Welwyn Hatfield Borough Council

Medium-Term Financial Strategy and Financial Governance Framework

2025/26 – 2028/29

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1 Introduction

Welcome to our Medium-Term Financial Strategy (MTFS) and Financial Governance Framework. This document sets out our financial forecasts, risks, challenges and strategies for the period 2025/26 to 2028/29. It also provides the detail behind our financial governance framework including our strategies and policies.

1.1 This strategy has been prepared in unprecedented times of economic uncertainty following the international pandemic, fuel inflation and the cost-of-living crisis, along with a general and a general decline in public sector funding. It is also prepared at a time where pressures and expectations on local government continue to rise.

1.2 Following extensive consultation with our residents, we set our corporate plan and priorities for the period of 2023-2026, and we set an annual action plan in line with these targets:

https://democracy.welhat.gov.uk/documents/s22707/WHBC_HEART_A3%20Landscape%2021.pdf

1.3 This strategy, which is reviewed annually, supports our overall direction and provides details of the financial strategies in place to deliver our objectives. It is a crucial component of the Council's strategic planning framework. Our key decisions need to be made with consideration to a financial plan that looks beyond the short term.

1.4 Whilst there are many challenges ahead, we start the next three years in a reasonably strong financial position with healthy reserves and strategies in place to support the delivery of the efficiency savings required to deliver a balanced budget, whist also recognising the next three years will be substantially more challenging financially.

1.5 The council still faces income loses following changes in peoples behaviour and confidence, associated with the pandemic, increasing demands on statutory services such as homelessness, and increasing risks around the council's finances in the medium-term. These will need to continue be closely monitored as we enter 2025/26, and actions put in place should these risks come to fruition. These risks and impacts, coupled with the cost-of-living crisis adds further uncertainty as inflation in the coming years is extremely hard to predict.

1.6 We have an ambitious investment programme, specifically on Housing and Regeneration within the Borough. Although part of this programme is grant funded, there will be borrowing requirements, and these will need to be carefully managed along with the ongoing cost implications.

1.7 Our priority has always been to safeguard frontline services where possible, but inevitably there have been, and will continue to be, some difficult decisions that result in changes to services for our residents, customers and businesses. Meeting savings requirements will require an increasingly commercial and innovative approach with new ways of working.

1.8 We have a strong and successful record of delivering the efficiency savings required, and since the start of government grant funding reductions in 2010, we have successfully delivered just under £24m of efficiency savings.

1.9 We wrote to the Government in 2024 to highlight the substantial pressures we are facing, and our concerns around Local Government funding, and will be responding to the provisional settlement with many of these same concerns.

1.10 Whilst we have been successful in delivering these efficiencies, it has been challenging, and should the funding provided to the council continue to fall behind inflation, or be reviewed more substantially where we see funding reduce, it may mean that we will have to take some difficult decisions to ensure that we remain finically resilient, that we would not have otherwise taken.

1.11 The government has issued a white paper on devolution, which also provides some direction for local government reorganisation. This MTFS is prepared on the basis that the council will be ongoing as an organisation, and in any event, even if the council is impacted by reorganisation, we would need to continue to deliver value for money and maintain a sound financial position with reserves to manage any unforeseen events until the point of any reorganisation.

Cllr James Broach

Executive Member for Resources

Richard Baker

Executive Director (Finance and Transformation)

2 Revenue Forecasts and Strategy

We maintain two revenue accounts. The Housing Revenue Account (HRA) which is solely for the day-to-day activities of our Social Housing Landlord function (our tenants), and the General Fund Revenue Account (GF) which is for or day to day activities for all other services.

2.1) Local, National and Economic Context

2.1.1 The following section sets out some of the key considerations we have to be mindful of when we set our budgets and review our medium to longer-term forecasts.

2.1.2 There are a significant number of uncertainties and risks, and because of this, we undertake sensitivity analysis to understand the potential impact of material changes and ensure our reserves are adequate to deal with any such impacts (Annex A).

Grant Funding and Business Rates (General Fund)

2.1.3 Grant funding for local government continues to be extremely uncertain as we move into the next three-year period. The most recent settlement is a one year settlement only, but the government has set out its intentions to provide a longer term settlement, and is consulting on the principles for this.

2.1.4 This provides indications that the business rates system will be reset for 2026/27, and that the funding formula and allocations will be changed. Transitional arrangements are proposed, which would smooth the impacts of any sudden reductions to grants over a phased period.

2.1.5 As these could have substantial impacts for us, it makes medium to longer-term planning extremely difficult and increases our financial and service delivery risks, but assumptions on grant reductions have been assumed to impact over a three-year period.

2.1.6 Revenue Support Grant (RSG), previously provided by the Government was removed, but was reintroduced in 2023/24 following the rolling of two other grants, into this funding stream. The government has confirmed that negative RSG will not apply for 2025/26.

2.1.7 With the reductions in funding we have seen since 2010, we have become increasingly reliant on the more volatile income sources such as business rates.

2.1.8 The Business Rates system has seen significant changes including changes to the appeals process, additional reliefs being granted by Government and proposals for a more regular revaluation cycle. These make the income stream extremely volatile and difficult to predict in the medium term.

2.1.9 In particular, this region saw some of the largest increases in valuations in 2023. When revaluation takes place, the Government adjusts the system to ensure councils receive the same funding as they would have otherwise received had revaluation not taken place. However, this does not account for the substantial risks we face with appeals against these valuations, which we have to partly fund due to the way the system is designed.

