revisions need to be included in the reporting framework from the 2023/24 financial year. The revised Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes: -

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

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

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

There are a number of changes to be implemented for CIPFA Code revisions for the 2023/24 financial year as follow:

**a.** **Adopting a new liability benchmark treasury indicator** to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained;

**b.** **Long-term treasury investments**, (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case;

**c.** **Pooled funds** are to be included in the indicator for principal sums maturing in years beyond the initial budget year; (*Pooled funds is a term used to collectively refer to a set of money from individual investors combined, i.e., "pooled" together for investment purposes. The funds are combined with the intention of benefiting from economies of scale through cost minimisation);*

**d.** Amendment to the **knowledge and skills register** for officers and members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each authority;

**e.** **Reporting to members is to be done quarterly.** Specifically, the Chief Finance Officer (CFO) is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The CFO is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council and should be reported as part of the authority's integrated revenue, capital and balance sheet monitoring;

f. **Environmental, social and governance (ESG)** issues to be addressed within an authority's treasury management policies and practices.

## 2. TREASURY MANAGEMENT REPORTING

The Council/Members are required to receive and approve, as a minimum, 3 reports annually which incorporate a variety of policies, forecasts and actuals as follows;

a. **Annual treasury strategy** (issued February and includes);
    a. A Minimum Revenue Provision (MRP) policy (this reflects capital expenditure previously financed by borrowing and how the principal element is charged to revenue over time);
    b. The treasury management strategies (how the investments and borrowings are to be organised) including treasury prudential indicators and limits;
    c. An investment strategy (the parameters on how investments are to be managed).
b. **Mid-year update** – (issued November / December and provides);
    a. an update for members with the progress of the treasury management activities undertaken for the period April to September and
    b. an opportunity for amending prudential indicators and any policies if necessary.
c. **Annual outturn** – (issued June and contains);
    a. details of actual treasury operations undertaken in the previous financial year.

Each of the above 3 reports are required to be adequately scrutinised by the Eastbourne Borough Council Audit and Standards Committee before being recommended to the Cabinet and Council for final approval. This Council delegates responsibility for implementation and monitoring treasury management to Cabinet and responsibility for the execution and administration of treasury management decisions to the Section 151 Officer;

The Council has adopted the Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management including the creation and maintenance of a Treasury Management Policy Statement stating the policies, objectives and approach to risk management of the Council's treasury management activities.

## 3. TREASURY MANAGEMENT POLICY STATEMENT

The policies and objectives of the Council's treasury management activities are as follows:

*a.* This Council defines its treasury management activities as - *'The management of the authority's 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'.*

*b.* This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council, and any financial instruments entered into to manage these risks.

*c.* This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance management techniques, within the context of effective risk management.

## 4. CAPITAL STRATEGY

The CIPFA Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report (Appendix E) which will provide the following:

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

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

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

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the Department for Levelling Up, Housing and Communities (DLUHC) Investment Guidance, CIPFA Prudential Property Investment and CIPFA Prudential Code have not been adhered to. If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

Most of the capital expenditure incurred by authorities requires risks to be managed, particularly in relation to whether the assets acquired will provide the benefits projected for them and whether estimates of acquisition and running costings and income generation will be reliable. These considerations will impact on decisions regarding whether it would be prudent to borrow to fund such expenditure. Reductions in government funding have meant that local authorities have been under growing pressure to incur capital expenditure with the objective of generating revenue income that will compensate for reductions in government funding.

CIPFA concerns relating to the rapid expansion of acquisitions of commercial property and its relationship with CIPFA's statement in its Prudential Code that authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. Where authorities exceed the limits of the Prudential Code and the wider Prudential Framework this places a strain on the credibility of the Prudential Framework to secure the prudent management of local authority finances.

The Prudential Framework (including statutory guidance and the Prudential Code itself) allows local authorities the flexibility to take their own decisions; provided that the decisions taken are prudent, affordable and sustainable and that they have regard to the statutory guidance. However, local authorities will need to ensure if they acquire commercial property (without borrowing from the PWLB) with substantial investment returns that they have a clear rationale for such acquisitions. If after having regard to the statutory guidance and the Prudential Code local authorities decide to depart from such guidance, they can only do so where a robust and reasonable argument can be put that an alternative approach will still meet the authority's various duties under Chapter 1 of the Local Government Act 2003.

## 5. TREASURY MANAGEMENT STRATEGY STATEMENT FOR 2023/24

### 5.1 Borrowing Strategy for 2023/24

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

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Chief Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.
- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the UK, 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.

Any decisions will be reported to the appropriate decision-making body at the next available opportunity.

Capital Investment can be paid for using cash from one or more of the following sources:

- Cash from existing and/or new capital resources (e.g. capital grants, receipts from asset sales, revenue contributions or earmarked reserves);
- Cash raised by borrowing externally;
- Cash being held for other purposes (e.g. earmarked reserves or working capital) but used in the short term for capital investment. This is known as 'internal borrowing' as there will be a future need to borrow externally once the cash is required for the other purposes.
- use of innovative or more complex sources of funding such as green bond issues, private placements and sale and leaseback structures

Under the CIPFA Prudential Code an authority is responsible for deciding its own level of affordable borrowing within set prudential indicator limits (see section 6). Borrowing does not have to take place immediately to finance its related capital investment and may be deferred or borrowed in advance of need within policy. The Council's primary objective when borrowing is to strike an appropriately low risk balance between securing low interest rates and achieving cost certainty over the period for which funds are required.

When MRP is not required to repay debt, it will accumulate as cash balances which will then be invested. Investment balances will increase by MRP each year until the debt is repaid. The Council's Draft Revenue Budget and Capital Programme 2023/24 to 2025/26 forecasts £72.1m (HRA of £33.9m and GF of £38.2m) of capital investment over the next three years with £47.2m met from existing or new resources. The amount of new borrowing required over this period is therefore £24.9m (HRA of £11.3m and GF of £13.6m) as shown in Table 2a below.

| **Table 2a** | **2022/23 Forecast** | **2023/24 Estimate** | **2024/25 Estimate** | **2025/26 Estimate** |
|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** |
| **Capital Expenditure** | | | | |
| General Fund (GF) | 12.8 | 23.7 | 4.4 | 3.0 |
| Housing Revenue Account (HRA) | 14.5 | 13.6 | 10.3 | 9.9 |
| Loans to Subsidiary Companies | 1.7 | 2.5 | - | 2.8 |
| Commercial Investments | - | - | - | - |
| Service Delivery Investments | 0.4 | 1.8 | - | - |
| **Total** | **29.4** | **41.6** | **14.8** | **15.7** |
| **GF Financed by:** | | | | |
| Capital Receipts | (0.6) | (0.3) | (0.3) | (0.3) |
| Capital Grants & Contributions | (7.5) | (20.0) | (1.8) | (1.9) |
| Earmarked Reserves | - | - | - | - |
| Revenue Contributions | (0.1) | (0.1) | (0.1) | - |
| Borrowing Need | (4.7) | (3.3) | (2.3) | (0.9) |
| **HRA Financed by:** | | | | |
| Capital Receipts | (1.9) | (3.3) | (0.6) | (0.5) |
| Capital Grants & Contributions | (2.1) | (1.2) | - | - |
| Major Repairs Reserve (MRR) | (6.3) | (5.5) | (5.5) | (5.5) |
| Revenue Contributions | (2.7) | - | (0.2) | (0.5) |
| Borrowing Need | (1.5) | (3.6) | (4.1) | (3.5) |
| **Loans Financed by:** | | | | |
| Borrowing Need | (1.7) | (2.5) | - | (2.8) |
| **Commercial Investments Financed by:** | | | | |
| Capital Receipts | - | - | - | - |
| **Service Delivery Investments Financed by:** | | | | |
| Capital Grants & Contributions | - | - | - | - |
| Borrowing Need | (0.4) | (1.8) | - | - |

As existing and forecast future resources are insufficient to meet the level of spend, the borrowing need of £24.9m will be met from both internal and external borrowing. This is to use the Council's own surplus funds until external borrowing is required. Internal borrowing reduces borrowing costs and risk as there is less exposure of external investments. The benefits of internal borrowing need to be monitored and weighed against deferring new external borrowing into future years when long-term borrowing rates could rise.

| Table 2b<br>Capital Financing Requirement | 2022/23<br>Forecast | 2023/24<br>Estimate | 2024/25<br>Estimate | 2025/26<br>Estimate |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| General Fund | 140.1 | 145.8 | 143.9 | 145.4 |
| HRA | 49.7 | 53.3 | 57.5 | 61.0 |
| **Total CFR** | **189.9** | **199.2** | **201.4** | **206.4** |
| **Movement in CFR** | | **9.3** | **2.2** | **5.0** |
| | | | | |
| **Movement in CFR represented by:** | | | | |
| Net financing needed for the year (as above) | 8.1 | 10.9 | 4.0 | 7.0 |
| Less: MRP | (1.2) | (1.6) | (1.8) | (2.0) |
| **Movement in CFR** | **6.9** | **9.3** | **2.2** | **5.0** |

The amount that notionally should have been borrowed is known as the **capital financing requirement (CFR)**. The CFR and actual borrowing may be different at a point in time and the difference is either an under or over borrowing amount. The Council is required to repay an element of the CFR each year through a revenue charge. This is known as the minimum revenue provision (MRP) and is currently estimated to be £1.6m for 2023/24. MRP will cause a reduction in the CFR annually.

**Table 3** below includes the figures from Table 2 and shows the actual external borrowing against the capital financing requirement, identifying any under or over borrowing.

| Table 3 | 2022/23<br>Forecast | 2023/24<br>Estimate | 2024/25<br>Estimate | 2025/26<br>Estimate |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| GF Borrowing at 1 April<br>HRA Borrowing at 1 April | 112.0<br>48.0 | 116.7<br>44.0 | 120.0<br>45.1 | 122.3<br>46.5 |
| **Borrowing at 1 April** | 160.0 | 160.7 | 165.1 | 168.7 |
| GF new borrowing<br>HRA new borrowing<br>less: loan maturities | 4.7<br>1.5<br>(5.5) | 3.3<br>3.6<br>(2.5) | 2.3<br>4.1<br>(2.8) | 0.9<br>3.5<br>(2.8) |
| Net Borrowing Total | 0.7 | 4.4 | 3.6 | 1.6 |
| **Borrowing at 31 March** | **160.7** | **165.1** | **168.7** | **170.4** |
| CFR at 1 April<br>Net Capital Expenditure<br>MRP | 183.0<br>8.1<br>(1.2) | 189.9<br>10.9<br>(1.6) | 199.2<br>4.0<br>(1.8) | 201.4<br>7.0<br>(2.0) |
| **CFR at 31 March** | **189.9** | **199.2** | **201.4** | **206.4** |
| | | | | |
| **Under / (Over) borrowing** | **29.2** | **34.1** | **32.6** | **36.0** |

The Council is currently maintaining an under-borrowing position. As at the end of 2023/24, the Council is projected to be under- borrowed by £34.1m in 2023/24, £32.6m in 2024/25 and £36.0m by 2025/26.

## 5.2 PWLB Loans

It is important to state that borrowing is only used to fund the capital programme so the level of borrowing should not exceed the CFR for any meaningful amount of time. As previously stated, the CFR (Capital Financing Requirement) is the amount of capital expenditure the Council has financed by internal or external borrowing. The current assumption is that internal borrowing is prioritised over externalising debt. However, officers will monitor external rates of borrowing and the sustainability of using internal borrowing to determine if it becomes more beneficial to externalise the debt and invest core cash in deposits or investment funds.

The PWLB can lend for up to 50 years and also for the short term to Local Government. The PWLB is the source of loans/funds, if no other lender can provide finance. PWLB will not lend to an authority that plans to buy investment assets primarily for yield that is identified in their capital programme. The Chief Finance Officer will be expected by the PWLB to certify that no such purposes are planned.

From a Treasury Management perspective, it is recommended that the PWLB should be retained as a borrowing option and therefore the purchase of investment properties primarily for yield should be excluded from the capital programme.
This is recommended not only due to the reduced rates now available through PWLB but due to the backstop accessibility of this source of borrowing. The Council will not pursue a deliberate strategy of using private borrowing or internal borrowing to support investment in an asset that the PWLB would not support and then refinancing or externalising this with PWLB loans. Under the prudential code, local authorities cannot borrow from the PWLB or any other lender for speculative purposes and must not use internal borrowing to temporarily support investments purely for yield.

If the Council wishes to on-lend money to deliver objectives in an innovative way, the government would expect that spending to be reported in the most appropriate category (service spending, housing, economic regeneration, preventative action, or treasury management) based on the eventual use of the money.

## 5.3 Borrowing other than with the PWLB

The Council has previously borrowed mainly from the PWLB, but will continue to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates. Any new borrowing taken out will be completed with regard to the limits, indicators, the economic environment, the cost of carrying this debt ahead of need, and interest rate forecasts. The S151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

The UK Municipal Bond Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority may make use of this new source of borrowing as and when appropriate.

## 5.4 Policy on Borrowing in Advance of Need

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

### 5.5 Debt Rescheduling

Officers continue to regularly review opportunities for debt rescheduling, but there has been a considerable widening of the difference between new borrowing and repayment rates, which has made PWLB debt restructuring now much less attractive. Consideration would have to be given to the large premiums (cash payments) which would be incurred by prematurely repaying existing PWLB loans. It is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing. However, some interest savings might still be achievable through using other market loans, in rescheduling exercises rather than using PWLB borrowing as the source of replacement financing.

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

### 5.6 New financial institutions as a source of borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).
- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).

Therefore, the strategy is to continue to seek opportunity to reduce the overall level of Council’s debt where prudent to do so, thus providing in future years cost reduction in terms of lower debt repayments costs, and potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt. All rescheduling will be agreed by the S151 Officer, and our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

### 5.7 Continual Review

Treasury officers continue to review the need to borrow taking into consideration the potential increases in borrrowing costs, the need to finance new capital expenditure, refinancing maturing debt, and the cost of carry that might incur a revenue loss between borrowing costs and investment returns. Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Chief Finance Officer will continue to monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

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

## 6. PRUDENTIAL AND TREASURY INDICATORS 2022/23 to 2025/26

### 6.1 Prudential and Treasury Indicators

The Council's capital expenditure plans are a key driver of treasury management activities. The output of the capital expenditures plan are reflected in prudential indicators. Local Authorities are required to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The Code sets out the indicators that must be used but does not suggest limits or ratios as these are for the authority to set itself.

The Prudential Indicators for 2022/23 to 2025/26 are set out in **Table 4** below:

| Table 4 | 2022/23 Forecast | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate |
|---|---|---|---|---|
| **Capital Expenditure (gross) £m**<br>Council's capital expenditure plans (including HRA) | £29.4 | £41.6 | £14.8 | £15.7 |
| **Capital Financing Requirement £m**<br>*Measures the underlying need to borrow for capital purposes* | £189.9 | £199.2 | £201.4 | £206.4 |
| **Ratio of financing costs to net revenue stream - General Fund %**<br>*Identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against net revenue stream* | 12.9% | 17.6% | 15.9% | 16.9% |
| **Ratio of financing costs to net revenue stream - HRA %**<br>*Identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against net revenue stream* | 10.9% | 9.7% | 10.2% | 10.7% |
| **Proportion of net income from commercial and service investments to net revenue stream** | 17.4% | 16.1% | 16.7% | 16.5% |

The Treasury Management Code requires that Local Authorities set a number of indicators for treasury performance in addition to the Prudential Indicators which fall under the Prudential Code. The Treasury Indicators for 2021/22 to 2024/25 are set out in **Table 5** below:

| Table 5 | 2022/23 Estimate | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate |
|---|---|---|---|---|
| **Authorised Limit for external debt** | **£m** | **£m** | **£m** | **£m** |
| Borrowing – GF & HRA | 230.9 | 241.1 | 243.5 | 249.0 |
| Other long-term liabilities | - | - | - | - |
| **Total** | **230.9** | **241.1** | **243.5** | **249.0** |

**The Authorised Limit -** The authorised limit represents a limit beyond which external debt is prohibited and it is the maximum amount of debt that the Council can legally owe. This limit is set by Council and can only be revised by Council approval. It reflects the level of external borrowing which, while not desirable, could be afforded in the short term, but is not sustainable in the longer. The current limit is set at 10% above the Operational Boundary.

*Note – excludes any required allowances for IFRS 16 – Leasing change from 2024/25.*

| Operational boundary for external debt | £m | £m | £m | £m |
|---|---|---|---|---|
| Borrowing – GF & HRA | 209.9 | 219.2 | 221.4 | 226.4 |
| Other long-term liabilities | - | - | - | - |
| **Total** | **209.9** | **219.2** | **221.4** | **226.4** |

**The Operational Boundary -** This is the expected borrowing position of the Council during the year, taking account of the timing of various funding streams. The operational boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. This indicator may be breached temporarily for operational reasons.

| Table 6 | 2022/23 Forecast | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate |
|---|---|---|---|---|
| **Upper limit for fixed interest rate exposure*** Identifies a maximum limit for fixed interest rates for borrowing and investments. | 100% | 100% | 100% | 100% |
| **Upper limit for variable interest rate exposure*** Identifies a maximum limit for variable interest rates for borrowing and investments. | 25% | 25% | 25% | 25% |
| **Maturity Structure of Borrowings*** The Council needs to set upper and lower limits with respect to the maturity structure of its borrowing: | | | | |
| Upper limit for under 12 months | 75% | 75% | 75% | 75% |
| Lower limit for under 12 months | 0% | 0% | 0% | 0% |
| Upper limit for 12 months to 2 years | 75% | 75% | 75% | 75% |
| Lower limit for over 12 months to 2 years | 0% | 0% | 0% | 0% |
| Upper limit for 2 years to 5 years | 75% | 75% | 75% | 75% |
| Lower limit for 2 years to 5 years | 0% | 0% | 0% | 0% |
| Upper limit for 5 years to 10 years | 75% | 75% | 75% | 75% |
| Lower limit for 5 years to 10 years | 0% | 0% | 0% | 0% |
| Upper limit for over 10 years | 75% | 75% | 75% | 75% |
| Lower limit for over 10 years | 0% | 0% | 0% | 0% |

*Note- *the Treasury Indicators above have been calculated and determined by Officers in compliance with the Treasury Management Code of Practice.*

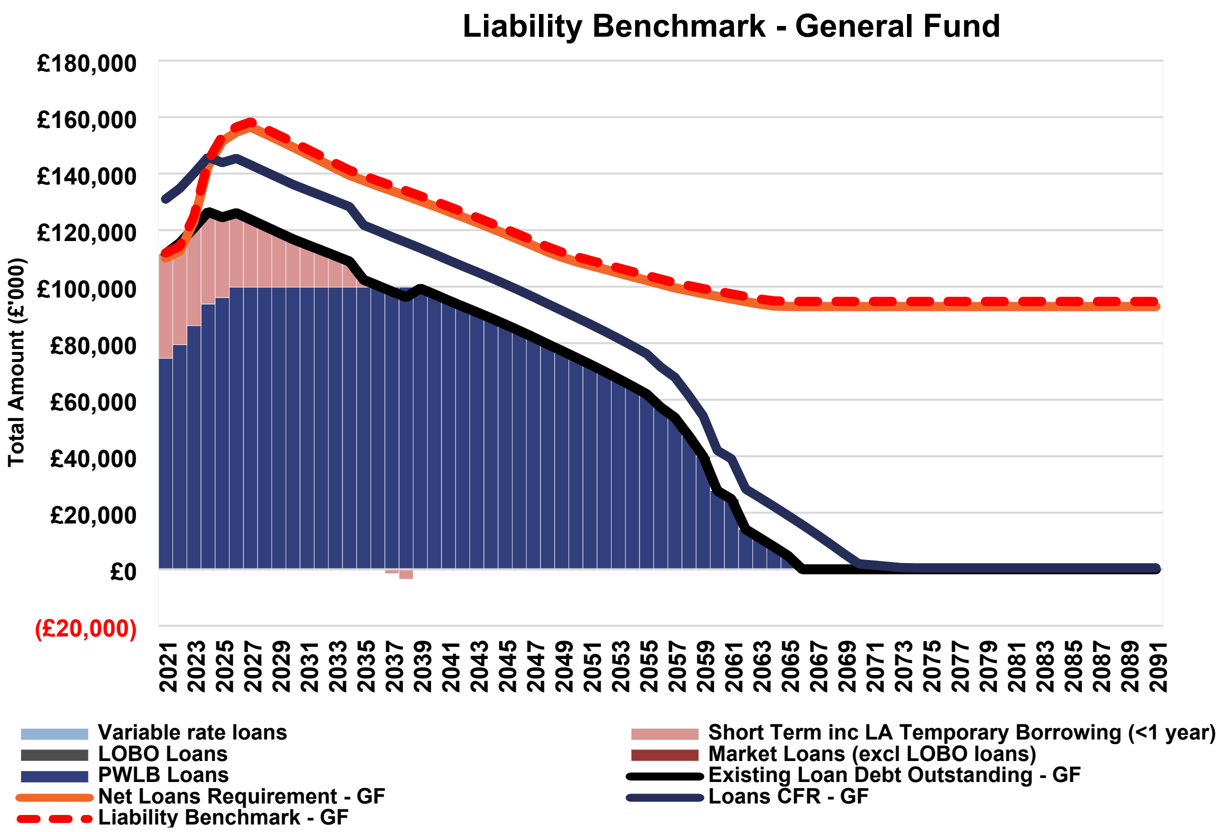
The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities.

### 6.2 Liability Benchmark

The Liability Benchmark / Gross Loans Requirement is determined by taking the projected Net Loans Requirement, then adding an element representing the average balance that the Council need to keep liquid to meet the peaks and troughs of the Cashflow movements. It is an additional prudential indicator introduced to identifies the minimum future borrowing needs, compared to the capital financing requirement and the actual level of external debt.

The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to day cash flow.

Please note that the balance sheet resources figures are based on the 2021/22 unaudited accounts which are yet to be audited. Therefore, it is subject to change.

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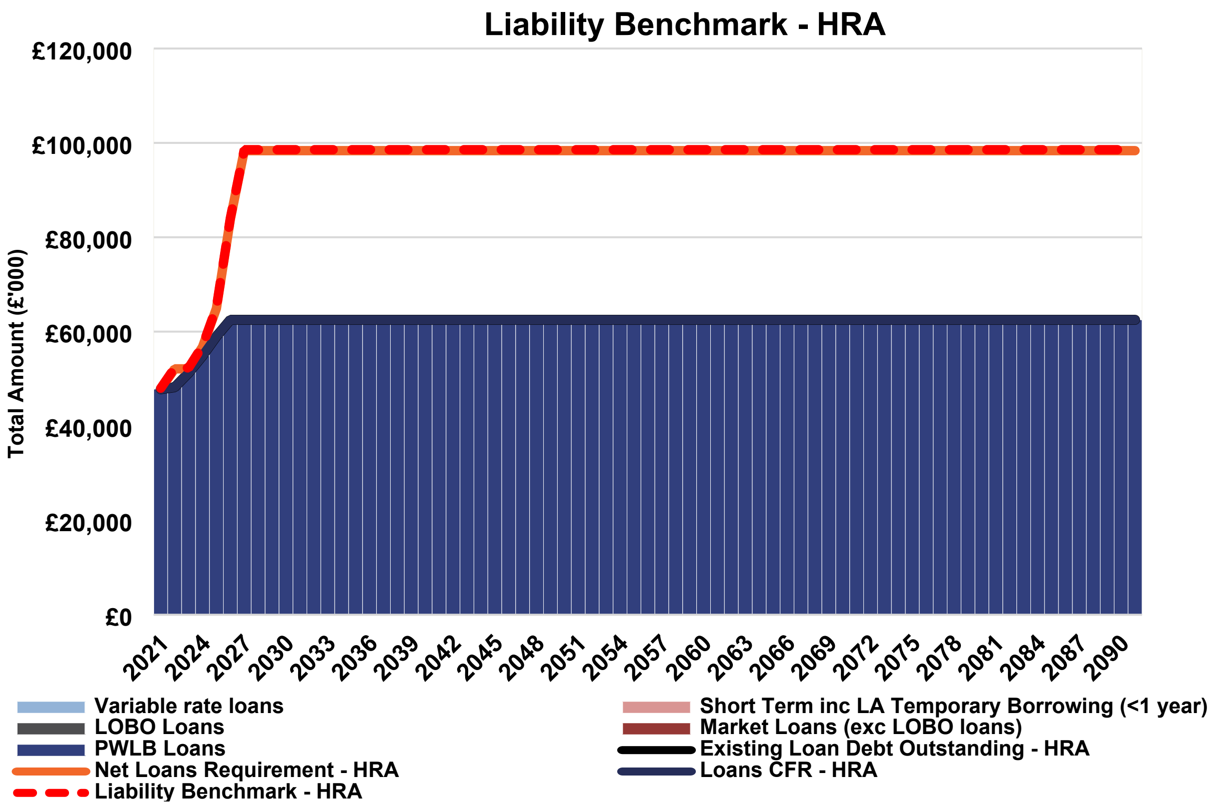


The GF and HRA liability benchmark (graph above as at 31 March 2022) show the level of expected external borrowing given current projections for capital investment up to year 2025/26. The projected borrowing levels show what the Council expects it level to be. Where the aggregate borrowing level is below the benchmark, the Council will be in an under-borrowed position, and when it is above it will be over-borrowed. This makes assumptions regarding repayment dates and this can be used as a tool for scheduling future borrowing requirements.

### 6.3 Borrowing Limit and the Group Activities (i.e., Investment Company Eastbourne Limited)

In May 2018, the Council's wholly owned the Investment Company Eastbourne Limited (ICE) entered into a deal with a private company in respect of a property in Leicester. ICE is acting as the principal guarantor of a £48m refinancing loan to a private company, with the Council being the ultimate guarantor. ICE is also providing a rental guarantee in respect of shortfalls of rental income, again with the Council being the ultimate guarantor. In return for providing this guarantee, ICE has received an initial guarantee fee and will receive an annual guarantee fee.

The timing and amount of any payments arising from both the loan guarantee and the rental guarantee are uncertain, as they could result from a number of default or income shortfall events. However, a default event would also give rise to circumstances that are reflected as a Contingent Asset at the end of the loan term. Assuming no default event occurs; the property will be jointly marketed and sold, with ICE being entitled to stipulated amounts and proportions of the net sale proceeds.

Therefore, the calculation of the Authorised limits in relation to Group Accounts is set out in the Prudential Code Guidance notes as follows: "The balance sheet used for the preparation of the indicators required by the Code is the authority's own balance sheet, i.e. the balance sheet from the single entity financial statements.

The capital expenditure or borrowing of companies (or other bodies) in which an authority has an interest should not be included within these indicators.  It remains the case that where an authority has interests in companies or other similar related entities, the authority needs to have regard to its financial commitments and obligations to those bodies when deciding whether borrowing is affordable.  The operational boundary should be based on the authority's estimate of most likely scenario – prudent, but not worst-case, and the authorised limit itself must be set only in relation to borrowing that would appear on the authority's own balance sheet from the single entity financial statements.

## 7. ANNUAL INVESTMENT STRATEGY

### 7.1 Investment Policy

The 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, (Appendix E). 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;
- CIPFA Prudential Property Investment.

The Council's investment priorities will be security first, portfolio liquidity second, then yield, (return) and the social impact.  The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

The above guidance from the 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 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 financial sector to establish the most robust scrutiny process on the suitability of potential investment counterparties.

### 7.2 Investment Strategy for 2023/24

**In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

### 7.3 Investment returns expectations.

The current forecast and the MPC meeting minutes indicated concerns over the sudden recent rise in multiple inflationary pressures, which could well mean a further increase in Bank Rate is now possible ahead of the start of the financial year covered by this Strategy. The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows.:

| **Average earnings in each year** | |
|---|---|
| 2022/23 (remainder) | 3.95% |
| 2023/24 | 4.40% |
| 2024/25 | 3.30% |
| 2025/26 | 2.60% |
| 2026/27 | 2.50% |
| Long term later years | 2.80% |

The overall balance of risks to economic growth in the UK is probably now skewed to the upside but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population.

### 7.4 Investment treasury indicator and limit

Total principal funds invested for greater than 365 days. These limits are set regarding the Council’s liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

| **Upper limit for principal sums invested for longer than 365 days** | | | |
|---|---|---|---|
| | **2023/24** | **2024/25** | **2025/26** |
| Principal sums invested for longer than 365 days | £2m | £2m | £2m |

For its cash flow generated balances, the Council will seek to utilise its current account, call accounts and short-dated deposits (overnight to three months) to benefit from the compounding of interest.

### 7.5 Specified and Non-Specified Investments

This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use, 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.

- **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. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18-month deposit would still be non-specified even if it has only 11 months left until maturity.

An investment is a **specified investment** if all of the following apply:

- the investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling;
- the investment is not a long-term investment (i.e. up to 365 days);
- the making of the investment is not defined as capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146 as amended];
- the investment is made with a body or in an investment scheme of high credit quality (i.e. a minimum credit rating as outlined in this strategy) or with one of the following public-sector bodies:
  - The United Kingdom Government;
  - A local authority in England or Wales (as defined under section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland;

### 7.6 Creditworthiness Policy

The Treasury Management Strategy needs to set limits on the amount of money and the time period the Council can invest with any given counterparty. In order to do this the Council uses the Credit Rating given to the counterparty by the three main Credit Rating Agencies (Fitch, Moody's and Standard and Poor's). This forms part of the consistent risk based approach that is used across all of the financial strategies.

Treasury Officers regularly review both the investment portfolio and counterparty risk and make use of market data to inform their decision making. The officers are members of various benchmarking groups to ensure the investment portfolio is current and performing as other similar sized Local Authorities.

The Council as part of its due diligence in managing creditworthiness, uses amongst other information, a tool provided by treasury management advisors. This service employs a sophisticated modelling approach utilising credit ratings from the three credit rating agencies and by using a risk weighted scoring system, does not give undue reliance to just one agency's ratings.

This modelling approach combines credit ratings with the following overlays:

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

This weighted scoring system then produces an end product of a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments.

The Council (in addition to other due diligence consideration) will use counterparties within the following durational bands provided they have a minimum AA+ soverign rating from three rating agencies:

- 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.*

| ***Y*** | ***P*** | ***B*** | ***O*** | ***R*** | ***G*** | ***N/C*** |
|---|---|---|---|---|---|---|
| *Up to 5yrs* | *Up to 2yrs* | *Up to 1yr* | *Up to 1yrs* | *Up to 6 months* | *Up to 100 days* | *Not to be used* |

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.

The primary principle governing the Council's investment criteria is the security of its investments, although the return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in and the criteria for choosing investment counterparties with adequate security, and monitoring their security;
- It has sufficient liquidity in its investments.

All credit ratings are monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of a treasury management advisors service. If a downgrade results in the counterparty or investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

In addition to the use of credit ratings, the Council will be advised of information re movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

The counterparties in which the Council will invest its cash surpluses is based on officer's assessment of investment security, risk factors, market intelligence, a diverse but manageable portfolio and their participation in the local authority market.

**Table 7** below summarises the types of specified investment counterparties available to the Council, and the maximum amount and maturity periods placed on each of these. Further details are contained in Appendix C.

### 7.7 Criteria for Specified Investments:

| Table 7 | Country/ Domicile | Instrument | Maximum investments | Max. maturity period |
|---|---|---|---|---|
| Debt Management and Deposit Facilities (DMADF) | UK | Term Deposits (TD) | unlimited | 1 yr |
| Government Treasury bills | UK | TD | unlimited | 1 yr |
| UK Local Authorities | UK | TD | £10m | 1 yr |
| Lloyds Banking Group<br>• Lloyds Bank<br>• Bank of Scotland | UK | TD (including callable deposits),<br><br>Certificate of Deposits (CD's) | £5m | 1 yr |
| RBS/NatWest Group<br>• Royal Bank of Scotland<br>• NatWest | UK | | £5m | 1 yr |
| HSBC | UK | | £5m | 1 yr |
| Barclays | UK | | £5m | 1 yr |
| Santander | UK | | £5m | 6 mths |
| Goldman Sachs Investment Bank | UK | | £5m | 6 mths |
| Standard Chartered Bank | UK | | £5m | 6 mths |
| Nationwide Building Society | UK | | £5m | 6 mths |
| Coventry Building Society | UK | | £5m | 6 mths |
| Money Market Funds (MMF) | UK/Ireland/ EU domiciled | AAA rated Money Market Funds | £10m per fund | Instant access |
| ***Counterparties in select countries (non-UK) with a Sovereign Rating of at least AA+*** | | | | |
| Australia & New Zealand Banking Group | Australia | TD / CD's | £5m | 1 yr |
| Commonwealth Bank of Australia | Australia | TD / CD's | £5m | 1 yr |
| National Australia Bank | Australia | TD / CD's | £5m | 1 yr |
| Westpac Banking Corporation | Australia | TD / CD's | £5m | 1 yr |
| Royal Bank of Canada | Canada | TD / CD's | £5m | 1 yr |
| Toronto-Dominion Bank | Canada | TD / CD's | £5m | 1 yr |
| Development Bank of Singapore | Singapore | TD / CD's | £5m | 1 yr |
| Overseas Chinese Banking Corp | Singapore | TD / CD's | £5m | 1 yr |
| United Overseas Bank | Singapore | TD / CD's | £5m | 1 yr |

| Table 7 | Country/ Domicile | Instrument | Maximum investments | Max. maturity period |
|---|---|---|---|---|
| Svenska Handelsbanken | Sweden | TD / CD’s | £5m | 1 yr |
| Nordea Bank AB | Sweden | TD / CD’s | £5m | 1 yr |
| ABN Amro Bank | Netherlands | TD / CD’s | £5m | 1 yr |
| Cooperative Rabobank | Netherlands | TD / CD’s | £5m | 1 yr |
| ING Bank NV | Netherlands | TD / CD’s | £5m | 1 yr |
| DZ Bank AG | Germany | TD / CD’s | £5m | 1 yr |
| UBS AG | Switzerland | TD / CD’s | £5m | 1 yr |
| Credit Suisse AG | Switzerland | TD / CD’s | £5m | 1 yr |
| Danske Bank | Denmark | TD / CD’s | £5m | 1 yr |

**7.8 Non-Specified investments** are any other types of investment that are not defined as specified. The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out in **Table 8** below:

| Table 8 | Minimum credit criteria | Maximum investments | Period |
|---|---|---|---|
| UK Local Authorities | Government Backed | £2m | 2 years |
| Green Energy Bonds | Internal and External Due Diligence | £2m | 2-5 years |

The maximum amount that can be invested will be monitored in relation to the Council surplus monies and the level of reserves. The approved counterparty list will be maintained by referring to an up-to-date credit rating agency reports, and the Council will liaise regularly with brokers for updates. Counterparties may be added to or removed from the list only with the approval of the Chief Finance Officer. A detailed list of specified and non-specified investments that form the counterparty list is shown in Appendix C.