2.1.10 The government piloted a 75% business rates retention scheme from 2019/20, and Hertfordshire was in this scheme for the majority of years since. Districts are selected to be in the pool, based upon the best mix to obtain the best funding for the County as a whole. Welwyn Hatfield has been selected for 2025/26 and the budget assumes a level of business rates pooling gains for 2025/26. These arrangements are only one year in nature, so any additional income cannot be relied upon to support the budget gaps in future years. It is unclear what will apply in future years and this could well be affected by the governments planned business rates retention review.

2.1.11 The business rates retention reset has been assumed for 2026/27, which will likely see a drop in rates income of around £1m, assuming the Government's funding assessment remains the same (a transition grant has been assumed to smooth the impact of this over three years).

2.1.12 The New Homes Bonus Scheme was introduced to encourage councils to facilitate greater housing growth. However, over time, the benefits of the grant have been reduced, including the term over which the grant is paid, and the introduction of a baseline level of growth for which no grant is paid. The scheme has been continued for one year, and the government has made clear it intends to continue with incentives to councils for housing growth, but under a revised scheme from 2026/27.

2.1.13 No long-term certainty has been provided over whether the previously proposed grant reductions (through negative RSG), will be taken into account in the various funding reviews, and this may adversely impact future income for us, and could be in the region of a cost of around £400k if not eliminated on a permanent basis.

2.1.14 The Funding Guarantee Grant was introduced in 2023/24 and aims to ensure that all councils receive a 3% increase in core spending power, before any decisions are taken on council tax or the use of reserves. This grant ended in 2024/25, but a new "Funding Floor" grant has been introduced to ensure no council receives less core spending power in 2025/26 than it did in 2024/25 (in cash terms). For the council this equates to £574k.

2.1.15 For 2022/23, it was announced that a one-off grant called Services grant would be payable to councils. The narrative around this grant sets out that it is recognition of the impact of the pandemic and increasing demands on services. This grant continued in 2023/24 but was top sliced for the reversal of the national insurance increases. It was confirmed this will continue in 2024/25 but will be subject to further top-slicing in order to fund other existing grant schemes. This grant has not been awarded in 2025/26.

2.1.16 There is a substantial cliff edge of funding assumed, leading to a large forecast budget gap in 2026/27, but transitional grant has been assumed to smooth the impact of this over a three-year period to 2028/29, in line with example set out in the government consultation on future funding.

2.1.17 These reviews are being undertaken at a time where Central Governments focus is on the response to the economic conditions, and cost of living crisis and more directly on their core priorities such as housing, social care, education, policing and health. Many of these services are provided by other authorities such as the police and county council, and this increases the uncertainty around the funding that may be provided to District Councils in future.

2.1.18 The Government had previously given strong indications that there would be transitional measures for any changes in funding allocations and apportionment methods, and an assumption has been assumed in the medium-term forecasts for the, but this should be noted as a risk.

2.1.19 The devolution white paper which sets out a vision for local government reorganisation also brings uncertainty for the council, but we are committed to continuing to deliver value for money for our residents and maintaining adequate levels of reserves to ensure that the council can continue to deliver for our residents.

2.1.20 The government has announced a new grant for Extended Producer Responsibilities. This is in effect a share of the levies on businesses collected nationally, for the cost of recycling. There are still many unknowns in relation to this grant, including how it may impact on the recycling credits we receive, how it might impact on the income generated from recyclate sales, transport subsidy received and the costs of new burdens (eg flat recycling, food waste at flats and soft plastics). Until a firmer position on these are known, this grant has been moved into the grants and contributions reserve, and delegations are in place to draw this down once the position is better understood.

2.1.21 The government has announced an increase to the homelessness grants received by the Council. Some of these funds have been allocated to services to continue with existing staffing levels to support the homeless demand. The balance has been placed into the grants and contributions earmarked reserve, and a report will be presented to Cabinet on proposals for spend. Delegations are in place to ensure the funds can be drawn down from this reserve once Cabinet have proposals for allocations of funds. These grants may support the council to reduce its reliance on general reserves slightly for 2025/26.

Economic and Market Conditions

2.1.22 There continues to be extreme uncertainty in economic and market conditions, and the cost of living crisis has compounded these.

2.1.23 Continued economic changes could have material impacts on our finances, as service demand would be impacted by such changes. This includes an increased housing and temporary accommodation demand, increased welfare support (for example housing benefit and council tax support), adverse impacts our borrowing costs, increased fuel and utility costs and impacts on our commercial property and other income. The council is already facing many of these challenges and these are anticipated to continue in the medium-term.

2.1.24 Increased costs have been included in our medium-term forecasts where we are seeing these increases in service demand, such as with homelessness, which affects both our direct costs relating to accommodation, but also our unsubsidised spend on housing benefits

2.1.25 The Bank of England (BoE) increased Bank Rate has fallen to 4.75% from 5.25% this time last year. Bu March 2026, forecasts suggest this could 1% lower than the current rate.

2.1.26 CPI inflation has fallen during 2024 to reach a rate of 2.6% in November 2024, comparred to 3.6% in November 2023. Looking ahead, using the bank rate path implied by financial markets, the estimates are that CPI inflation will increase during 2025/26, before falling back to the 2% target in the medium term.

2.1.27 The council is currently benefiting from higher interest rates on its balances, but this also means we are facing higher borrowing costs for any new borrowing we undertake.

2.1.28 We take a balanced approach to our forecasts, using national and professionally derived forecasts for the economy. This is a key area in our sensitivity analysis and reserves strategy.

2.1.29 Fuel continues to be a very volatile cost, and whilst we do enter into longer term arrangements for our utilities, these are still subject to market fluctuations, as are vehicle fuel costs (and some elements of contractual inflation, such as our waste contract). On this basis we take a more prudent approach to forecasting fuel increases to ensure we do not have significant unforeseen costs occurring in year.