**UK Local Authorities -** Should a suitable opportunity in the market occur to lend to other Local Authorities of more than a 1-year duration, at a reasonable level of return the deal would be classed as a low risk Non-Specified Investment.

**Alternative investments -** it is proposed that a new class of “alternative investments” be added to the Councils list of non-specified investment instruments. The motivation for this is increased diversification from the current concentration of credit risk on financial institutions along with the potential for increased returns in the current low interest rate environment whilst still meeting the DHLUC requirements regarding security, liquidity and yield.

A variety of products are available that are secured against real assets such as green energy, timber, commercial properties, and private real estates. Thorough due diligence will need to be undertaken on any such products before any investment is made. The need for due diligence will likely involve legal advice, the Council treasury management advisors and that of external auditors.

### 7.9 Non treasury management investments

This Council invests in non-treasury management (policy) investments. These do not form part of the treasury management strategy.

### 7.10 Risk and Sensitivity Analysis

Treasury management risks are identified in the Council's approved Treasury Management Practices. The main risks to the Council's treasury activities are:

- liquidity risk (inadequate cash resources);
- market or interest rate risk (fluctuations in interest rate levels and thereby in the value of investments);
- inflation risks (exposure to inflation);
- credit and counterparty risk (security of investments);
- refinancing risks (impact of debt maturing in future years); and
- legal and regulatory risk (i.e. non-compliance with statutory and regulatory requirements, risk of fraud).

Treasury Officers, in conjunction with the treasury advisers, will monitor these risks closely and particular focus will be applied to:

- the global economy – indicators and their impact on interest rates will be monitored closely. Investment and borrowing portfolios will be positioned according to changes in the global economic climate;
- Counterparty risk – the Council follows a robust credit worthiness methodology and continues to monitor counterparties and sovereign ratings closely particularly within the Eurozone.

### 7.11 Lending to third parties

The Council has the power to lend monies to third parties subject to several criteria. These are not treasury type investments rather they are policy investments. Any activity will only take place after relevant due diligence has been undertaken. Loans of this nature will be approved by Cabinet. The primary aims of the Investment Strategy are the security of its capital, liquidity of its capital and to obtain a return on its capital commensurate with levels of security and liquidity. These aims are crucial in determining whether to proceed with a potential loan. In order to ensure security of the Council's capital, extensive financial due diligence must be completed prior to any loan or investment being agreed. The Council will use specialist advisors to complete financial checks to ascertain the creditworthiness of the third party. Where necessary, additional guarantees deemed will be sought. This will be via security against assets and/or through guarantees from a parent company.

### 7.12 The Eastbourne Biodiversity Strategy

In 2019 the council declared a climate emergency and committed to deliver a carbon neutral town by 2030. Nature-based solutions are at the heart of delivering against this target and work programmes are aligned to climate resilience and improving local biodiversity, through:

- the adoption of a pollinator strategy and pesticide policy in 2019.
- ongoing projects to increase valuable ecological habitats through better mowing regimes and tree and hedge planting where feasible.
- continual reviews of management and contracts for council-owned land and property.

**The Climate Emergency Strategy -** The EBC Climate Emergency Strategy contains eight themes, which can be accessed through the link below and the strategy provides the background information on emissions for the Council and the borough. The Council will use these to measure our progress towards Eastbourne Carbon Neutral 2030. https://www.lewes-eastbourne.gov.uk/community/eastbourne-climate-emergency/?assetdet80f2d1d3-30a2-4d50-9f9d-7c70a25ff1a7=294156

### 7.13 The Council's Approach to Ethical Investments

Ethical investing is a term used to describe an investment process which takes environmental, social and governance (ESG) or other ethical considerations into account and is a topic of increasing interest within treasury management. Investment guidance, both statutory and from CIPFA, makes clear however that all investment must adopt the principals of security, liquidity, yield, and that ethical issues must play a subordinate role to those priorities.

Historically, the council has not included ethical criteria when determining its investment criteria. The investment environment can be very fast moving, so there is a need to ensure that any investment criteria are objective, such as credit ratings. It is difficult to gain an objective assessment of the ethical standing of a potential counterparty, particularly to a tight timescale.

Ethical considerations are difficult to evaluate subjectively and would also need to be applied to the counterparty list after taking into account security and liquidity issues. The council's current counterparty list is, due to the high credit quality criteria used by the council, very small, and therefore does not encompass solely those organisations which promote themselves as ethical. However, none of the organisations on the counterparty list have given cause for concern regarding the ethical nature of their business.

Furthermore, the council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the council's mission and values. This would include avoiding direct investment in institutions with material links to:

- Human rights abuse (e.g. child labour, political oppression);
- Environmentally harmful activities (e.g. pollutions, destruction of habitat, fossil fuels);
- Socially harmful activities (e.g. tobacco, gambling).

A small, but growing, number of financial institutions are promoting ESG products and Link Asset Services are currently looking at how these can be incorporated into its creditworthiness assessment service. This is still very much an evolving area and should any investment in ESG products be undertaken by the Council, this would require to be within the approved counterparty and creditworthiness criteria, and with regard to the views of our treasury advisors on any proposals.

ESG criteria attached to investments can include a range of different factors depending on the region where their core activities take place and the commercial sector they occupy. The following are criteria that the Fitch Rating Agency takes into consideration:

- **Environmental Category:** Emissions and Air Quality; Energy and Waste Management; Waste and Hazardous Material; Exposure to Environmental Impact;
- **Social Category:** Human Rights; Community Relations; Customer Welfare; Labour Relations; Employee Wellbeing; Exposure to Social Impacts;
- **Governance Category:** Management Structure; Governance Structure; Group Structure; Financial Transparency.

The Council does not invest in equities and therefore does not have influence over the activities of companies that part-ownership might provide. However, as an investor the council can take the following approach:

a. For direct investments, the Council will seek to ensure that counterparties (excluding the UK Government and other UK Local Authorities) have 'Responsible Investment Policies or Environmental, Social and Governance (ESG) policies' in place prior to investing.

b. For indirect investments, the council will seek to ensure that any fund managers used have their own responsible investment policies or have signed up to widely recognised policies such as the United Nations Principles for Responsible Investment.

c. The Council recognises that it has no control or influence over where its counterparties themselves lend money or invest once an investment has been made by the Council.

The investment guidance, both statutory and from CIPFA, makes clear that all investing must adopt SLY principles – security, liquidity, and yield: ethical issues must play a subordinate role to those priorities. Link is looking at ways to incorporate these factors into their creditworthiness assessment service, but with a lack of consistency, as well as coverage, Link continue to review the options and will update the Council as progress is made.

## 8. MINIMUM REVENUE PROVISION POLICY STATEMENT 2023/24

The statutory requirement for local authorities to charge the Revenue Account each year with a specific sum for debt repayment. A variety of options is provided to councils to determine for the financial year an amount of minimum revenue provision (MRP) that it considers to be prudent. This replaces the previous requirement that the minimum sum should be 4% of the Council's Capital Financing Requirement (CFR).

A Statement on the Council's policy for its annual MRP should be submitted to the Full Council for approval before the start the financial year to which the provision relates. The Council is therefore legally obliged to have regard to DLUHC MRP guidance in the same way as applies to other statutory guidance such as the CIPFA Prudential Code, the CIPFA Treasury Management Code and the DLUHC guidance on Investments.

The MRP guidance offers four options under which MRP might be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is commensurate with that over which the capital expenditure is estimated to provide benefits (i.e. estimated useful life of the asset being financed).

The guidance also requires an annual review of MRP policy being undertaken and it is appropriate that this is done as part of this annual Treasury Management Policy and Strategy.

The International Financial Reporting Standards (IFRS) involves some leases (being reclassified as finance leases instead of operating leases) coming onto the Council's Balance Sheet as long-term liabilities. This accounting treatment impacts on the Capital Financing Requirement with an annual MRP provision being required.

To ensure that this change has no overall financial impact on Local Authorities, the Government has updated their "Statutory MRP Guidance" which allows MRP to be equivalent to the existing lease rental payments and "capital repayment element" of annual payments.

The policy from 2023/24 and in future years is therefore as follows: -

**For borrowing incurred before 1 April 2008, the MRP policy will be:**

- Annuity basis over a maximum of 50 years.

**From borrowing incurred after 1 April 2008, the MRP policy will be:**

- Asset Life Method (annuity method) – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations. A maximum useful economic life of 50 years for land and 50 years for other assets. This option will also be applied for any expenditure capitalised under a capitalisation directive.

**For leases that come onto the Balance Sheet, the MRP policy will be:**

- Asset Life Method (annuity method) - The MRP will be calculated according to the flow of benefits from the asset, and where the principal repayments increase over the life of the asset. Any related MRP will be equivalent to the "capital repayment element" of the annual charge payable.

There is the option to charge more than the prudent provision of MRP each year through a Voluntary Revenue Provision (VRP).

These options provide for a reduction in the borrowing need over approximately the asset's life. There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place). Repayments included in finance leases are applied as MRP. It is important to note that changes in the Local Government Financial Regulations means that in the future operating leases will be treated in a manner consistent with financial leases.

For loans to third parties that are being used to fund expenditure that is classed as capital in nature, the policy will be to set aside the repayments of principal as capital receipts to finance the initial capital advance in lieu of making an MRP.

In view of the variety of different types of capital expenditure incurred by the Council, which is not in all cases capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure.

This approach also allows the Council to defer the introduction of an MRP charge for new capital projects/land purchases until the year after the new asset becomes operational rather than in the year borrowing is required to finance the capital spending. This approach is beneficial for projects that take more than one year to complete and is therefore included as part of the MRP policy.

Half-yearly review of the Council's MRP Policy will be undertaken and reported to Members as part of the Mid-Year Treasury Management Strategy report.

## 9. SCHEME OF DELEGATION

### 9.1 Full Council

In line with best practice, Full Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals. These reports are:

**i. Treasury Management Policy and Strategy Report**

The report covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision 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).

**ii. A Mid-Year Review Report and a Year End Stewardship Report**

These will update members with the progress of the capital position, amending prudential indicators as necessary, and indicating whether the treasury strategy is meeting the strategy or whether any policies require revision. The reports also provide details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

### 9.2 Cabinet

- Approval of the Treasury Management quarterly update reports;
- Approval of the Treasury Management outturn report.

### 9.3 Eastbourne Borough Council Audit and Standards Committee

- Scrutiny of performance against the strategy.

### 9.4 Training

Treasury Management training for committee members will be delivered as required to facilitate more informed decision making and challenge processes. The Council further acknowledges the importance of ensuring that all Members and staff involved in the treasury management function receive adequate training and are fully equipped to undertake the duties and responsibilities allocated to them. To assist with this undertaking, a Member training event was provided in October 2021 and similar events will be provided when required. Officers will continue to attend courses/seminars presented by CIPFA and other suitable professional organisations.

## 10. OTHER TREASURY ISSUES

### 10.1 Banking Services

Lloyds Bank currently provides banking services for the Council.

### 10.2 Policy on the use of External Service Providers

The Council uses Link Asset Services as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers. It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed, documented, and subjected to regular review.

### 10.3 IFRS16 - Leasing

The CIPFA LAASAC Local Authority Accounting Code Board has deferred implementation of IFRS16 until 1.4.24, the 2024/25 financial year.

### 10.4 IFRS9 – English Local Authorities

The DLUHC enacted a statutory over-ride from 1.4.18 for a five-year period until 31.3.23 following the introduction of IFRS 9 in respect of the requirement for any unrealised capital gains or losses on marketable pooled funds to be chargeable in year. This has the effect of allowing any unrealised capital gains or losses arising from qualifying investments to be held on the balance sheet until 31.3.23: this was intended to allow authorities to initiate an orderly withdrawal of funds if required. In addition, IFRS9 impacts the write-down in the valuation of impaired loans. At the time of writing, we are still waiting to hear whether the application of IFRS9 will be deferred for a further period.

**The Treasury Management Role of the Section 151 Officer**

The S151 (responsible) officer -

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and 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.

Role extended by the revised CIPFA Treasury Management and Prudential Codes 2021 as set out below:

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments, and treasury management, with a long-term timeframe;
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority;
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above.

# APPENDIX ‘C’ - COUNTERPARTY LIST

| 2023/24 Counterparty/Bank List | Fitch Rating Long Term Status | Long Term | Short Term | Viability | Moody's Ratings Long Term Status | Long Term | Short Term | S&P Ratings Long Term Status | Long Term | Short Term | Suggested Duration | Suggested Duration (Watch/Outlook Adjusted) | CDS Price | 1 Month % Change | 3 Month % Change | 6 Month % Change | Invest. Limit |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Credit Agricole S.A. | SB | A+ | F1 | a+ | SB | Aa3 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | 53.77 | 6.81% | -34.91% | -17.00% | £5m |
| Credit Industriel et Commercial | SB | A+ | F1 | a+ | SB | Aa3 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | | | | | £5m |
| Societe Generale | SB | A- | F1 | a- | SB | A1 | P-1 | SB | A | A-1 | R - 6 mths | R - 6 mths | 66.24 | 4.64% | -31.72% | -18.90% | £5m |
| Germany | SB | AAA | | | SB | Aaa | | SB | AAA | | Not Applicable | Not Applicable | 15.01 | 0.06% | -14.17% | 49.65% | £5m |
| Bayerische Landesbank | SB | A- | F1 | bbb | PO | Aa3 | P-1 | | NR | NR | R - 6 mths | R - 6 mths | | | | | £5m |
| Commerzbank AG | | WD | WD | WD | SB | A1 | P-1 | SB | BBB+ | A-2 | G - 100 days | G - 100 days | 81.65 | 0.57% | -40.66% | -18.35% | £5m |
| Deutsche Bank AG | PO | BBB+ | F2 | bbb+ | SB | A1 | P-1 | SB | A- | A-2 | G - 100 days | G - 100 days | 117.90 | 5.34% | -25.12% | -5.49% | £5m |
| Cooperatieve Rabobank U.A. | SB | A+ | F1 | a+ | SB | Aa2 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | 23.74 | 0.00% | 0.00% | 0.00% | £5m |
| Collateralised LA Deposit* | | | | | | | | | | | Y - 60 mths | Y - 60 mths | | | | | £5m |
| Debt Management Office | | | | | | | | | | | Y - 60 mths | Y - 60 mths | | | | | £5m |
| Multilateral Development Banks | | | | | | | | | | | Y - 60 mths | Y - 60 mths | | | | | £5m |
| Supranationals | | | | | | | | | | | Y - 60 mths | Y - 60 mths | | | | | £5m |
| UK Gilts | | | | | | | | | | | Y - 60 mths | Y - 60 mths | | | | | £5m |
| Al Rayan Bank Plc | | | | | SB | A1 | P-1 | | | | R - 6 mths | R - 6 mths | | | | | £5m |
| Bank of Scotland PLC (RFB) | SB | A+ | F1 | a | SB | A1 | P-1 | SB | A+ | A-1 | R - 6 mths | R - 6 mths | 53.87 | -2.77% | 8.52% | 8.71% | £5m |
| Barclays Bank PLC (NRFB) | SB | A+ | F1 | a | NO | A1 | P-1 | PO | A | A-1 | R - 6 mths | R - 6 mths | 100.00 | -9.01% | -30.83% | -12.92% | £5m |
| Barclays Bank UK PLC (RFB) | SB | A+ | F1 | a | SB | A1 | P-1 | PO | A | A-1 | R - 6 mths | R - 6 mths | | | | | £5m |
| Close Brothers Ltd | SB | A- | F2 | a- | SB | Aa3 | P-1 | | | | R - 6 mths | R - 6 mths | | | | | £5m |