2.1.30 Interest rates have stabilised more than in previous years, but the council could be impacted in 2025/26 for contractual inflationary increases, if inflation were to increase again.

2.1.31 Rates which have been used to inform our strategies and forecasts are shown in the table below:

Area	2025/26	2026/27	2027/28
CPI	2.5%	2%	2%
Borrowing	5.5%	5%	5%
Bank of England Base Rate*	4.75	3.75	3.75

*The rates provided by Arlingclose is their view of the most likely position. They also believe there is a risk rates could be higher or lower than this, depending on economic data.

2.1.32 It is worth noting that following a Public Works Loan Board (PWLB) consultation, and restrictions being implemented for restricting borrowing from PWLB, the previous decision to increase interest rates was reversed in 2020, reducing rates available to the council by 1%. To continue to be able to access this funding the council must not look to invest in assets purely for commercial returns, for which it continues to have no plans to do so.

2.1.33 A new discounted rate for borrowing related to the HRA was introduced in June 2023, which provides a 0.6% discount on the standard PWLB borrowing rates. This rate has subsequently been extended to March 2026.

2.1.34 Our ambitious housing and regeneration delivery programmes mean our capital expenditure, and income, is directly impacted by changes in market conditions. These changes can impact on the resources available to the council, or the cost of investment. In turn, this can directly impact on the cost of borrowing, and our revenue forecasts.

Contracts and Shared Services

2.1.35 We are in contractual arrangements with service providers for some of our services. Many of our contracts are directly linked to price indices indexation.

2.1.36 A few of these, which have been in long term arrangements, have recently expired and been re-tendered, or will be expiring in the coming months and years and we will need to consider the future delivery method for these services. A list of our key contracts, annual values and end dates are in the table below:

Service	Provider	Average Annual Value	End Date
Revenues and Benefits	Liberata	£1.7m	March 2030
Waste Services and Ground Maintenance	Urbaser	£5.7m	March 2029
Grounds Maintenance	Continental Landscapes	£1.4m	March 2029
Housing Repair and Maintenance (HRA)	Morgan Sindall	£11.6m	Sept 2032
Leisure Services	Greenwich Leisure Limited	£0.2m	Jan 2029

2.1.37 We also have some shared service arrangements with other Councils, these deliver efficient services and provide economies of scale. Our key shared services are the Herts Shared Internal Audit Service, and Herts Building Control. In 2023/24 we also joined the Shared Anti-Fraud Service provided through Hertfordshire County Council, which has been performing well.

2.1.38 Inflationary increases have a direct impact on our finances as our key contracts have provisions for annual price increases based on the most appropriate indices for the relevant contract, and market conditions may also have an impact when existing arrangements come to an end, and we put in place new arrangements for service delivery.

Demographics, Business and Local Plan

2.1.39 Demographics of the area have a direct impact on our services and finances. Our Local Plan, which was approved during 2023, sets the direction for the area in terms of housing and commercial developments, and general growth in the area.

2.1.40 There is a commitment to review the local plan in the coming years, and we hold an earmarked reserve to support with the cost of this. From 2027/28 we will need to consider the ongoing resource requirements here, and build ongoing costs associated with a rolling review of the plan, into our base budget.

2.1.41 Increases in the numbers of households and businesses, positively impacts on the council tax, business rates and other income that we can raise, but also places more pressure on services and can be directly linked to contractual increases.

2.1.42 Other demographic changes can also impact on our services and finances, for example an aging population may increase demands on sheltered accommodation, housing benefit and council tax support.

2.1.43 Average increases for previous years have been assumed for in relation to planning. We will review this again next year once the new local plan has been in place for a full year.

Legislative changes

2.1.44 Legislative changes made by Government, often have a direct impact on the services we provide and the income we can raise. This can include increased duties, transfer of functions and restrictions on income generation.

2.1.45 In recent years, we have been restricted from increasing housing rental income (HRA) in line with inflation, and in fact had to reduce rent by 1% per annum for four consecutive years until 2020. This had a material effect on the income available to the Council for the development of new housing. The Government announced that we could start to increase rents by CPI +1% from 2020/21. With the significantly high levels of inflation at the time, the Government announced a one-year cap of 7% on housing rent for 2023/24, which again added pressure to the council and pushed out its borrowing repayment period. No cap has been introduced for 2025/26 so rents will rise in line with rent policy of CPI+1%, by 2.7%.

2.1.46 Other legislative changes made in recent years include changing planning fees to allow additional investment into planning services, increasing our duties on homelessness which in turn increased our costs and demand on the service, transferring land registry functions to HMLR, changes to business rates, and changing legislation around houses in multiple occupation, expanding the licencing remit of council and allowing charges to be made for these licences.

2.1.47 Legislative changes rarely come with additional ongoing funding. We will usually receive a one-off grant from the Government which will help support set up costs of new requirements, but we generally have to find ways to cover the ongoing costs of these changes.

Pay and Pensions

2.1.48 For the review of pay and employment conditions, we are part of an arrangement with the National Joint Council which allows negotiations to take place with the unions at a national level.

2.1.49 The most recent agreement was a one year pay settlement for 2024/25, which gave an average increase of 4.25% per annum. The actual award was £1,290 which aimed to give higher proportionate increases for those on the lower pay scales to ensure these met the level of the National Living Wage and support with the cost-of-living crisis.

2.1.50 No agreement has been reached for 2025/26 onwards. This is a key area for our sensitivity analysis and reserves strategy.

2.1.51 We are also part of a nationally agreed scheme for pensions. In 2019, the valuations of the scheme showed that it was 94% funded, meaning there was a historical deficit which would need funding from future contributions. The latest triennial valuation was in 2022 now shows the fund as 105% funded, and strong improvement from the previous valuation. Due to the scheme being in a strong position, a net 1% reduction to the contribution rates was agreed with the pension fund for the years 2023/24 to 2025/26.

2.1.52 We have historically opted to make additional one-off payments on triennial valuations, in order to maintain our medium-term contribution rates at existing levels, but since the 2022 valuations, have been working towards baselining the annual costs, as the use of reserves for one off top ups is not considered to be a sustainable approach to servicing pension costs.

2.1.53 In order to ensure that future payments are affordable in relation to the back-funding of the pension fund, stepped increases to the base budget have been included from 2026/27, in line with the stepped increases included in the last triennial valuation. The next valuation will be due in 2025.

Welfare Support

2.1.54 We provide direct welfare support through the Council Tax Support Scheme, which is funded locally as a direct cost to our budget. Other support, such as Housing Benefit, is administered by us but is generally, but not completely, funded by the Government.

2.1.55 Impacts on the wider economy from factors such as the pandemic and the end of the transition period with the EU, have a direct impact on us through the level of Council Tax Support that will need to be funded.

2.1.56 The pandemic saw a significant increase in unemployment and those in need of financial support. This in turn saw an increase in our residents applying for council tax support. This has a direct impact on the amount collectible from council tax. There has been a reduction in council tax support since restrictions have lifted. Assumptions have been made in the council's tax base calculation for similar levels in 2025/26 as they are in 2024/25.

2.1.57 We have seen an increase in demands on temporary accommodation and housing benefit support for those in supported accommodation. Some of these supported housing claims are not fully supported by government funding, so as these payments increase, our ne costs also increase. An annual provision for increases in these areas has been included in our forecasts.

2.1.58 In addition, the Government continues to roll out universal credit, which will see eventually Housing Benefit removed from our administration, as it will bring Housing Benefit together with other welfare support provided by the Government.

2.1.59 At this stage, indications are that we will continue to have responsibility for providing Housing Benefit to those of pensionable age for the foreseeable future.

2.1.60 Welfare reforms were expected to have a direct impact on our Housing Revenue Account. As additional caps to benefits are made and claimants transition to universal credit, we had expected it to become more difficult to collect rental income. Rental collection has generally remained strong, however we have seen a slight increase in 2024/25 in rent arrears for those tenants on Universal Credit, believed to be linked to the cost-of -living crisis. This continues to be closely monitored, but at this stage the budgetary allowance for the annual top up to the bad debt provision remains broadly consistent with the previous year.

Council Tax

2.1.61 The Government remains committed to maintaining council tax referendum principles. These principles aim to strike a balance between giving local authorities the flexibility to determine their own level of council tax and ensuring local residents have the final say on excessive increases.

2.1.62 Historically, we froze Council Tax for seven consecutive years, followed by two £5 per annum increases, a 2.5% increase in 2019/20, a 1.5% increase in 2020/21, a 1.97% increase in 2021/22, a 2.26% increase in 2022/23, a 3% increase in 2023/24 and a 2.96% increase in 2024/25.

2.1.63 For 2025/26, the government has capped our increase in council tax by a maximum of 3% or £5 (whichever is greater). For our budget, we have set a £7.11 increase for 2025/26, equating to 2.99%.

2.1.64 Local government is being driven by central government to become more financially self-sustainable and it is expected that local tax, fees and charges for services and other locally driven income sources will become more important. However, these referendum principles do act to restrict the level of self-sustainability we are able to achieve.

Capital, Investments and Borrowing

2.1.65 Our capital plans can have a direct impact on our revenue budget. Through spending reserves and capital balances on investment (such as regeneration and housing), we hold less cash, and therefore get less interest return.

2.1.66 If we borrow to fund a capital project, we incur interest costs on this borrowing, and have a duty to ensure repayment is affordable in the medium to longer-term. It is important we forecast the timing of our projects well, to prevent borrowing in advance of need, where unnecessary costs would be incurred.

2.1.67 With capital projects, there may also be ongoing revenue costs (for example as maintenance of vehicles), or savings that need to be considered in the medium to longer-term context.

2.1.68 We have previously raised all of our long-term borrowing from the PWLB. Our Treasury Management Strategy (Annex F) sets out who we can borrow from, although generally the of PWLB is the most suitable option for our requirements.

2.2) Revenue Forecasts and Assumptions

General Fund

2.2.1 Starting with our proposed 2025/26 budget, we have undertaken medium-term forecasts for our General Fund Revenue budget. We have used the following key assumptions, along with other known factors (such as one off items, our reserves strategy and any savings or growth already identified in budget reports for future years):

	Assumption
Grant Funding (2.1.3 onwards)	Revenue Support Grant (RSG) is forecast to continue, for grants consolidated into the RSG initially in 2024/25 Reduction in New Homes Bonus from 2025/26. Transitional protection assumed for two years year in 2026/27 and 2027/28 to smooth the impacts of grant losses and the business rates reset. No negative RSG assumed (previously expected to reduce our funding by £400k)
Business Rates (2.1.3 onwards)	Reset of Business Rates Baseline in 2026/27– current values assumed excluding pool arrangements
Inflation / Contracts (2.1.11 onwards)	Contracts inflated by CPI (actual arrangements may vary from this but it is used for a proxy for general inflation) Income and general costs inflated by CPI Fuel and utilities inflated by 5%
Pay and Pensions (2.1.31 onwards)	Pay inflated by 3% each year Annual sum increased by 3.22% per annum in line with valuation. The same percentage has been used as an assumption from 2025 when the next valuation is due.
Welfare Support (2.1.38 onwards)	All costs associated with welfare reform will be met by the Government Changes to Council Tax Support have been included in the council tax base. Increases have been assumed to unsubsidised benefits costs from 2026/27 in relation to supported and temporary accommodation
Council Tax (2.1.43 onwards)	Growth in housing numbers by 1% per annum Increase in charge by £5 in 2026/27 and 2027/28, and 2% in 2028/29
Borrowing and Investments (2.1.47-49 and 2.1.11 onwards)	Average Investment Income Rate 4% (excluding CCLA property fund) New Borrowing Rate 5% over the three year plan

2.2.2 The forecasts based on these assumptions, shown in table 2.2a, indicate a savings requirement of £1.694m in 2026/27, rising to a cumulative £6.012m over the term of the forecasting period.