| 2023/24 Counterparty/Bank List | Fitch Rating Long Term Status | Long Term | Short Term | Viability | Moody's Ratings Long Term Status | Long Term | Short Term | S&P Ratings Long Term Status | Long Term | Short Term | Suggested Duration | Suggested Duration (Watch/Outlook Adjusted) | CDS Price | 1 Month % Change | 3 Month % Change | 6 Month % Change | Invest. Limit |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Clydesdale Bank PLC | SB | A- | F2 | bbb+ | SB | A3 | P-2 | SB | A- | A-2 | G - 100 days | G - 100 days | | | | | £5m |
| Co-operative Bank PLC (The) | SB | B+ | B | b | PO | Ba1 | NP | | | | N/C - 0 mths | N/C - 0 mths | | | | | £5m |
| Goldman Sachs International Bank | SB | A+ | F1 | | SB | A1 | P-1 | SB | A+ | A-1 | R - 6 mths | R - 6 mths | 98.94 | 0.68% | -30.57% | -24.93% | £5m |
| Handelsbanken Plc | SB | AA | F1+ | | | | | SB | AA- | A-1+ | O - 12 mths | O - 12 mths | | | | | £5m |
| HSBC Bank PLC (NRFB) | SB | AA- | F1+ | a | SB | A1 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | 59.20 | -6.41% | -34.27% | -13.22% | £5m |
| HSBC UK Bank Plc (RFB) | SB | AA- | F1+ | a | SB | A1 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | | | | | £5m |
| Lloyds Bank Corporate Markets Plc (NRFB) | SB | A+ | F1 | | SB | A1 | P-1 | SB | A | A-1 | R - 6 mths | R - 6 mths | | | | | £5m |
| Lloyds Bank Plc (RFB) | SB | A+ | F1 | a | SB | A1 | P-1 | SB | A+ | A-1 | R - 6 mths | R - 6 mths | 58.21 | -4.99% | -38.74% | -17.68% | £5m |
| National Bank Of Kuwait (International) PLC | SB | A+ | F1 | | | | | SB | A | A-1 | R - 6 mths | R - 6 mths | | | | | £5m |
| NatWest Markets Plc (NRFB) | SB | A+ | F1 | WD | SB | A1 | P-1 | SB | A- | A-2 | R - 6 mths | R - 6 mths | 80.62 | -7.42% | -42.27% | -25.97% | £5m |
| Santander Financial Services plc (NRFB) | SB | A+ | F1 | | NO | A1 | P-1 | SB | A- | A-2 | R - 6 mths | R - 6 mths | | | | | £5m |
| Santander UK PLC | SB | A+ | F1 | a | NO | A1 | P-1 | SB | A | A-1 | R - 6 mths | R - 6 mths | | | | | £5m |
| SMBC Bank International Plc | SB | A- | F1 | | SB | A1 | P-1 | SB | A | A-1 | R - 6 mths | R - 6 mths | 31.18 | 0.00% | 0.00% | 0.00% | £5m |
| Standard Chartered Bank | SB | A+ | F1 | a | SB | A1 | P-1 | SB | A+ | A-1 | R - 6 mths | R - 6 mths | 56.22 | -5.92% | -33.93% | -15.76% | £5m |
| Coventry Building Society | SB | A- | F1 | a- | SB | A2 | P-1 | | | | R - 6 mths | R - 6 mths | | | | | £5m |
| Leeds Building Society | SB | A- | F1 | a- | SB | A3 | P-2 | | | | G - 100 days | G - 100 days | | | | | £5m |
| Nationwide Building Society | SB | A | F1 | a | SB | A1 | P-1 | SB | A+ | A-1 | R - 6 mths | R - 6 mths | | | | | £5m |
| Principality Building Society | SB | BBB+ | F2 | bbb+ | SB | Baa2 | P-2 | | | | N/C - 0 mths | N/C - 0 mths | | | | | £5m |

| 2023/24 Counterparty/Bank List | Fitch Rating<br><br>Long Term Status | Long Term | Short Term | Viability | Moody's Ratings<br><br>Long Term Status | Long Term | Short Term | S&P Ratings<br><br>Long Term Status | Long Term | Short Term | Suggested Duration | Suggested Duration (Watch/Outlook Adjusted) | CDS Price | 1 Month % Change | 3 Month % Change | 6 Month % Change | Invest. Limit |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Skipton Building Society | SB | A- | F1 | a- | SB | A2 | P-1 | | | | R - 6 mths | R - 6 mths | | | | | £5m |
| West Bromwich Building Society | | | | | SB | Ba3 | NP | | | | N/C - 0 mths | N/C - 0 mths | | | | | £5m |
| Yorkshire Building Society | SB | A- | F1 | a- | SB | A3 | P-2 | | | | G - 100 days | G - 100 days | | | | | £5m |
| National Westminster Bank PLC (RFB) | SB | A+ | F1 | a | SB | A1 | P-1 | SB | A | A-1 | B - 12 mths | B - 12 mths | | | | | £5m |
| The Royal Bank of Scotland Plc (RFB) | SB | A+ | F1 | a | SB | A1 | P-1 | SB | A | A-1 | B - 12 mths | B - 12 mths | | | | | £5m |



| *Yellow* | *Purple* | *Blue* | *Orange* | *Red* | *Green* | *No Colour* |
|---|---|---|---|---|---|---|
| | | | | | | |
| *Up to 5yrs* | *Up to 2yrs* | *Up to 1yr (semi nationalised UK bank NatWest/RBS)* | *Up to 1yr* | *Up to 6 months* | *Up to 100 days* | *Not to be used* |

**Watches and Outlooks:** *SB- Stable Outlook; NO- Negative Outlook; NW- Negative Watch; PO- Positive Outlook; PW- Positive Watch; EO- Evolving Outlook; EW- Evolving Watch; WD- Rating Withdrawn.*

| **Non-Specified Investments:** | | | |
|---|---|---|---|
| | **Minimum credit Criteria** | **Maximum Investments** | **Period** |
| UK Local Authorities | Government Backed | £2m | 2 years |
| Green Energy Bonds | Internal and External Due Diligence | £2m | 2-5 years |

# APPENDIX 'D'

**Link Treasury Services Limited Economic Background & Interest Rate Forecast**

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps since the turn of the year. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

| | UK | Eurozone | US |
|---|---|---|---|
| **Bank Rate** | 3.0% | 1.5% | 3.75%-4.00% |
| **GDP** | -0.2%q/q Q3 (2.4%y/y) | +0.2%q/q Q3 (2.1%y/y) | 2.6% Q3 Annualised |
| **Inflation** | 11.1%y/y (Oct) | 10.0%y/y (Nov) | 7.7%y/y (Oct) |
| **Unemployment Rate** | 3.6% (Sep) | 6.6% (Sep) | 3.7% (Aug) |

Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation has picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c£500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at 5.5% - 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22nd February 2022.

Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3% in November and the market expects Bank Rate to hit 4.5% by May 2023.

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one if not more quarters of GDP contraction. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank.

The £ has strengthened of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.20. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

## CENTRAL BANK CONCERNS – NOVEMBER 2022

At the start of November, the Fed decided to push up US rates by 0.75% to a range of 3.75% - 4%, whilst the MPC followed a day later by raising Bank Rate from 2.25% to 3%, in line with market expectations. EZ rates have also increased to 1.5% with further tightening in the pipeline.

The Bank's central message that GDP will fall for eight quarters starting with Q3 2022 may prove to be a little pessimistic. Will the £160bn excess savings accumulated by households through the COVID-19 lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

### Interest Rate Forecast

The current and previous PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012.

| Link Group Interest Rate View 19.12.22 | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Dec- | Mar-23 | Jun-23 | Sep- | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun- | 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 |

| Link Group Interest Rate View 08.11.22 | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Dec- | Mar-23 | Jun-23 | Sep- | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun- | 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 | 4.30 | 4.30 | 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 | 4.50 | 4.50 | 4.40 | 4.30 | 4.20 | 4.00 | 3.90 | 3.70 | 3.60 | 3.50 | 3.40 | 3.30 | 3.20 |
| 25 yr PWLB | 4.70 | 4.70 | 4.60 | 4.50 | 4.40 | 4.30 | 4.10 | 4.00 | 3.90 | 3.70 | 3.60 | 3.50 | 3.50 |
| 50 yr PWLB | 4.30 | 4.40 | 4.30 | 4.20 | 4.10 | 4.00 | 3.80 | 3.70 | 3.60 | 3.40 | 3.30 | 3.20 | 3.20 |

## A Summary overview of the future path of the bank rate

- **The** central forecast for interest rates was previously updated on 8 November and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened but the Government's policy of emphasising fiscal rectitude will probably mean Bank Rate will not need to increase to further than 4.5%.

- Further down the road, it is anticipated that the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us - but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.
- The CPI measure of inflation looks to have peaked at 11.1% in Q4 2022 (currently 10.7%). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiraling upwards in what is evidently a very tight labour market.
- Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started and will focus on the short, medium and longer end of the curve in equal measure, now that the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy are firmly in the rear-view mirror.
- In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)
- On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy, and rent/mortgage payments.

**PWLB RATES**

- The yield curve movements have become less volatile of late and PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.10% to 4.80%.
- View the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

**The balance of risks to the UK economy: -**

- The overall balance of risks to economic growth in the UK is to the downside.

**Downside risks to current forecasts for UK gilt yields and PWLB rates include: -**

- Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).
- The Bank of England acts too quickly, or too far, over the next year to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- UK / EU trade arrangements - if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- Geopolitical risks, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea, and Middle Eastern countries, which could lead to increasing safe-haven flows.

**APPENDIX 'E'**

# Capital Strategy

## 1) Introduction

1.1 This Capital Strategy provides high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services in Eastbourne Borough Council (LDC), along with an overview of how associated risk is managed and the implications for future financial sustainability. It has purposely been written in an accessible style to enhance understanding of what can be very technical areas, and the key objectives are to deliver a capital programme that:

- Ensure the Council's capital assets are used to support the Council's vision;
- Reduce ongoing commitments/schemes;
- Reduce the current and projected level of borrowing;
- Reduce borrowing impacts on the Council's revenue budget;
- Increase capital programme partnership/support opportunities;
- Links with the Council's asset management/disposal plan;
- Is affordable, financially prudent and sustainable;
- Ensure the most cost-effective use of existing assets and new capital investment.

1.2 The Capital Strategy is a 'living document' and will be periodically, usually annually, updated to reflect changing local circumstances and other significant developments. The Strategy outlines the council's approach to capital investment, ensuring that it is in line with the council's corporate priorities. It is good practice that capital strategy and asset management/disposal plans are regularly reviewed and revised to meet the changing priorities and circumstances of the Council.

1.3 The strategy provides an important link between the ambitions set out in the Council's longer-term vision and Council Plan and the important investment in infrastructure that will help turn that vision into a reality. The economic climate and financial challenges due to COVID-19 are thought-provoking. However, the Council is committed to investing now for the longer term and financing that commitment will be made possible by the Council's financial resilience that continue to be developed through various themes and ongoing initiatives, including –

- Recovery and Reset Programme/Best use of Assets review;
- Medium Term Financial Strategy;
- Prudential Code/Treasury Management Strategy

## 2. Capital Expenditure and Financing

### 2.1 Expenditure

2.1.1 Capital expenditure occurs when the Council spends money on assets such as property or vehicles, which will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below a de-minimis level are not capitalised and are charged to revenue in year.

2.1.2 Further details on the capitalisation policy can be found in the Council's Statement of Accounts.

2.1.3 In 2023/24, the Council is planning capital expenditure of £41.6million (and £72.1 million over the next three years) as summarised in Table 1 below:

*Table 1: Prudential Indicator: Estimates of Capital Expenditure#*

| **Capital Expenditure** | **2022/23 Forecast** | **2023/24 Estimate** | **2024/25 Estimate** | **2025/26 Estimate** |
|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** |
| General Fund | 12.8 | 23.7 | 4.4 | 3.0 |
| HRA | 14.5 | 13.6 | 10.3 | 9.9 |
| Loans to Subsidiary Companies | 1.7 | 2.5 | - | 2.8 |
| Commercial Investments | - | - | - | - |
| Service Delivery Investments | 0.4 | 1.8 | - | - |
| **TOTAL** | **29.4** | **41.6** | **14.8** | **15.7** |

2.1.4 The main General Fund capital projects scheduled for 2023/24+ are as follows:

- Black Robin Farm, Victoria Place Pedestrianisation, Towner Centenary Project (Levelling Up Fund)
- Winter Garden
- Redoubt Colonnade
- Coast Defences/Beach Management

The main Service Delivery Investment capital projects scheduled for 2023/24+ are as follows:

- Hampden Retail Park
- Loans to Subsidiary Companies includes Housing and Waste (fleet replacement).

2.1.5 Investments for service purposes are taken or held primarily and directly for the delivery of public services rather than commercial gain. Some future projects will include elements of both purposes, so judgments are taken on the primary purpose.

2.1.6 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that the Council's housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately and includes £73.0 million allocated to the New Build Programme over four years (2023/24 – 2026/27) forecast period.

## 2.2 Governance

2.2.1 The evaluation, prioritisation and acceptance of capital schemes onto the Capital Programme is carried out in accordance with strict criteria that ensures that added schemes reflect Council priorities and can be delivered within available resources (e.g. due priority is given to schemes yielding savings and/or generating income as well as meeting a Council priority).

2.2.2 The draft Capital Programme is subject to formal scrutiny prior to setting the budget (and followed by Cabinet and Full Council approval).

**2.3 Financing**

2.3.1 All capital expenditure must be financed, either from external sources (Government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing and leasing). The planned financing of the above expenditure is presented in **Table 2** below.

*Table 2: Capital Financing Sources*

| | 2022/23 Forecast | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| External sources (Grants and Contributions) | 9.6 | 21.2 | 1.8 | 1.9 |
| Own resources (Capital Receipts, MRR, Reserves, Revenue) | 11.6 | 9.1 | 6.5 | 6.7 |
| Borrowing | 8.3 | 11.3 | 6.4 | 7.2 |
| **TOTAL** | **29.4** | **41.6** | **14.8** | **15.7** |

2.3.2 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as "Minimum Revenue Provision" (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are presented in **Table 3** below.

*Table 3: Repayment of Debt Finance*

| | 2022/23 Forecast | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| MRP | 1.2 | 1.6 | 1.8 | 2.0 |

2.3.3 The Council's annual MRP statement can be found within **Appendix A (Section 8)** above.

2.3.4 The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £9.3 million in 2023/24. Based on the above figures for expenditure and financing, the Council's estimated CFR is presented in **Table 4** below.

*Table 4: Prudential Indicator: Estimates of Capital Financing Requirement (CFR)*

| | 2022/23 Forecast | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| General Fund | 140.1 | 145.8 | 143.9 | 145.4 |
| HRA | 49.7 | 53.3 | 57.5 | 61.0 |
| **TOTAL** | **189.9** | **199.2** | **201.4** | **206.4** |

## 3. Asset Management

### 3.1 Asset Management Strategy

3.1.1 The Council recognises the importance of ensuring that capital assets continue to be of long-term use especially in a rapidly changing operational and technological backdrop. Consequently, at the time of preparing this Capital Strategy, a new Asset Management Strategy (AMS) is under development. Led by the Asset Management team and backed by a comprehensive review of Council assets, the AMS will take a longer-term view comprising:

- ‘Good’ information about existing assets;
- The optimal asset base for the efficient delivery of Council objectives;
- The gap between existing assets and optimal assets;
- Strategies for purchasing and constructing new assets, investment in existing assets, transferring of assets to other organisations and the disposal of surplus assets; and
- Plans for individual assets.

### 3.2 Asset Disposals

3.2.1 When a capital asset is no longer needed, it may be sold so that the proceeds (known as capital receipts) can be spent on new assets or to repay debt. The Council is also permitted to spend capital receipts on service transformation projects until 2022/23. Repayments of capital grants, loans and investments also generate capital receipts. The Council takes a prudent approach of assuming future capital receipts only when there is a high probability of realisation.

## 4. Treasury Management

### 4.1 Introduction

4.1.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council’s spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is not cash rich as it utilises all its available cash before borrowing which in the current climate is more economic.

4.1.2 As at 31 December 2022, the Council had temporary borrowing of £52.0 million at an average interest rate of 1.86%, PWLB or £115.0 at an average interest rate of 2.98%, and cash balances of £5.6 million including money market funds, local authority and bank deposits with an average rate of 0.59%.

### 4.2 Borrowing

4.2.1 The Council’s main objectives when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in the future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently around 4.00%) and long-term fixed rate loans where the future cost is known but higher (e.g. 4.75% for a 25-year term).

4.2.2 Projected levels of the Council's total outstanding debt (which comprises borrowing and leases) are shown below in **Table 5**, compared with the Capital Financing Requirement (Table 4 above).