2.2.3 These forecasts include the reserves strategy, as set out in 2.3.25, in which we will be utilising an element of our general reserves to smooth the impacts of grant reductions and our reliance on the business rates growth income.

2.2.4 We have already embarked on a number of projects and programmes to support the delivery of these challenging targets (section 2.3), but additional efficiencies will need to be identified in order to continue to deliver a balanced budget.

Table 2.2a - General Fund Forecasts

Cost Of Services	**2025/26 Budget £'000**	**2026/27 Forecast £'000**	**2027/28 Forecast £'000**	**2028/29 Forecast £'000**
Employees	17,260	17,783	18,323	18,836
Premises	5,147	5,312	5,484	5,643
Supplies and Services	65	66	68	69
Transport	12,990	13,315	13,648	13,920
Third Party Payments	29,138	29,238	29,338	29,438
Transfer Payments	4,925	5,184	5,316	5,427
Income	(46,888)	(46,719)	(46,782)	(46,772)
Net Recharge to HRA	(6,530)	(6,693)	(6,860)	(6,998)
Impact of previous savings			(1,694)	(4,073)
Net Cost of Services	**16,107**	**17,486**	**16,839**	**15,490**
Income from Council Tax	(13,213)	(13,481)	(13,885)	(14,232)
Business Rates Retention	(4,467)	(3,400)	(3,468)	(3,537)
Collection Fund (Surplus)/Deficit	1,146	0	0	0
New Homes Bonus Grant	(224)	(100)	(100)	(100)
Funding Guarantee Grant	(925)	0	0	0
Other Grants	(3,444)	(1,000)	(1,020)	(1,040)
Funding – Transitional Protection Assumption	0	(2,119)	(1,060)	0
Interest Income	(350)	(250)	(100)	(100)
Capital Financing (Leases, contributions to capital, interest, minimum revenue provision)	1,932	2,273	2,903	3,290
Parish Precepts	2,384	2,327	2,397	2,456
Contributions to/(from) Collection Fund Reserves	(1,127)	0	0	0
Contributions from other Earmarked Reserves	2,063	1,558	673	13
Use of general fund reserves (2.3.22)	(807)	(1,600)	(800)	(300)
Total Other Income and Expenditure	**(16,077)**	**(15,792)**	**(14,460)**	**(13,551)**
Budget Gap (Single Year)		**1,694**	**2,379**	**1,939**
Budget Gap (Cumulative)		**1,694**	**4,073**	**6,012**

2.2.5 Due to the level of uncertainty in the economy and government funding, additional scenarios have been modelled, to give an indication of the impacts of upside and downside risks to the assumptions made.

2.2.6 The upside risk scenario shows the impact if inflation is not as high as anticipated, although this is a highly unlikely scenario.

2.2.7 This includes reductions to all forecast rates, including a 2.5% assumption for employee costs, 2% general inflation, and 2% on utilities.

2.2.8 It also includes more favourable assumptions on the on pressures currently funded by specific grants (homelessness) and benefits subsidy.

2.2.9 For ease of comparison, the same level of reserves use has been assumed, but in reality this would likely be reviewed.

	2024/25 Forecast £'000	2025/26 Forecast £'000	2026/27 Forecast £'000	2027/28 Forecast £'000
Budget Gap (Single Year)	**807**	**1,123**	**1,998**	**1,604**
Budget Gap (Cumulative)		**1,123**	**3,121**	**4,725**

2.2.10 The downside risk scenario shows the impact if inflation is greater than anticipated, and this is a more likely scenario than the upside risk scenario given the recent economic turmoil.

2.2.11 This includes increase to all forecast rates, including a 4% assumption for employee costs reducing to 3.5% then 3%, 6% for borrowing rates, 4% general inflation, and 10%.

2.2.12 It also includes more favourable assumptions on the on pressures currently funded by specific grants (homelessness) and benefits subsidy.

2.2.13 Lower levels of transition grant have been included.

2.2.14 For ease of comparison, the same level of reserves use has been assumed.

	2024/25 Forecast £'000	2025/26 Forecast £'000	2026/27 Forecast £'000	2027/28 Forecast £'000
Budget Gap (Single Year)	**807**	**3,091**	**2,465**	**1,895**
Budget Gap (Cumulative)		**3,091**	**5,556**	**7,451**

Housing Revenue Account

2.2.15 For the Housing Revenue Account, due to the longer-term basis of investment in housing, we undertake 30-year planning and forecasting. This is in line with the wider housing sector, and the focus is on the affordability of investment and new build housing rather than meeting savings targets. We do however continue to monitor and review the services provided to ensure these continue to deliver best value.

2.2.16 Based upon the proposed 2025/26 budget and other known factors (such as one-off items, our reserves strategy and any savings or growth already identified in budget reports for future years), we have undertaken forecasts for our HRA using the following key assumptions:

	Assumption
Inflation / Contracts	Contracts inflated by contractual inflationary indices Income and general costs inflated by CPI Fuel inflated by 5%
Pay and Pensions	Average pay inflated by 3% per annum Annual sum increased by 3.22% per annum in line with valuation. The same percentage has been used as an assumption from 2025 when the next valuation is due.
Housing Rent	CPI + 1%
Borrowing	Average borrowing rate of 4.8% over the 30-year plan
Investment	Investing in stock based upon conditions survey and our minimum housing standards Continuing to replace sold Right to Buy properties through new development and/or purchase of properties.