*Table 5: Prudential Indicator: Estimates of Gross Debt and the Capital Financing Requirement*

| | 2022/23 Forecast | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Debt | 160.7 | 165.1 | 168.7 | 170.4 |
| CFR | 189.9 | 199.2 | 201.4 | 206.4 |

4.2.3 Statutory guidance is that debt should remain below the Capital Financing Requirement, except in the short-term. As can be seen from **Table 5**, the Council expects to comply with this in the medium term.

*Affordable Borrowing Limit*

4.2.4 The Council is legally obliged to set an affordable borrowing limit (also termed the "Authorised Limit" for external debt) each year. In line with statutory guidance, a lower "Operational Boundary" is also set as a warning level should debt approach the limit.

*Table 6: Prudential Indicators: Authorised Limit and Operational Boundary for External Debt*

| | 2022/23 Forecast | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Authorised Limit | 230.9 | 241.1 | 243.5 | 249.0 |
| Operational Boundary | 209.9 | 219.2 | 221.4 | 226.4 |

4.2.5 Further details on borrowing are contained in the Treasury Management Strategy.

**4.3 PWLB Loan**

4.3.1 The government recognises the valuable contribution that local authorities make to the social and economic infrastructure and supports local investment in part by offering low cost loans to local authorities through the Public Works Loan Board (PWLB).

4.3.2 In compliance with the HM Treasury guidance, the Council need to ensure that the capital programme/investments are compliant with the ongoing access to the PWLB lending terms, which include an assurance from the Chief Finance Officer (Section 151 Officer) that the Council is not borrowing in advance of need and does not intend to buy investment assets primarily for yield.

4.3.4 The purpose of the PWLB is to offer long-term, affordable loans to support local authority investment in the following areas –

- Service spending, i.e. activities that would normally be captured in the following areas in the DLUHC Capital Outturn Return (COR): culture & related services, environmental & regulatory services, etc.
- Housing, i.e., activities normally captured in the HRA and General Fund housing sections of the COR, or housing delivered through a local authority housing company.
- Regeneration projects would usually have one or more of the following characteristics:
    - the project is addressing an economic or social market failure by providing services, facilities, or other amenities;
    - the Council is making a significant investment in the asset beyond the purchase price:
    - the project involves or generates significant additional activity that would not otherwise happen without the Council's intervention;
    - the project may generate rental income, these rents are recycled within the project or applied to related regeneration projects, rather than being applied to wider services.

- Preventative action with the following characteristics - intervention that prevents a negative outcome, there is no realistic prospect of support from a source other than the Council; has an exit strategy, and does not propose to hold the investment for longer than is necessary; the intervention takes the form of grants, loans, sale and leaseback, equity injections, or other forms of business support that generate a balance sheet asset.
- Treasury management covers refinancing or extending existing debt from any source, and the externalisation of internal borrowing.

4.3.5 Individual projects and schemes may have characteristics of several different categories. In these cases, the CFO would use professional judgment to assess the main objective of the investment and consider which category is the best fit.

4.3.6 If the Council wishes to on-lend money to deliver objectives in an innovative way, the government expects that spending to be reported in the most appropriate category based on the eventual use of the money. The Council must not pursue a deliberate strategy of using private borrowing or internal borrowing to support investment in an asset that the PWLB would not support and then refinancing or externalising this with PWLB loans.

4.3.7 Under the prudential code, the Council cannot borrow from the PWLB or any other lender for speculative purposes, and must not use internal borrowing to temporarily support investments purely for yield, which would usually have one or more of the following characteristics:

- buying land or existing buildings to let out at market rate;
- buying land or buildings which were previously operated on a commercial basis which is then continued by the local authority without any additional investment or modification;

- buying land or existing buildings other than housing which generate income and are intended to be held indefinitely.

4.3.8 The decision over whether a project complies with the terms of the PWLB is for the Chief Finance Officer. This decision will be final unless the Treasury has concerns that issuing the loan is incompatible with HM Treasury's duty to Parliament to ensure that public spending represents good value for money to the Exchequer and aligns with relevant legislation. In practice such an eventuality is highly unlikely and would only occur after extensive discussion with the local authority in question – but a safeguard is necessary to protect the taxpayer.

**4.4 Investments**

4.4.1 Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

4.4.2 The Council's Investment Strategy is to prioritise security and liquidity over yield and social/ethical impact, focussing on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely in selected high-quality banks, to minimise the risk of loss.

4.5 **The Eastbourne Biodiversity Strategy**

4.5.1 In 2019 the council declared a climate emergency and committed to deliver a carbon neutral town by 2030. Nature-based solutions are at the heart of delivering against this target and work programmes are aligned to climate resilience and improving local biodiversity, through:

- the adoption of a pollinator strategy and pesticide policy in 2019.
- ongoing projects to increase valuable ecological habitats through better mowing regimes and tree and hedge planting where feasible.
- continual reviews of management and contracts for council-owned land and property.

4.5.2 The council is committed to supporting measures to help arrest biodiversity losses, restore habitats and species and work for climate resilience to promote healthy and thriving communities. This is recognised through this strategy, with the need to protect and maintain as well as enhance and increase biodiversity and nature across Eastbourne. The vision for biodiversity set out in 'Eastbourne Carbon Neutral 2030 - A plan for action' is:

*Existing green spaces, the coast and the sea have been protected and enhanced where appropriate and new protected spaces have been created to enable animal and plant life to flourish.*

4.5.2 The Council broad key aims can be summarised as follows:

- To maintain and increase biodiversity on council-owned and managed land.
- To engage and enable community-led nature-based projects and to be involved in partnerships that promote natural capital and biodiversity across the borough.
- To ensure that all developments maximise the opportunities for well-considered gains in biodiversity.

### The Climate Emergency Strategy

4.5.3 The EBC Climate Emergency Strategy contains eight themes, which can be accessed through the link below and the strategy provides the background information on emissions for the Council and the borough. The Council will use these to measure our progress towards Eastbourne Carbon Neutral 2030. https://www.lewes-eastbourne.gov.uk/community/eastbourne-climate-emergency/?assetdet80f2d1d3-30a2-4d50-9f9d-7c70a25ff1a7=294156

### 4.6 The Council's Approach to Ethical Investments

4.6.1 Ethical investing is a term used to describe an investment process which takes environmental, social and governance (ESG) or other ethical considerations into account and is a topic of increasing interest within treasury management. Investment guidance, both statutory and from CIPFA, makes clear however that all investment must adopt the principals of security, liquidity, yield and that ethical issues must play a subordinate role to those priorities.

4.6.2 Furthermore, the council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the council's mission and values. This would include avoiding direct investment in institutions with material links to:

- Human rights abuse (e.g. child labour, political oppression);
- Environmentally harmful activities (e.g. pollutions, destruction of habitat, fossil fuels);
- Socially harmful activities (e.g. tobacco, gambling).

4.6.3 The investment guidance, both statutory and from CIPFA, makes clear that all investing must adopt SLY principles – security, liquidity and yield: ethical issues must play a subordinate role to those priorities. Link is looking at ways to incorporate these factors into their creditworthiness assessment service, but with a lack of consistency, as well as coverage, Link continue to review the options and will update the Council as progress is made.

### 4.7 Governance

4.7.1 Treasury management decisions are made daily and are therefore delegated to the CFO, who must act in line with the Treasury Management Strategy approved by the Council. Annual outturn reports on treasury management are also approved by the Council (following recommendation from Audit and Standard Committee), whereas mid-year updates are reported exclusively to the Audit and Standard Committee. Quarterly performance reports are also submitted to Cabinet.

## 5. Investments for Service Purposes

5.1 Investments for service purposes' (or service investments) are taken or held primarily and directly for the delivery of public services (including housing, regeneration and local infrastructure) or in support of joint working with others to deliver such services.

- Service investments may or may not involve financial returns; however, obtaining those returns will not be the primary purpose of the investment.
- For local authorities, service investments will normally constitute capital expenditure, and it may be appropriate to borrow to finance service investments.

5.2 The Council will sometimes make investments for service delivery purposes where there is a strategic case for doing so, for example the new Waste Company. Given its public service objectives, the Council is willing to take more risk than with treasury investments, nevertheless the arrangements feature cost reduction incentives, from which the Council will benefit.

5.2 Decisions on service investments are made by the Council's Cabinet and require the support of a full business case.

**Investments for Treasury Management purposes**

5.3 Investments for treasury management purposes' (or treasury management investments) are those investments that arise from the Council's cash flows or treasury risk management activity, and ultimately represent balances that need to be invested until the cash is required for use in the course of business.

- Treasury investments may include an allowance for a reasonable level of short-term treasury investments to provide access to liquidity.
- Treasury investments may also include the investment of borrowing proceeds where it has been prudent for an organisation to borrow in advance of the need for cash, e.g. in order to reduce financing and interest rate risks.
- Treasury investments may also arise from other treasury risk management activity that seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.
- Treasury management investments should always be on commercial terms and will rarely constitute capital expenditure for local authorities.
- For authorities with long-term surplus cash, this category may include long-term investments such as equities, bonds and property, whether accessed through a fund or directly, but unless there is a link to cash flow management or treasury risk management activity, it is likely that such investments would be for commercial purposes, i.e. primarily for financial return.

## 6. Commercial Investments

6.1.1 Commercial' in this context refers to the purpose of the investment. Commercial investments are not taken to meet treasury management cash flow needs, and do not result from treasury risk management activity to prudently manage the risks, costs or income from existing or forecast debt or treasury investments. They are additional investments voluntarily taken primarily in order to generate net financial return or profit.

6.1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines investment property as property held solely to earn rentals or for capital appreciation or both. Returns from property ownership can be both incomes driven (through the receipt of rent) and by way of appreciation of the underlying asset value (capital growth). The combination of these is a consideration in assessing the attractiveness of a property for acquisition. In the context of the Capital Strategy, the council is using capital to invest in property to provide a positive surplus/financial return.

6.1.3 Local authorities will be prohibited from accessing the PWLB if they plan debt-for-yield commercial investments in any of the three years. Commercial activity must be secondary priority to economic regeneration and housing provision. There will be more monitoring of what it is that local authorities are delivering by way of a capital scheme and Section 151 officers are required to formally validate those policies to HM Treasury/PWLB.

6.1.4 The Council can fund the purchase of investment property through various means **excluding borrowing** money, normally from the Debt Management Office as part of HM Treasury. The rental income paid by the tenant/annual surplus then supports the council's budget position and enables the council to continue to provide services for local people. The reasons for buying and owning property investments are primarily

- Financial returns to fund services to residents
- Market and economic opportunity.
- Economic development and regeneration activity in the Borough.

6.1.5 Historically, property has provided strong investment returns in terms of capital growth generation of stable income. Property investment is not without risk as property values can fall as well as rise and changing economic conditions could cause tenants to leave with properties remaining vacant. The strategy makes it clear that the council will continue to invest prudently on a commercial basis and to take advantage of opportunities as they present themselves, supported by our robust governance process.

### 6.2 Current Investments

6.2.1 In recent years, the Council has invested in commercial property in the Borough on a selective basis, usually where there is a fit with corporate priorities and a positive financial return that can be used to contribute towards the protection of local services.

### 6.3 Commercial Investment Strategy

6.3.1 However, in recognition of the continued shortfall in local government funding and commitments, the Council Commercial Investment Strategy will support achieving a step change increase in commercial investment and trading by the Council.

6.3.2 CIPFA has made clear that Councils should not borrow to invest commercially, and their Capital Investment Strategy must make it clear as to where they depart from this principle and why. However, it has been recognised that local investments that are primarily designed for regeneration or service delivery purposes and which have a knock-on positive impact to the revenue budgets are not intended to be covered by this principle.

6.3.3 Councils must demonstrate that such investments are "proportionate" to their resources. The Council's approach will incorporate the revised CIPFA guidance when it is published; this will enhance the other risk management features that are being developed, which includes a strict governance framework, the use of real estate investment experts and diversified portfolios. The aim is to offset principle risks such as falling capital values and 'voids'. However, (within a tightly controlled framework) the Council ultimately accepts a higher risk on commercial investments compared to its prudent treasury investment that has primarily focused to date on protecting the principal.

6.3.4 The Council considers investing in housing properties and commercial investments within the Borough to be related to its temporary accommodation strategy and local regeneration. It will invest commercially but in relation to the services it provides or to build and strengthen the local economy, with the related benefit of increased business rates.

### 6.4 Governance

6.4.1 The Governance arrangements are stipulated within the Commercial Investment Strategy.

### 6.4 Deciding whether investments are for treasury, service or commercial purposes

6.4.1 It is the purpose of an investment that identifies whether it is for treasury management, service or commercial purposes. Any individual investment or class of investments can be in any of these three categories. The chief finance officer will need to make a professional judgement about which category a given investment falls into.

6.4.2 For example, pooled investment funds are widely used for treasury management purposes to invest sums until the time required to meet future cash flows. But if they were to be used by authorities that have a borrowing need as long-term investments primarily for the purpose of earning a profit above the cost of borrowing, they should be classed as investments for commercial purposes. The authority would be borrowing in order to invest primarily for financial return.

6.4.3 The boundary between treasury management use of pooled funds and commercial use of pooled funds is for the chief finance officer and treasury teams to judge. For example, it might be appropriate for an authority to hold a low-risk, short-duration bond fund, even if it forecasts a likely need to borrow within the duration of the fund, as part of its liquidity strategy, with limited risk to capital and no net cost to the revenue account. As part of a short-to-medium-term treasury management strategy to manage the authority's liquidity needs and borrowing costs, such investments might be considered to be treasury investments.

6.4.4 A truly long-term fund, for example of equities or property, is unlikely to meet this purpose for a borrowing authority, as the risks to capital are too high to make sense as part of liquidity management. The authority's investment strategy could set out the reasoning for judging such funds to be for treasury management purposes rather than being primarily for financial profit.

## 7. Other Liabilities

### 7.1 Outstanding Commitments

7.1.1 The Council also has the following outstanding commitments:

- The Council has also set aside £0.49 million at 31st March 2022 to cover the financial risk associated with Business Rates appeals lodged with the Valuation Office Agency (VOA).

### 7.2 Guarantees

7.2.1 A 30-year Business Plan for the Council's HRA has been developed, which is currently generating sufficient rental income each year to run an efficient and effective housing management service, whilst at the same time servicing the outstanding debt. However, if the HRA is unable to repay the outstanding debt at any point in the future, the Council (through its General Fund) is liable to repay any remaining balance. The remaining balance on HRA debt as at 31st March 2022 was £48 million).

### 7.3 Governance

7.3.1 Decisions on incurring new discretionary liabilities are taken by Directors and Heads of Service in consultation with the CFO. For example, in accordance with the Financial Procedure Rules credit arrangements, such as leasing agreements, cannot be entered into without the prior approval of the CFO.

## 8. Revenue Implications

### 8.1 Financing Cost

8.1.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, Business Rates and general Government grants.

*Table 7a: Prudential Indicator: Estimate of Proportion of Financing Costs to Net Revenue Stream (General Fund)*

| | 2022/23 Forecast | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Financing Costs (£m) | 2.00 | 2.96 | 2.59 | 2.79 |
| Proportion of Net Revenue Stream % | 12.9% | 17.6% | 15.9% | 16.9% |

*Table 7b: Prudential Indicator: Estimate of Proportion of Financing Costs to Net Revenue Stream (HRA)*

| | 2022/23 Forecast | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Financing Costs (£m) [excluding depreciation] | 1.66 | 1.59 | 1.75 | 1.90 |
| Proportion of Net Revenue Stream % | 10.9% | 9.7% | 10.2% | 10.7% |

*Table 7c: Prudential Indicator: Proportion of Net Income to Net Revenue Stream (Commercial & Service Delivery)*

| | 2022/23 Forecast | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Net Income (£m) | 2.70 | 2.71 | 2.72 | 2.73 |
| Proportion of Net Revenue Stream % | 17.4% | 16.1% | 16.7% | 16.5% |

8.1.2 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for many years into the future.

## 8.2 Prudence, Affordability and Sustainability

8.2.1 The CFO is satisfied that the proposed Capital Programme (Section 2) is prudent, affordable and sustainable based on the following:

*Prudence*

- Prudential indicators 7 and 8 presented above (Paragraph 8.1.1) are within expected and controllable parameters. Thus:
  - *Prudential Indicator 7 (General Fund) - Proportion of Financing Costs to Net Revenue Stream* – the growth in financing costs reflects the Council's ambitions for capital investment in its strategic priorities over the medium-term.
  - *Prudential Indicator 8 (HRA) - Proportion of Financing Costs to Net Revenue Stream* – the indicator profile mirrors the HRA 30-Year Business Plan.
- *Underlying Prudent Assumptions* – a prudent set of assumptions have been used in formulating the Capital Programme. This is illustrated in the approach to capital receipts whereby the proceeds are not assumed within projections until the associated sale is completed and the money received by the Council; and
- *Repairs and Maintenance* – the approach to asset maintenance is professionally guided with assets maintained in a condition commensurate with usage and expected life, addressing those items that could affect ongoing and future maintenance, in the most appropriate and cost-effective manner.