2.2.17 The main expenditure activities of the HRA are in relation to the management, repairs, maintenance and investment into our social housing.

2.2.18 The forecasts based on these assumptions, shown in table 2.2b, demonstrate that we will be able to maintain our HRA reserves in line with our reserves policy (Annex A). Based on the longer forecasts, debt is expected to be repaid within a 33-year period, within the remit of the 30-year plan.

Table 2.2b – Housing Revenue Account Forecasts

	2025/26 Budget £'000	2026/27 Forecast £'000	2027/28 Forecast £'000
Income			
Rental Income	(60,707)	(63,288)	(65,237)
Non Dwelling Rents	(759)	(801)	(818)
Charges for Services and Facilities	(2,930)	(3,067)	(3,135)
Other Income	(281)	(294)	(300)
Total Income	**(64,678)**	**(67,450)**	**(69,491)**
Expenditure			
Repairs and Maintenance	12,888	13,572	14,019
Management, Special Service and Rates/Taxes	18,858	19,751	20,472
Allowance for Doubtful Debt	572	598	616
Depreciation	16,227	16,395	16,718
Other Expenditure	42	43	44
Total Revenue Expenditure	**48,588**	**50,359**	**51,870**
Other Items of Income and Expense			
Interest Payable	9,975	12,289	14,301
Interest Received	(131)	(119)	(101)
Revenue Contribution to Capital	6,225	4,782	3,318
Net (surplus)/deficit	**(20)**	**(139)**	**(102)**

	2025/26 Budget £'000	2026/27 Forecast £'000	2027/28 Forecast £'000
HRA Reserves			
Opening HRA Balance	3,276	3,296	3,435
Net (deficit)/surplus	20	139	102
Closing HRA Balance	**3,296**	**3,435**	**3,507**

2.3) Revenue Strategies and Efficiency Programmes

2.3.1 Our current forecasts show a budget gap of £1.694m, inclusive of our planned use of reserves to support the collection fund deficits, and funding transition. If the council were not to put robust plans in place to address this gap, reserves would fall below the recommended minimum balance. This section sets out how we plan to deliver efficiencies to deliver a balanced budget.

2.3.2 We have embarked on a range of projects and programmes which will support us to deliver our aims and also support the delivery of a balanced budget. Principally these focus on the General Fund, although our Transformation Programme will deliver efficiencies for both revenue funds.

2.3.3 In addition to these, there are numerous strategies and policies which are reviewed on an annual basis which can be used to help us drive efficiencies.

Transformation Programme

2.3.4 In 2019, following a very positive Local Government Association Peer Challenge report and recommendations, our chief executive set out a vision to all staff on the modernisation and transformation of our services.

2.3.5 The programme was reset at the end 2022 when the new Transformation Strategy was launched, and will be reviewed during 2025/26 at the end of the current three year strategy.

2.3.6 A suite of strategic, medium-term projects continue to change the way we work and deliver services, including our transformation strategy which covers our culture and workforce, IT and digital services, the customer experience and channel shift, and project management. These various streams of work will not only improve the services we deliver but also generate efficiencies in the way we deliver them.

2.3.7 A number of efficiencies have been included in previous budgets from this programme, and these savings continue to be delivered. Further reviews have been undertaken and the targets for these were included in the 2025/26 budgets.

Baseline Reset

2.3.8 A baseline budget reset was undertaken for the 2020/21 budget following a historic trend of underspends. This review involved reviewing the average spend for the previous three years, and resetting budgets based on need. This review now forms part of an annual rolling programme of budget reviews, but savings would not be anticipated of the same level in future years.

2.3.9 Although not to the same scale as the efficiencies released in 2020/21, further savings were released under this strategy in the 2022/23 to 2025/26 budgets. This review will be undertaken again during 2025 to identify any further savings that could be released.

Local Plan

2.3.10 The local plan, which identifies key sites for future housing and employment developments, was approved in 2023. The plan will impact on housing numbers in the area, therefore affecting council tax and grant income. It will also impact on employment developments, affecting business rates. A review of the basis of our forecasts will be kept under review as key developments in the Borough are progressed.

Asset Management, Disposals and Property Development

2.3.11 We aim to drive best value from our assets, both revenue and capital, which will support in delivering the required efficiencies.

2.3.12 In addition, we will be continuing to drive forward with the redevelopment and regeneration of council owned sites identified in the asset management strategy and local plan. This will in turn increase asset value, revenue/capital returns, and council tax and business rates generation.

2.3.13 Asset condition surveys were completed in recent years and have identified works required in future years. A planned programme of works was developed over 2022/23, and this was incorporated into the 2023/24 capital budget, along with a five year programme of works.

2.3.14 In addition, we continue to undertake reviews of our holding of land and buildings, with an aim to generate capital receipts through the disposal or transfer of sites, to be utilised towards reducing the councils borrowing.

2.3.15 This strategy will positively impact on the cost of servicing our borrowing, which falls to the revenue account. Careful consideration will be made when investigating these sites for disposal, especially where the assets are, or could be, generating an annual income stream.

2.3.16 This approach was adopted for the 2024/25 budget, where around £3.3m of capital receipts were expected and were used to reduce borrowing, to deliver savings of around £390k on borrowing costs. Further disposals would not generate the same level of savings due to the receipts being used to reduce borrowing against assets with a shorter life.

2.3.17 We will always consider potential disposal of investment properties before we undertake new borrowing.

Contracts

2.3.18 As a number of our large contracts come towards an end, we will take the opportunity to undertake market testing and analysis to understand if outsourcing these services still offers the best value for money. We will consider all options for these services, including delivering directly, outsourcing, and shared services.

2.3.19 In particular the Sorpa Steria contract ended in 2022/23. This saw the insourcing of both the contact centre and ICT services, which generated savings for the 2023/24 budget and further savings are included for 2024/25. The continued outsourcing of Revenues and Benefits also generated savings for the 2023/24 budget and beyond. Further savings have been incorporated into the 2025/26 budget following systems transition, and some additional savings are anticipated in 2026/27.

Financial Planning Framework

3.1.1 Our growth and savings are reviewed and approved in line with our Financial Planning Framework (Annex D), which includes reviewing proposals against our corporate objectives.

Fees and Charges

2.3.20 As part of our budget setting process, we maintain a fees and charges strategy which provides the key principles behind the setting of fees and charges (Annex B). In general, the key principles are:

- We will charge users for services, where we have the power to do so
- We will aim to recover the cost of services through fees and charges
- We will be transparent and be able to justify when there is a policy decision not to charge or fully recover the cost of a service

Risk Management

2.3.21 Risk Management is a key feature of our financial planning process. We are aware of the need for effective risk management and consider the assessment and minimisation of risk to be vital. We have a Risk Management Strategy in place, and our financial risks are assessed in line with our overall approach to risk management.

2.3.22 To mitigate risk we monitor our spend and income against budgets, and use performance and risk management software to monitor and report on risks and key indicators which have financial implications.

2.3.23 We report quarterly to Cabinet and to Performance Clinics, which provides the platforms for Members to scrutinise our financial and non-financial performance and risks.

2.3.24 As part of determining our minimum reserves (working balances), we undertake a high-level assessment on the risks we have identified in our MTFS. This informs our reserves policy. A summary showing the potential impact of some of the key risks we have identified is shown in the following table:

Risk	**Scenario**	**Impact (£m)**
Business Rates	Significant economic downturn, loss of businesses located in the Borough and high level of appeals (Maximum impact) Pooling gains may not be achieved	1.300 0.300
Council Tax	Economic downturn adversely impacts development of new housing and 10% increase in Council Tax Support	0.250
Inflation	Salary and contract inflation greater that budgeted by 2%	0.500
Borrowing	Changes in economy adversely impact borrowing rates by 1%	0.800
Efficiencies	We fail to deliver our budgeted savings	2.400
Utilities	Increase in utilities of 50% - high uncertainty around costs	1.100
Income	Impact to income from cost of living crisis. 5 % of income	1.600

Reserves Policy and Strategy

2.3.25 Our Reserves Policy (Annex A) sets out how we will maintain an adequate level of reserves for future risks and uncertainties, and how we will use our earmarked reserves to help us achieve our objectives (such as through funding a one off invest to save project). In summary:

- We will report annually on the adequacy of our reserves
- We will maintain a minimum working balance on the General Fund of between 5% and 15% of turnover (excluding benefit grant income).
- We will maintain a minimum working balance on the HRA of 5% of turnover
- We will ensure reserves are monitored and reported on regularly

2.3.26 Our general working balances are above our minimum assessed need. Given the substantial financial challenges ahead, we will make planned use of reserves over the medium-term planning period.

2.3.27 Taking this approach, will smooth the impact of the savings targets, which are forecast to be front loaded. Without this approach the target for 2026/27 would be nearly £3.5m. Such savings would inevitably have significant impacts on our services we provide to our community, and on the fees and charges we make for our services.

2.3.28 We will make drawdowns in response to the reduction in funding, in particular to the business rates retention system reset (or high value ratings appeals which would impact in the same way), and to our general grant funding reductions and specific grant funds which have been forecast to reduce (homelessness grants, extended producer responsibility).

2.3.29 If the grant funding and business rates reductions do not happen as forecast, the strategy would be adjusted accordingly. This may mean the strategy moves back one year in its entirety, or could mean the values are adjusted dependant on the grant settlement.

2.3.30 This strategy would leave working balances at around £2.9 by the end of 2028/29. Whilst this is below our current minimum assessed requirement. However, due to the fact the business rates retention system reset is included in our assessment of need for our minimum balances, by transitioning away from our reliance on the additional business rates income, this risk will be removed.

2.3.31 This will mean by 2027/28, all other things remaining equal, our assessment of minimum balances would reduce to around £2.7m, against actual balances held of £2.9m, providing around £200k of headroom.

2.3.32 This strategy has been included in our medium term forecasts set out in table 2.2a (paragraph 2.24).

Capital Costs

2.3.33 Our Capital Forecasts and Strategy (section 3) sets out our approach to how we determine what we spend on capital projects, and how these assessed for revenue implications.

2.3.34 Our Minimum Revenue Provision Policy (Annex C) sets out how we determine the most efficient and affordable way to repay our borrowing.

2.3.35 Our Treasury Management Strategy (Annex F) and Investment Strategy (Annex E) ensure we take a risk-based approach to the management of our cash, investments and borrowing, balancing risk against return/cost.

Council Tax

2.3.36 We set our council tax increases on an annual basis as part of our budget setting process. For the purposes of forecasting, a £5 increase has been assumed for 2026/27 and 2027/28, followed by 2% for 2028/29. However, we may decide to increase at a different level when setting the budget, to help meet our challenging targets, subject to Government caps.

3 Capital Forecasts and Strategy

Capital expenditure is what we spend on assets, such as property, vehicles, buildings and software, which will last more than one year. For local councils, it can also include spend on assets owned by others, such as grants to voluntary organisations made for capital purposes.