*Affordability*

- The estimated 'revenue consequences' of the Capital Programme (£72.1 million over three years) have been included in the 2023/24 Budget and Medium-Term Financial Strategy (MTFS), extending to 2025/26; and
- The MTFS includes a reserves strategy, which includes contingency funds in the event that projections are not as expected (further supported by CFO report to Council under Section 25 of the Local Government Act 2003 on the robustness of estimates and the adequacy of financial reserves and balances).

*Sustainability*

- Capital schemes that are expected to deliver long-term revenue savings/generate income are given due priority.
- As explained in Section 3.1 above, the Asset Management Strategy will represent an enhancement to the Council approach to asset planning through (especially) taking a longer-term view. This includes providing for future operational need, balancing the requirement to achieve optimal performance, whilst taking account of technological change and managing the risk of obsolescence.

## 9. Prioritisation Principles and Obligations to deliver a scheme

9.1 The capital investment process is to ensure that money available for capital expenditure is prioritised in the way that best meets the Council's objectives and must be achieved within the constraints of the capital funding available. The Council need to demonstrate that it uses a clear, understandable method of comparing projects in order to prioritise expenditure and continue to allow schemes to be ranked according to Council's need, while ensuring the best allocation of the Council scarce resources in the most efficient/sustainable way and thus ensuing value for money.

9.2 Therefore, it is important that there is a strict definition of what is included within the scheme. Demand for capital resources to meet investment needs and aspirations will exceed the resources available to the Council and rolling programme items are the first call on available resources to ensure that existing approved service levels can continue to be delivered. New resource development bids will need to be prioritised as follows:

| **Projects Prioritisation for Capital Programme Inclusion** | |
|---|---|
| **Priority 1** | Projects which enable compliance with Health & Safety and the Council's legal/statutory duties including projects which address any infrastructure deficits related to statutory compliance. |
| **Priority 2** | Projects that generate revenue savings through the delivery of a new business strategy or service transformation proposals or invest to save and cost avoidance. |
| **Priority 3** | Projects where a major proportion of the capital funding from external sources will be lost if the project fails to go ahead but subject to consideration of future revenue requirements. |
| **Priority 4** | Projects that contribute to the delivery of a smaller property portfolio through increased co-location or space utilisation or adaptation of new ways of working. |
| **Priority 5** | Projects that facilitate improvement, economic development, regeneration and housing growth |
| **Priority 6** | Projects that address cross-cutting issues, facilitate joint-working with partners or generate new/additional income. |

9.3 The Council's financial and service planning process need to ensure decisions about the allocation of capital and revenue resources are taken to achieve a corporate and consistent approach. The funding of capital schemes is via the following hierarchy:

- External grants and contributions;
- Capital receipts from the disposal of fixed assets;
- Leasing finance; (where applicable);
- Revenue contributions;
- External Borrowing.

9.4 The strategy will be to employ 'Whole Life Costing' that will demonstrate the systematic consideration of all relevant costs and revenues associated with the acquisition and ownership of an asset, i.e., encourages decision-making that takes account of the initial capital cost, running cost, maintenance cost, refurbishment requirements and disposal cost.

## 10. Knowledge and Skills

### 10.1 Officers

10.1.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. Most notably:

- *Finance* - the Chief Finance Officer (CFO) and the Deputy Chief Finance Officers (DCFO's) are qualified (ACCA/ CIPFA) accountants with many years of public and private sector experiences. The Council sponsors junior staff to study for relevant professional qualifications including AAT, CIPFA and ACCA. The Council also supports training courses and conferences across all aspects of accounting.
- *Property* – the Head of Property and Facilities Shared Service (PFSS) – a qualified property expert - is responsible for Asset Management within the Council. PFSS comprises the Asset Development, Building and Maintenance, Corporate Landlord and development functions of the Council. Each area has appropriately qualified professionals within their individual specialism. The Head of PFSS plays a key role in the Council's approach to commercial investment and trading (highlighted above in Section 6).

10.1.2 The Council also has a separate Housing team that is responsible for overseeing social housing developments within the Borough.

### 10.2 External Advisors

10.2.1 Where the Council does not have the relevant knowledge and skills required, judicious use is made of external advisers and consultants that are experts/specialists in their field. The Council currently employs Link Asset Services as advisers, and the Asset Management team will commission advisors as appropriate (e.g. development managers, valuers etc.) to support their work where required to ensure that the Council has access to knowledge and skills commensurate with risk.

### 10.3 Councillors

10.3.1 May 2023 is the next date for borough t council elections. Duly elected councillors will receive training appropriate to their role in the new Council.

10.3.2 Specifically with regard to Treasury Management, the Council acknowledges the importance of ensuring that members have appropriate capacity, skills and information to effectively undertake their role. To this end, newly elected Eastbourne councillors with Treasury Management responsibilities will receive tailored training sessions from the Council's Treasury Management advisors (Link Asset Services).

## 11. CFO Statement on the Capital Strategy

### 11.1 Prudential Code

11.1.1 Paragraph 24 of the recently updated Prudential Code determines that…." the Chief Finance Officer should report explicitly on the affordability and risk associated with the Capital Strategy".

11.1.2 Accordingly, it is the opinion of the CFO that the Capital Strategy as presented is affordable, and associated risk has been identified and is being adequately managed.

### 11.2 Affordability

11.2.1 The Capital Strategy is affordable and there is a range of evidence to support this assertion, including:

- *Capital Programme* – the Programme as presented above (in Section 2.1) is supported by a robust and resilient MTFS extending through until 2024/25 that contains adequate revenue provision, including sufficient reserves in the event that plans and assumptions do not materialise as expected.
- *Asset Management* – as presented above (in Section 3.1) a new Asset Management Strategy is under development, which is taking a strategic longer-term (i.e. beyond 2025/26) view of the Council's asset base. A fundamental aim of the Strategy is to achieve the optimum balance between future operational need and affordability, which will be reflected in its component parts including strategies for purchasing and constructing new assets, investment in existing assets, transferring of assets to other organisations and the disposal of surplus assets.
- *Commercial Investment* – as presented above (in Section 6.3) the Commercial Investment Strategy is also under development. The primary aim of the Strategy long-term is income generation to replace the shortfall in Government funding. The Strategy is progressing positively towards the delivery stage and its success will be critical to the long-term affordability of the Capital Strategy.

**11.3 Risk**

11.3.1 The risk associated with the Capital Strategy has been identified and is being adequately managed. Evidence to support this assertion includes:

- *Treasury Management St*rategy – the Council will formally approve the Treasury Management Strategy for 2023/24, at the Eastbourne Borough Council – Full Council meeting on 22 February 2023, in accordance with CIPFA's "Treasury Management in the Public Services: Code of Practice 2021". That Strategy was developed by the Council's (professionally qualified and experienced) Finance team and informed by specialist advisors Link Asset Services and other relevant and extant professional guidance.
- *Investment Strategy* – the Council will also formally approve an Investment Strategy for 2023/24, at the Council meeting on 22 February 2023, in accordance with DLUHC's "Statutory Guidance on Local Government Investments (3rd Edition) 2021". As with the Treasury Management Strategy, the Investment Strategy was developed by the Finance team and informed by specialist advisors Link Asset Service and other relevant and extant professional guidance.
- *Commercial Activities* – as noted above (in Paragraph 6.2) the Council is committed to significantly expanding the scale of its commercial activities in the medium-term as part of its Commercial Investment Strategy. It is recognised and accepted that increased commercial activity brings with its additional risk. The Strategy is therefore being developed in accordance with contemporary best practice. This includes the engagement of professional advisors on the commercial, financial and legal aspects of the project and the preparation of full supporting business cases prior to the commencement of both in-house and arm's length trading activities, strictly in accordance with HM Treasury's 'five-case model' ("The Green Book: Central Government Guidance on Appraisal and Evaluation").

**12.0 Capital Programme Oversight Board**

**12.1 Objectives –**

- The Capital Programme Oversight Board (CPOB) will provide strategic direction, oversight and corporate assurance for the General Fund capital programme and Housing Revenue Account (HRA) Business Plan across Eastbourne Borough and Lewes District Councils.

- The CPOB will have an oversight and stewardship role for the delivery of both Councils Capital expenditure including, the Council General Fund Capital Plan, the Council's Housing Capital (HRA), Commercial Activities/non-commercial investments, capital financing/funding, etc.
- The CPOB is also responsible for addressing programme issues and reviewing risk and financial implications for LECs.
- The CPOB will drive through the Assurance Review recommendations in respect of the capital programme and move towards a fully sustainable capital programme and asset release.

**12.2** **Responsibilities -** The responsibilities of the CPOB are to:

- Be responsible and accountable for feeding into the annual Service & Financial Planning process
- Establish and embed a robust and effective governance framework through which all Councils capital projects will be evaluated, prioritised for development and delivery, subject to Member approval
- Provide oversight of the capital programme and the Housing Revenue Account (HRA) Business Plan
- Agree recommendations to relevant Committee(s), as required, to ensure the programme achieves its objectives in-line with initial proposals, Business Cases and options appraisals assessed through PRSOP and RAMP
- Scrutinise and challenge programmes and projects at a strategic level in relation to budgets, actual spend, timing, and overall financial strategy
- Monitor the achievement of the capital programme's core aims and objectives
- Monitor the HRA Business Plan assumptions in line with Section 76 of the Local Government and Housing Act 1989
- Continually monitor any potential impacts upon the HRA as they evolve i.e., Social Housing White Paper, Covid-19 etc
- Monitor the critical path for delivery across the capital programme
- Take timely decisions as the capital programme evolves
- Ensure the capital programme is delivered in a joined-up way across Council departments.
- Assist with resolving issues across Council departments
- Ensuring appropriate resources, capacity and capability are in place to deliver the capital programme across LECs, and where necessary, commit resources as required
- Ensure risks are being effectively managed and updated, and mitigations are identified appropriately required

**Appendix F**

# GLOSSARY

## Local Authority Treasury Management Terms

| Terms | Descriptions |
|---|---|
| **A (Fitch) Rating** | Fitch Ratings publishes credit ratings that are forward-looking opinions on the relative ability of an entity or obligation to meet financial commitments.<br><br>*A: High credit quality*. 'A' rating denotes expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings. |
| **Bond** | A certificate of long-term debt issued by a company, government, or other institution, which is tradable on financial markets |
| **Borrowing** | Usually refers to the stock of outstanding loans owed, and bonds issued. |
| **CFR** | Capital Financing Requirement. A council's underlying need to hold debt for capital purposes, representing the cumulative capital expenditure that has been incurred but not yet financed.<br><br>The CFR increases with capital expenditure and decreases with capital finance and MRP. |
| **Capital gain or loss** | An increase or decrease in the capital value of an investment, for example through movements in its market price. |
| **CIPFA** | The Chartered Institute of Public Finance and Accountancy (CIPFA) is a UK-based international accountancy membership and standard-setting body. The only such body globally dedicated to public financial management. |
| **Collective investment scheme** | Scheme in which multiple investors collectively hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'pooled funds'). |

| Terms | Descriptions |
|---|---|
| **Cost of carry** | When a loan is borrowed in advance of need, the difference between the interest payable on the loan and the income earned from investing the cash in the interim. |
| **Counterparty** | The other party to a loan, investment or other contract. |
| **Counterparty limit** | The maximum amount an investor is willing to lend to a counterparty, in order to manage credit risk. |
| **Covered bond** | Bond issued by a financial institution that is secured on that institution's assets, usually residential mortgages, and is therefore lower risk than unsecured bonds. |
| **CPI** | Consumer Price Index - the measure of inflation targeted by the Monetary Policy Committee. |
| **Deposit** | A regulated placing of cash with a financial institution. Deposits are not tradable on financial markets. |
| **Diversified income fund** | A collective investment scheme that invests in a range of bonds, equity and property in order to minimise price risk, and also focuses on investments that pay income. |
| **Dividend** | Income paid to investors in shares and collective investment schemes. Dividends are not contractual, and the amount is therefore not known in advance. |
| **DMADF** | Debt Management Account Deposit Facility – a facility offered by the DMO enabling councils to deposit cash at very low credit risk. Not available in Northern Ireland. |
| **DLUHC** | Department for Levelling Up, Housing and Communities (*formerly known as Ministry of Housing, Communities and Local Government - MHCLG*). |
| **DMO** | Debt Management Office – an executive agency of HM Treasury that deals with central government's debt and investments. |
| **Equity** | An investment which usually confers ownership and voting rights |
| **Floating rate note (FRN)** | Bond where the interest rate changes at set intervals linked to a market variable, most commonly 3-month LIBOR or SONIA |
| **FTSE** | Financial Times stock exchange – a series of indices on the London Stock Exchange. The FTSE 100 is the index of the largest 100 companies on the exchange, the FTSE 250 is the next largest 250 and the FTSE 350 combines the two |

| Terms | Descriptions |
|---|---|
| | |
| **GDP** | Gross domestic product – the value of the national aggregate production of goods and services in the economy. Increasing GDP is known as economic growth. |
| **Income Return** | Return on investment from dividends, interest and rent but excluding capital gains and losses. |
| **GILT** | Bond issued by the UK Government, taking its name from the gilt-edged paper they were originally printed on. |
| **LIBID** | London interbank bid rate - the benchmark interest rate at which banks bid to borrow cash from other banks, traditionally 0.125% lower than LIBOR. |
| **LIBOR** | London interbank offer rate - the benchmark interest rate at which banks offer to lend cash to other banks. Published every London working day at 11am for various currencies and terms.<br><br>Phased out in 2022. |
| **LOBO** | Lender's Option Borrower's option |
| **MMF** | Money Market Funds. A collective investment scheme which invests in a range of short-term assets providing high credit quality and high liquidity. Usually refers to Constant Net Asset Value (CNAV) and Low Volatility Net Asset Value (LVNAV) funds with a Weighted Average Maturity (WAM) under 60 days which offer instant access, but the European Union definition extends to include cash plus funds |
| **MPC** | The Monetary Policy Committee (MPC) decides what monetary policy action the Bank of England will take to keep inflation low and stable. |
| **OBR** | The Office for Budget Responsibility was created to provide independent and authoritative analysis of the UK's public finances. It is one of a growing number of official independent fiscal watchdogs around the world. |
| **PMI** | Purchasing Managers' Index (PMI) - A composite PMI is the weighted average of manufacturing and service sector PMIs for a given geography or economy, produced by IHS Markit. Weights are derived from official data relating to each sector's contribution to GDP (value added). |
| **Pooled Fund** | Scheme in which multiple investors hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'pooled funds'). |

| Terms | Descriptions |
|---|---|
| | |
| **PWLB** | Public Works Loan Board – a statutory body operating within the Debt Management Office (DMO) that lends money from the National Loans Fund to councils and other prescribed bodies and collects the repayments. Not available in Northern Ireland. |
| **Quantitative easing (QE)** | Process by which central banks directly increase the quantity of money in the economy to promote GDP growth and prevent deflation. Normally achieved by the central bank buying government bonds in exchange for newly created money. |
| **S & P 500** | The S&P 500 (also known as the Standard & Poor's 500) is a registered trademark of the joint venture S&P Dow Jones Indices. It is a stock index that consists of the 500 largest companies in the U.S. and is generally considered the best indicator of how U.S. stocks are performing overall. |
| **SME** | SME finance is the funding of small and medium-sized enterprises and represents a major function of the general business finance market – in which capital for different types of firms are supplied, acquired, and costed or priced. |
| **SONIA** | Sterling overnight interest average – a benchmark interest rate for overnight deposits. |
| **Short-dated** | Usually means less than one year |
| **TMSS** | Approved Council's Treasury Management Strategy Statement |
| **Total return** | The overall return on an investment, including interest, dividends, rent, fees and capital gains and losses. |

# Agenda Item 10

| | |
|---|---|
| **Report to:** | **Cabinet** |
| **Date:** | **8 February 2023** |
| **Subject:** | **Housing Revenue Account (HRA) Revenue Budget and Rent Setting 2023/24 and HRA Capital Programme 2022-26** |
| **Report of:** | **Homira Javadi, Director of Finance and Performance (Chief Finance Officer – S151 Officer)** |
| **Cabinet member:** | **Councillor Stephen Holt, Deputy Leader of the Council, Cabinet Member for Finance** |
| **Ward(s):** | **All** |
| **Purpose of the report:** | **To agree the detailed HRA budget proposals, rent levels, service charges and heating costs for 2023/24, and the HRA Capital Programme 2022-26.** |
| **Decision type:** | **Budget and policy framework** |
| **Recommendations:** | **Cabinet is asked to recommend the following proposals to full Council:** |

**i) The HRA budget for 2023/24 and revised 2022/23 budget as set out in Appendix 1.**

**ii) That social and affordable rents (including Shared Ownership) are increased by 7% in line with government policy.**

**iii) That the average General Needs Housing Benefit (HB) Eligible service charge will be £5.39 per week.**

**iv) That the average HB Eligible service charge for Retirement Housing will be £38.36 per week.**

**v) That the Support charge for Retirement Housing will be £5.82 per unit.**

**vi) That the average Non-HB Eligible heating charges will be £3.73 per week.**

**vii) That the average non-HB Eligible water charges will be £3.56**

**viii) That Garage rents are increased by 5%**

| | | |
|---|---|---|
| **Recommendations cont.:** | **ix)** | **To grant delegated authority to the Chief Executive, in consultation with the Cabinet Portfolio holders for Financial Services and Direct Assistance Service and the Chief Finance Officer to finalise Eastbourne Homes' Management Fee and Delivery Plan.** |
| | **x)** | **The HRA Capital Programme as set out in Appendix 2.** |

**Reasons for recommendations:** The Cabinet must recommend to Full Council the setting of the HRA revenue and capital budget and the level of social and affordable housing rents for the forthcoming year.

**Contact Officer:**
Name: Helen Waring
Post Title: Consultant – HRA Business Plan
E-mail: Helen.waring@lewes-eastbourne.gov.uk
Telephone Number: 07522 186807

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## 1.0 Introduction

1.1 The HRA is a statutory ring-fenced account that represents all landlord functions. The HRA is required to be self-financing, which means that expenditure must be entirely supported from rental and other HRA-related income. The main tool for the financial management of the HRA is the 30-Year Business Plan.

1.2 Any significant changes to the assumptions underpinning the 30-Year Business Plan will trigger a full review to assess the impact, but, in any event, there will be an annual review and update.

1.3 In a departure from existing Social Rent Policy, for 2023/24, the Government consulted Local Authorities and other Social Housing providers on a proposal to cap the rent increase below the usual Consumer Prices Index (CPI) + 1% level, due to the high inflation rates being experienced this year. The outcome of that consultation was the implementation of a rent cap of a maximum 7%. Using September CPI + 1% would have resulted in a potential rent increase of 11.1%.

1.4 Capping the rent increase at 7% has clearly impacted the HRA significantly and has resulted in an intense review of all income and costs within the 30-Year Business Plan to identify efficiencies. It should be noted that, like everybody, the Council's costs have increased significantly in some areas. Of particular significance for the HRA are employee costs (Council and contractors), building costs, energy costs and borrowing costs. Had the rent increased by 11.1%, an additional £607k in income may have been available to fund HRA expenditure.

1.5 This report reflects the recommendations made by Eastbourne Homes Limited in relation to the increase in rent levels, service and other charges.

## 2 Proposal

### 2.1 2023/24 HRA Revenue Budget

2.1.1 The 2023/24 budget mirrors the HRA 30-Year Business Plan and is attached at Appendix 1.

2.1.2 For the 2023/24 budget, a £24k operating deficit is expected compared to a revised operating deficit of £719k in 2022/23. It should be noted that, in the context of the 30-Year HRA Business Plan, an in-year deficit is not of concern, as the balance on the account at the end of the year remains in surplus (£1.414m).

There is no contribution to capital expenditure for 2023/24, since the balance on the account is running close to the required minimum balance of £1.400m. These contributions are made depending on the size of the proposed Capital Programme and the affordability for the Revenue Account. Appendix 2 shows that small revenue contributions to the Capital Programme can be afforded from 2024/25 onwards.

The contribution to capital expenditure is funded from the HRA Balance, reflects the modelling in the HRA 30-Year Business Plan and is consistent with the Council using its reserves and balances to fund the Capital Programme prior to taking out new borrowing.

2.1.3 Other variances between the 2023/24 budget and the 2022/23 revised budget are:

- Rent, Service Charge and Other Income – increased income of £1.252m
- Depreciation – increased cost of £206k
- Increase in the Provision for Doubtful Debts - £9k
- Loan Charges – increased cost of £128k
- Increase in Interest Income – £20k
- Management Costs – increased cost of £234k

2.1.4 The Major Repairs Reserve is funded from cash backed depreciation of £5.5m plus inflation per year and will be used to fund expenditure on improving the stock and other HRA assets.

2.1.5 The HRA debt outstanding at 31.03.22 was £48.210m. The outstanding debt at 31.03.24 is estimated to be £53.344m. In later years, debt levels will increase as the Authority begins to borrow more to fund property acquisitions and new build. The average debt per property is currently approximately £14k.

2.1.6 The Council's treasury management advisors are predicting a gradual decrease in interest rates (from the current relatively high level of 4.5%) over the next three years. The interest budget has been prepared on this basis.

2.1.7 The 2022/23 revised budget is expected to be in deficit by £3.446m compared to the original budget deficit of £3.094m. The deficit will be transferred from the HRA Balance. Main variances are set out below:

- A shortfall in rental income of £276k – due to increased dwelling and garage void levels
- an increase in service charges income of £231k
- a net reduction in Supervision and Management costs of £73k
- a reduction in the requirement to provide for doubtful debts of £76k
- an increase in depreciation costs of £764k
- interest adjustments resulting in reduced costs of £101k
- a reduction in the revenue contribution to capital expenditure of £207k

2.1.8 The Housing Revenue Account (HRA) Business Plan is a strategic planning document to assist the officers and members of the Council, working together with tenants and leaseholders, in the management and maintenance of the Council's housing stock over the next 30 years in ensuring our Homes always meet the Fitness for Human Habitation test.

2.1.9 The Business Plan is also a statement of the viability of Eastbourne Borough Council's HRA over the next 30 years and a statement of our aspirations as Landlord, drawing attention to the particular strengths of the Landlord service and highlighting the approach of that service and the HRA into the future based on a policy of maintaining a minimum level of HRA balance at £1.4m to ensure that the HRA remains sustainable in the event of any unforeseen risk arising.

2.1.10 As part of the Council's commitment, the Business Plan has been reviewed and as a result it is proposing a four-year capital programme which includes significant investment in new builds (£13.3m), the acquisition of new properties (£12.5m), Major Works (£20.8m) and disabled adaptations (£1.8m). This investment will be enabled by additional borrowing, revenue contributions and applying capital receipts and reserves. More details are contained in Appendix 2.

2.1.11 The forecast balances on HRA and Reserves are as follows:

| | HRA Working Balance<br><br>£'000 | Major Repairs Reserve (MRR)<br><br>£'000 |
|---|---|---|
| **Balance at 1.4.22** | **4,884** | **2,598** |
| Net Transfer from Reserve | (3,446) | |
| Depreciation | | 5,312 |
| Expenditure Financed from MRR | | (6,266) |
| **Estimated Balance 31.3.23** | **1,438** | **1,644** |
| Net Transfer from Reserve | (24) | |
| Depreciation | | 5,518 |
| Expenditure Financed from MRR | | (5,450) |
| **Estimated Balance 31.3.24** | **1,414** | **1,712** |

## 2.2 Rent Levels for 2023/24

2.2.1 The Council has been following the Government's guidance for rents for social housing since December 2001. This has been subject to various legislative changes in recent years and, in 2023/24, rents can be increased by no more than 7%. The proposal to increase rents by the maximum 7% is based on maintaining a sustainable (affordable) HRA Business Plan. Whilst Supported Housing and Shared Ownership properties are exempt from the cap and could be increased by CPI +1% (11.1%), it is proposed to apply a 7% rent increase to all types of stock. The average weekly social rent will be £89.05 and average affordable weekly rent will be £134.96.

## 2.3 Service Charges

2.3.1 The service charges for 2023/24 have been calculated using a combination of actual costs from 2021/22 and estimates where more appropriate for 2023/24. For properties that share services, these charges cover common services such as communal heating, lighting, equipment maintenance contracts, cleaning, and grounds maintenance. In Retirement Housing Accommodation, the charges additionally include Retirement Housing Advisers staff costs. These costs should be charged separately from the rent in those properties to which they apply.

It should be noted that, in a year when inflation is particularly high, full cost recovery could mean that some service charge increases could prove challenging (in particular energy charges). Homes First will review the level of these charges and offer support where possible to mitigate the impact on individual tenants.

2.3.2 For General Needs tenants the average total for HB Eligible service charges will be £5.39 with the lowest at £0.98 and the highest at £29.19.

2.3.3 For Retirement Housing tenants the average total for HB Eligible service charges will be £38.36 per week with the lowest at £29.93 and the highest at £54.97.

**2.4 Support Charge for Retirement Housing**

2.4.1 To cover the withdrawal of the Supporting People funding 2016 for the provision of the on-site co-ordinator service, a charge was introduced to continue the vital work within the Retirement Housing blocks. The support charge for 2023/24 will be £5.82 per unit.

**2.5 Heating Costs – Retirement Housing Accommodation**

2.5.1 The average cost per unit for heating will be £3.22 with the lowest at £1.81 and the highest at £5.56. Heating costs are related to gas supplied to individual dwellings only and are not eligible for housing benefit.

**2.6 Water Charges – Retirement Housing**

2.6.1 The average cost per unit for water charges will be £3.50 with the lowest at £2.00 and the highest at £6.08. Water charges relate to water supplied to individual dwellings only and are not eligible for housing benefit.

**2.7 Garage Rents**

2.7.1 It is recommended that garage rents increase by 5% in 2023/24, with the weekly average rent being £13.71.

**2.8 Capital Programme**

2.8.1 The Capital Programme set out in Appendix 2 reflects the proposals contained within the HRA 30-Year Business Plan. Total budgeted expenditure for 2023/24 is £13.591m.

2.8.2 The budget for the major works element of the programme has been set at £5m per annum. This sum and all sums required over the next 30 years reflect an affordable level of investment which will allow Eastbourne's housing stock to be appropriately maintained. However, although affordable and helping to maintain stock, the sums included may fall someway short of works required long-term, as identified in the Stock Condition Survey. Sustainability is and will continue to be a key driver in developing capital repairs schemes. Funding for the major works programme comes from the Major Repairs Reserve. An annual allocation of £450k for disabled adaptations has been added to the programme with effect from 2022/23, since this would not be included in the stock survey figures.

2.8.3 The Capital Programme continues to include sums for the acquisition of properties and new builds. In the case of acquisition, each proposed acquisition will be modelled to ensure "viability" (that the annual costs associated with the purchase and upkeep of the property will not exceed the rental income). New build schemes either have been brought or will need to be brought to Cabinet for individual approval. The reports will include an analysis of the effects on the Business Plan.

## 2.9 Eastbourne Homes Ltd Management Fee

2.9.1 The Management Fee covers both operational and administration costs as well as responsive and cyclical maintenance.

2.9.2 The fee for 2022/23 was set at £8,077,000. Appendix 1 shows that this has increased to £8,113,000 due to the addition of new properties requiring management and maintenance. It is proposed that the management fee for 2023/24 is set at £8,436,000, subject to any final variations.

2.9.3 To formally agree the management fee, Members are asked to delegate this responsibility to the Chief Executive, in consultation with the Cabinet portfolio holders for Community Service and Financial Services and the Chief Finance Officer.

## 3 Outcome Expected and Performance Management

3.1 The HRA budget will be monitored regularly during 2023/24 and performance will be reported to Cabinet quarterly.

3.2 The Council is obliged to ensure that all tenants are given 28 days' notice of any changes to their tenancy including changes to the rent they pay.

## 4 Consultation

4.1 Residents' Voice have been consulted on this report. The proposed rent increase for 2023/24 reflects the requirements under The Direction on the Rent Standard 2019 and the Policy Statement on Rents for Social Housing December 2022.

4.2 It should be noted that the Council recognises that the current cost of living challenges mean that the rent increase and other increases in charges proposed in this report may create further issues for many of our tenants. A range of help and advice is available and a detailed leaflet can be obtained via the Council's website or by contacting Homes First. An advice sheet will be sent out to all tenants with their rent increase letters at the end of February.

## 5 Corporate Plan and Council Policies

5.1 Housing & Development is one of the key themes that shaped the vision for Eastbourne set out in the 2020-2024 Corporate Plan. The proposals contained within this report flow directly from the HRA 30-Year Business Plan, which itself aligns with the Corporate Plan. Key (current and future) Council policies, plans and strategies will all be aligned to help deliver the objectives and goals of the HRA 30-Year Business Plan, including the Housing Strategy, Commercial Strategy, Allocations Policy, Homelessness Strategy, Local Plan, Tenancy Policy and Town Centre Strategy.

## 6 Business Case and Alternative Option(s) Considered

6.1 The capital and revenue budgets, rents and service charges have been set in line with Government policy and with the HRA 30-Year Business Plan.

## 7 Financial Appraisal

7.1 This is included in the main body of the report.

## 8 Legal Implications

8.1 Local housing authorities are required by section 74 of the Local Government and Housing Act 1989 to keep a Housing Revenue Account (HRA) unless the Secretary of State has consented to their not doing so. The account must show credits and debits arising from the authorities' activities as landlord. The HRA identifies the major elements of housing revenue expenditure, such as maintenance, administration and contributions to capital costs, and how they are funded by rents and other income.

8.2 Section 76 of the 1989 Act requires HRA budgets to be set on an annual basis in January or February before the start of the financial year. A local authority may not budget for an overall deficit on the HRA and all reasonable steps must be taken to avoid a deficit.

8.3 Section 24 of the Housing Act 1985 gives local authorities the power to make reasonable charges for the tenancy or occupation of dwellings. Rent setting must be seen in the context of the statutory duty to set a balanced HRA budget.

8.4 Section 23 of the Welfare Reform and Work Act 2016 set the rent setting policy for four years whereby local authority social rents in England were to be reduced by 1% each year, commencing on 1 April 2016. In October 2017, the government confirmed details for future social rents and from 2020/21, providers are able to increase rents up to a limit of CPI plus 1% each year. This policy is designed to provide more certainty over rent levels.

8.5 Under the Local Authorities (Functions and Responsibilities) Regulations 2000, the task of formulating a plan for determining the Council's minimum revenue provision (i.e. its budget) is the responsibility of Cabinet, whilst the approval or adoption of that plan is the responsibility of the full Council. This explains the decision-making route in the officer's recommendation.

*Date of legal input: 09.01.23* *Legal ref: 011724-LDC-OD*

## 9 Risk Management Implications

9.1 The 2023/24 Budget and Capital Programme will require close monitoring in the forthcoming year to ensure that they, and therefore the 30-Year HRA Business Plan, remain on track. Any large variances to expenditure or income will need to be reviewed and, if significant or ongoing, modelled into the Business Plan to assess the impact and likely mitigation.

9.2 Levels of voids and debts will also require close monitoring to ensure that rent and service charge increases are not causing greater levels of non-payment. Timely action will need to be taken if performance targets are not being met.

## 10 Equality Analysis

10.1 An Equality and Fairness Analysis has been undertaken on these proposals. This has concluded that:

- Changes to charges will impact the protected groups of age and disability, additionally those experiencing homelessness and potentially carers may be impacted.
- Communication around any change to charges must be clear and timely and contain information on how concerns may be channelled. Concerned residents (or their carers) should have a clear avenue to raise concerns or receive further information. Alternative formats should be arranged upon request.
- The cost of living crisis has impacted many residents across the board. Not only people of working age but anyone all with limited funds who have been trying to manage the increase in price of food and energy. The Councils have funded local support initiatives including enhanced advice provision. The Councils will continue to maintain the website and Customer Advisor resources to support residents with any queries and concerns they may have relating to the cost of living crisis.

## 11 Sustainability Implications

11.1 Following the investment of £500k over the last two years to kickstart sustainability pilot schemes, the major repairs programme now includes monies to continue to help Eastbourne Council move towards meeting its target of becoming carbon neutral by 2030. This challenging target may rely on securing external funding to be fully realised.

## 12 Appendices

- Appendix 1 - HRA 2022/23 Revised Revenue Budget and 2023/24 Budget
- Appendix 2 - HRA Capital Programme 2022/23-2025/26

## 13 Background Papers

- Government's Policy Statement on Rents for Social Housing (December 2022) Policy statement on rents for social housing - GOV.UK (www.gov.uk)

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Appendix 1

## Eastbourne Borough Council Housing Revenue Account

| | 2022/23 Original Budget £000's | 2022/23 Revised Budget £000's | 2023/24 Estimate £000's |
|---|---|---|---|
| **INCOME** | | | |
| Dwelling Rents | (14,848) | (14,651) | (15,830) |
| Non-Dwelling Rents | (420) | (341) | (354) |
| Charges for Services | (1,087) | (1,318) | (1,378) |
| **GROSS INCOME** | **(16,355)** | **(16,310)** | **(17,562)** |
| | | | |
| **EXPENDITURE** | | | |
| Management Fee | 8,077 | 8,113 | 8,436 |
| Supervision and Management | 1,946 | 1,837 | 1,748 |
| Provision for Doubtful Debts | 212 | 136 | 145 |
| Depreciation & Impairment of Fixed Assets | 4,548 | 5,312 | 5,518 |
| Debt Management Costs | 15 | 15 | 15 |
| **GROSS EXPENDITURE** | **14,798** | **15,413** | **15,862** |
| | | | |
| **NET COST OF HRA SERVICES** | **(1,557)** | **(897)** | **(1,700)** |
| | | | |
| Loan Charges - Interest | 1,720 | 1,653 | 1,781 |
| Interest Receivable | (3) | (37) | (57) |
| **NET OPERATING (SURPLUS)/DEFICIT** | **160** | **719** | **24** |
| | | | |
| **Transfer from Reserves** | 0 | 0 | 0 |
| **Revenue Contribution to Capital Expenditure** | 2,934 | 2,727 | 0 |
| | | | |
| **HRA (SURPLUS)/DEFICIT** | **3,094** | **3,446** | **24** |

| **HOUSING REVENUE ACCOUNT WORKING BALANCE** | **2022/23 Original Budget** | **2022/23 Revised Budget** | **2023/24 Estimate** |
|---|---|---|---|
| **Working Balance at 1 April** | **(4,796)** | **(4,884)** | **(1,438)** |
| **(Surplus) or Deficit for the year** | **3,094** | **3,446** | **24** |
| **Working Balance at 31 March** | **(1,702)** | **(1,438)** | **(1,414)** |

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APPENDIX 2

| HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME 2022/23 - 2025/26 | | | | | |
|---|---|---|---|---|---|
| Scheme | Original Allocation 2022/23 £000 | Revised Allocation 2022/23 £000 | 2023/24 £000 | 2024/25 £000 | 2025/26 £000 |
| **Managed By Eastbourne Homes Ltd** | | | | | |
| Major Works | 5,976 | 5,816 | 5,000 | 5,000 | 5,000 |
| Disabled Adaptations | 450 | 450 | 450 | 450 | 450 |
| **New Build/Acquisitions** | 11,784 | 8,229 | 8,141 | 4,894 | 4,478 |
| **Total HRA Capital Programme** | **18,210** | **14,495** | **13,591** | **10,344** | **9,928** |
| Funded By: | | | | | |
| Capital Receipts | 963 | 1,873 | 3,318 | 568 | 456 |
| RTB 1-1 Receipts | 161 | 0 | 0 | 0 | 0 |
| Major Repairs Reserve | 4,548 | 6,266 | 5,450 | 5,450 | 5,450 |
| Revenue Contributions | 2,934 | 2,727 | 0 | 193 | 509 |
| Grants | 1,714 | 2,118 | 1,200 | 0 | 0 |
| Borrowing | 7,890 | 1,511 | 3,623 | 4,133 | 3,513 |
| **Total Financing** | **18,210** | **14,495** | **13,591** | **10,344** | **9,928** |

| | |
|---|---|
| **Report to:** | **Cabinet** |
| **Date:** | **8 February 2023** |
| **Title:** | **Congress and Devonshire Park Theatres – Future Governance Arrangements** |
| **Report of:** | **Robert Cottrill, Chief Executive** |
| **Cabinet member(s):** | **Councillor David Tutt, Leader of the Council** |
| **Ward(s):** | **All** |
| **Purpose of report:** | **To update Cabinet on the progress of the work of the cross-party Devonshire Park Governance Board and to propose changes to the governance arrangements for the Congress and Devonshire Park Theatres in pursuit of cultural and financial benefits.** |
| **Decision type:** | **Key Decision** |
| **Officer recommendation(s):** | **1. To note the update on work to date and to authorise the Chief Executive, in consultation with the Leader and the Cabinet Member for Tourism and Culture Services, to take all necessary actions in relation to the project to create the Local Authority Controlled Company including determining the terms of and authorising execution of all documentation.**<br>**2. To develop further the plans for the creation of the charitable entity for a future decision by Cabinet.**<br>**3. To agree provision of £50,000 to be made available to support the initial steps towards delivery of the new governance arrangement.** |
| **Reasons for recommendations:** | **The recommendations build on investment made to date which has enhanced the offer of the Congress and Devonshire Park Theatres, and promote the future of the facilities and the cultural offer for Eastbourne. The proposed, new governance offer would introduce financial safeguards for the council while increasing opportunities for the theatres to raise funds and access funding streams unavailable to local authority-owned and operated facilities.** |
| **Contact Officer:** | **Name: Lee Banner**<br>**Post title: Transformation Programme Manager**<br>**E-mail: lee.banner@lewes-eastbourne.gov.uk**<br>**Telephone number: 07894 237929** |

## 1 Introduction and Background

1.1 Eastbourne Borough Council (EBC) owns and operates the Devonshire Park Quarter (DPQ) complex – one of the most vibrant, multi-purpose leisure and culture hubs in the south-east of England.

1.2 Major investment in the DPQ over recent years has significantly improved the quality and range of its facilities, positioning Eastbourne as one of the country's most attractive and high-profile leisure and business visitor destinations.

1.3 A thriving cultural and leisure offer plays a vital role in successful place shaping, honours the investment made over recent years, and safeguards Eastbourne's reputation and status as a great place to live, work, study and visit.

Additionally, the benefits of the DPQ on the local economy – in terms of employment, spend (both within the DPQ and in other parts of the local dining, leisure, hospitality and hotel sectors), attracting visitors, students and residents, and retaining and circulating cultural spend within the local economy – are well documented.

It is, therefore, imperative that EBC considers the most appropriate way for the DPQ to be managed and to strengthen further its contribution to the local economy and identity.

1.4 As a way of building upon the current offer and delivering safeguards to EBC, a cross-party Devonshire Park Governance Board has been exploring alternative legal, constitutional and governance models for the future operation and management of the DPQ. The considerations include, amongst others (see paragraph 5.1), a potential transfer of the assets and undertaking.

1.5 Consideration of alternative governance arrangements is in the spirit of the council's commitment and ambitions to develop the cultural offer, to continue growing the regional and national reputation and audience base, and to lever in additional financial investment.

An alternative governance model would enable and facilitate a range of benefits:

- a sustainable future for the cultural and leisure offer for the benefit of the town and local economy.
- de-risk a range of costs, liabilities and responsibilities for the council.
- protection of the council's VAT recovery position.
- increased opportunities to raise funds and access funding streams.
- Support opportunities to diversify the town's business offer to reduce the scale of reliance on tourism and leisure income.
- ability to deliver a greater impact (social value and cultural participation) than a council-owned and operated service.

1.6 Womble Bond Dickinson (WBD) – specialists in charity law with considerable experience in the charity sector – have provided EBC with initial high-level legal advice on the, in principle, direction of travel of the governance options and the various legal considerations that would be involved in a transfer of DPQ. WBD advised of the need to develop a sound and sustainable business case for the operation of the site as a going concern by a newly formed charitable independent body, and that operation through a new charitable vehicle is financially sustainable in the short, medium and longer-term.

WBD also confirmed that as a complex and multi-functional site, there are significant activities across DPQ that are not and cannot be charitable (e.g. conference events held by commercial entities). The advice set out that if the newly formed independent body were to operate as a charity, a range of current DPQ activities would need to sit outside of the new governance arrangements.

As such, further consideration of the future governance arrangements for the site has focused on the Congress and Devonshire Park Theatres (the Theatres) only. The Theatres' activities align with a move to a charitable body.

1.7 Detailed, financial modelling is required to enable the council to decide the next steps in relation to the future of the Theatres. The modelling would set out the financial consequences – including best, worst and reasonable case scenarios – of the Theatres being operated by a new, charitable operator, both in relation to EBC and any new charity. To be a viable proposal, EBC must ensure that the independent body would have the resources available to operate as a going concern. The financial modelling will contribute to and support the development of a full business case and plan for the future of the Theatres.

1.8 In addition to legal advice, EBC also commissioned Value Added Consultancy to provide specialist taxation advice in relation to the Theatres and the opportunity of making use of the VAT cultural exemption.

The findings of the consultant are based on the most recent information. These include estimates of the input tax attributable to the council's exempt activities ('exempt input tax') across all cost centres for 2022-23 and 2023-24.

It is important to stress that the conclusions the consultant has reached are dependent on the estimates and could be altered if the actual expenditure differs. Any decisions based on these conclusions should, therefore, allow for a margin of error.

A brief summary of the key points of the consultant's findings are as follow:

- EBC is forecast to exceed the annual partial exemption de minimis threshold for 2022-23 even whilst the Congress Theatre remains taxable. However, it will remain under the threshold when measured over seven years.
- The council will continue to remain below the 5% threshold in 2023-24, measured on the seven-year average, even allowing for the introduction of exempt input tax in the Congress Theatre cost centre, but there is little margin for error.
- EBC is forecast to exceed the 5% threshold under both the annual and seven-year measures in 2024-25, even with the removal of the Congress Theatre. This problem is resolved if the Devonshire Park Theatre is also transferred out.

The latest advice from the consultant confirms that based on the council's projected levels of exempt input tax within each cost centre, it can absorb the additional level of exempt input tax generated if the Congress Theatre becomes culturally exempt for one year.

A significant change compared to earlier advice is the level of exempt input tax generated by the Devonshire Park Theatre. This significantly reduces the margin of error for the de minimis threshold.
A series of recommendations has been made including EBC making plans to remove the Theatres from council control.

1.9 Subject to Cabinet's approval, it is expected that Value Added Consultancy will liaise with the appointed accountancy firm in carrying out the financial modelling work to ensure a joined-up approach between the advice on the VAT cultural exemption and on the broader, financial modelling.

1.10 Further advice will be required on the legal considerations of implementing a new governance arrangement, including:

- The potential legal models for the charitable entity and the steps to its creation.
- The impact of any governance changes on any agreements currently in place for the Theatres and, more broadly, the DPQ.
- The legal and practical issues arising in the event of a transfer of assets and the undertaking (the staff employment and pension considerations will be covered by the provisions of the Transfer of Undertaking [Protection of Employment] Regulations Act 2006 – commonly referred to as TUPE) from EBC to a new charity.
- The establishment of the Local Authority Controlled Company (LACC - see paragraph 2.1).

The additional legal advice will be pursued subject to Cabinet's approval of the proposals.

1.11 Any changes to the ownership responsibilities at the Devonshire Park complex would require consideration and resolution of a number of complexities from a practical and operational perspective, including:

- Access arrangements for the Congress Theatre – as part of the extensive redevelopment at Devonshire Park, including the construction of the Welcome Building, access arrangements to the Congress Theatre were changed. The only access to the Congress Theatre that is compliant with the Equality Act 2010 is through the Welcome Building.
- Utilities within the Welcome Building and the Congress Theatre – the buildings share a heating system that cannot be separated.
- Co-ordination of assets for mutual benefit – there will be occasions when it will be desirable to open the various access points between the Congress Theatre and the Welcome Building (e.g. if there is a show in the Congress Theatre, it would be mutually advantageous to open the café in the Welcome Building and, if there is a large event in the Welcome Building, it may be advantageous for the attendees to be able to use the foyer of the Congress Theatre).

1.12 The work to explore alternative governance arrangements for the Theatres sits alongside, is informed by and will need to take into consideration the following external review processes that EBC is engaged with/has undertaken:

- The assurance review with government to explore opportunities to support the council with the financial challenges experienced as a result of the Covid-19 pandemic. An overarching recommendation from the assurance review is that the council should reduce its reliance on tourism income.
- The Local Government Association peer challenge process which took place in September 2022 and, for which, there will be a follow up review in 2023 (an exact date is still to be confirmed).

Any steps to implement alternative governance arrangements for the Theatres will need to be taken in line with the parameters of the assurance review and peer challenge processes.

Further, any steps to implement alternative governance arrangements for the Theatres will be reviewed every six months in relation to progress.

## 2 Latest Position and Next Steps

2.1 The Devonshire Park Governance Board has considered the best routes, if approved by Cabinet, to implement a new charitable entity to operate the Theatres. The Board recommends Cabinet approve a staged approach to forming the charitable entity, with the creation of a Local Authority Controlled Company (LACC) as an interim step from April 2023.

2.2 A LACC is a company which is a subsidiary of the local authority, or the local authority controls the majority of the votes at its general meetings, or the local authority has the power to appoint or remove a majority of the directors/trustees.

EBC has experience in recent years of setting up a LACC with the establishment of South East Environmental Services Ltd (SEESL).

2.3 Local authorities may consider establishing a LACC for certain projects/ activities. The reasons for doing so may include:

- a desire to establish an organisation's independence from the local authority.
- for the purposes of trading.
- to attract funding which is not otherwise available to the local authority.
- the need to ring-fence funding.

2.4 The Board proposes the creation of a LACC for the following reasons:

- The LACC would afford EBC the time to develop the sound and sustainable business case for the operation of the Theatres as a going concern by a newly formed charitable independent body.
- The interim step of using a LACC will allow for the development of a sound operational and financial structure and the basis for the lease terms and service level agreements will be put in place to support the finalisation of agreed financial terms for the charitable entity model.
- Transfer of the Theatres' operations to a LACC would enable EBC to avail of the VAT cultural exemption.

- Whilst the Theatres are run by a LACC, the rules regarding charities being independent can be fully explored including what this means in terms of governance, and how EBC can secure strategic engagement with a new charitable operator.
- The interim LACC would allow the parties to put in place lease arrangements and a Memorandum of Understanding to govern the practical issues relating to use of the site (e.g. access to the Congress Theatre that is compliant with the Equality Act 2010). The use of the LACC would enable EBC to put in place effective arrangements that are workable in the future.

2.5 If Cabinet approves the Devonshire Park Governance Board's proposal to explore the creation of a charitable entity to operate the Theatres, with the interim step of forming a LACC from April 2023, the rigour and discipline of a project management approach (using the council's project management toolkit) would be applied to the next phase of consideration and actions. Regular updates would be provided to Cabinet, along with decision points, at key milestones within the project. Agreement is sought for provision of £50,000 to be made available to support the initial steps towards delivery of the new governance arrangement. Any additional funding requirements for this work will be submitted to Cabinet for approval once the project is fully scoped and costed.

2.6 The Project Board will produce and oversee a plan to deliver the detailed proposals for Cabinet's approval for the move to a new governance arrangement for the Theatres. The plan will include a number of key milestones and delivery dates for the project, including:

- development of an operational model – early 2023
- aim to deliver tax efficiencies – from 1 April 2023
- define high-level arrangements between the council and the LACC – by the 1 April 2023
- explore the options for and timing of the move to the charitable entity – ongoing.

2.7 An effective communications and engagement strategy with key stakeholders – members, local and national partners, cultural organisations, groups and funding bodies, and staff and trade unions – will be essential throughout this process. This will be mapped and implemented in parallel to, and as part of, the project activities.

## 3 Conclusions

3.1 EBC is well-positioned to build on improvements implemented over recent years across DPQ by exploring a new governance model for the Theatres. A new, charitable entity, supported in the interim by a LACC would enable and support the next phase of the cultural offer for the benefit of residents, communities and the local economy.

## 4 Corporate plan and council policies

4.1 The approach and proposals set out in this paper align with and/or further the aims of the following plans, strategies or policies:

- Corporate Plan 2022-2026
- The council's response to the assurance review process

**5 Business case and alternative option(s) considered**

5.1 The Devonshire Park Governance Board members considered a range of options relating to the future governance of the Devonshire Park and, specifically, the Congress Theatre and the Devonshire Park Theatre, including:

- Do nothing – leave the current arrangements "as is" and manage the activities and assets as part of EBC.
- Charitable entity – transfer the activity and/or assets to a newly-created charity to ensure the future provision of a cultural programme to the benefit of the residents, communities and the local community.
- Privatise the assets/offer – transfer the Theatres (buildings and activities) to a 3rd party to operate as a commercial concern.
- Management company – operate the Theatres through a wholly owned EBC company (a Local Authority Controlled Company – LACC), tasked with managing the buildings and services.

The Board considers the proposal to transfer the Theatres to a charitable entity, via a LACC, bests aligns with the council's commitment and ambitions to develop the cultural offer, to continue growing the regional and national reputation and audience base, and to lever in additional financial investment.

**6 Financial appraisal**

6.1 The Finance implications are dealt with in the body of the report. Comprehensive financial advice (both internal and external) has been, and will continue to be, taken as the proposals are progressed.

**7 Legal implications**

7.1 The legal implications are dealt with in the body of the report. Comprehensive legal advice (both internal and external) has been, and will continue to be, taken as the proposals are progressed.

*[Iken ref 11739-EBC-KS 15th January 2023]*

**8 Risk management implications**

8.1 Subject to approval by Cabinet, a full assessment and management of any risks will be undertaken, as part of the project management approach.

**9 Equality analysis**

9.1 Subject to approval by Cabinet, an equality analysis will be undertaken, as part of the project management approach.

## 10 Environmental sustainability implications

10.1 Subject to approval by Cabinet, the environmental implications and opportunities will be assessed, as part of the project management approach.

## 11 Appendices

None

## 12 Background papers

None