3.1) Summary and Approach

3.1.1 Our Capital Forecasts and Strategy provide a high-level overview of how our capital expenditure, financing and treasury activities contribute to our overall financial position, and how they contribute to the delivery of our services.

3.1.2 A key aspect of our capital activities is ensuring we have clear risk management processes and indicators in place to inform robust decisions, and to understand the implications of any decisions on our longer-term financial sustainability.

3.1.3 We maintain a register of our assets and key components, hold conditions surveys for these, and have a pipeline of development sites, which helps to inform future capital expenditure requirements and capital income opportunities.

3.1.4 Our budgets are set and approved in line with our Financial Planning Framework (Annex D), and expenditure is capitalised in line with international accounting standards, the CIPFA code of conduct and our own accounting policies (which are published in our annual statement of accounts).

3.1.5 As with our revenue accounts, we maintain separate capital records for our General Fund and our Housing Revenue Account assets.

Economic and Market Conditions

3.1.6 As outlined in our revenue summary, there continues to be uncertainty in economic and market conditions, particularly with cost-of-living crisis.

3.1.7 Sudden and material changes in market and economic conditions can potentially have significant impacts on the Councils capital programme.

3.1.8 There is a possibility that supplies may be inflated due to the current conditions, and that there may be additional costs associated with social distancing and having covid-secure welfare facilities for construction projects. Increases continue to be seen in materials such as steel and concrete.

3.1.9 Increases in inflation can directly impact the cost of delivery of a capital project and increase our borrowing requirements.

3.1.10 Such increases, along with changes in the housing market, could make some of our planned schemes unviable to deliver, and should material changes arise above contingencies, a reassessment of viability would be undertaken.

3.1.11 We mitigate these risks where possible, by taking professional market advice, ensuring inflation is applied to future capital schemes in our programme, and build in a risk-based contingency to our capital projects.

3.2) Capital Forecasts and Assumptions

3.2.1 A summary of our capital expenditure forecasts including our forecast for rephasing from 2024/25 are as follows:

	2025/26 £'m	2026/27 £'m	2027/28 £'m	2028/29 £'m	2029/30 £'m
General Fund (GRF)	4.090	2.778	2.393	2.393	2.578
Housing Revenue Account (HRA)	63.974	65.474	43.538	43.178	17.500
TOTAL	**68.064**	**68.252**	**45.931**	**45.571**	**20.078**

3.2.2 The majority of spend in our general fund is in relation to regeneration and operational property projects. On the HRA, most of the expenditure relates to the delivery of new affordable housing and investment into our existing housing stock. A detailed list of our capital projects can be found in our budget pack, published on our website by April each year.

3.2.3 We have a range of sources available to us to finance our capital expenditure. These include grant receipts, income from the sale of assets, contributions from our revenue balances (including depreciation), and borrowing. We determine the financing for expenditure as part of our budget setting process.

3.2.4 A large proportion of the financing for our HRA new builds, comes from a statutory process for the sale of our housing to tenants (the Right to Buy scheme). Following the reduction to the discounts available from November 2024, we have assumed 10 sales per year, with 50 in 2025/26 following a large influx of applications in the weeks prior to the discounts being reduced.

3.2.5 The tables below show our forecasts for the financing of our capital expenditure.

General Fund	2025/26 £'m	2026/27 £'m	2027/28 £'m	2028/29 £'m	2029/30 £'m
Grants and Contributions	1.672	0.592	0.592	0.592	0.592
Reserves and Revenue Contributions	1.092	0.879	0.814	0.814	0.864
Borrowing	1.326	1.307	0.987	0.987	1.122
TOTAL	4.090	2.778	2.393	2.393	2.578

Housing Revenue Account	2025/26 £'m	2026/27 £'m	2027/28 £'m	2028/29 £'m	2029/30 £'m
RTB Receipts	2.320	4.490	0	0.302	2.000
Grants and contributions	3.460	3.460	1.730	0	0
Reserves and Revenue Contributions	23.319	23.507	21.752	21.757	15.500
Borrowing	22.247	15.401	13.700	8.826	0
TOTAL	**34.875**	**34.017**	**20.056**	**21.119**	**17.500**

3.2.6 As shown in the tables above, we do finance some of our schemes through the use of borrowing. We can decide to postpone external borrowing and use our revenue reserves to support the cash flows of capital expenditure. This is known as internal borrowing and reduces the interest costs we incur on borrowing in the short to medium term.

3.2.7 The total amount of cash required to fund the schemes we borrow for (whether internally or externally) is known as the Capital Financing Requirement (CFR). It is important that we monitor our requirement, as this will require repayment in the longer term, and we ensure we have strategies in place for repayment. Our CFR forecasts are as follows:

	2025/26 £'m	**2026/27 £'m**	**2027/28 £'m**	**2028/29 £'m**	**2029/30 £'m**
General Fund	51.389	51.490	51.161	50.779	50.480
Housing Revenue Account	300.938	334.955	355.011	376.131	370.027
TOTAL CFR	**352.328**	**386.445**	**406.172**	**426.910**	**420.507**

3.3) Capital Strategies and Indicators

3.3.1 In order to ensure our longer-term financial sustainability, and the affordability of our capital plans, we maintain numerous strategies and make use of indicators. These also help inform our decisions and monitor risk.

Financial Planning Framework

3.3.2 Our capital projects are reviewed and approved in line with our Financial Planning Framework (appendix D), which includes the calculation and approval of our capital indicators on risk exposure and affordability. This ensures sound governance is embedded into our budgetary approval process.

Financing Approach

3.3.3 We will always seek to apply for and utilise grant funding, ringfenced funds and contributions received before utilising other unrestricted funds. This minimises the ongoing burden of borrowing, and maintains capital reserves where possible.

3.3.4 We aim to restrict borrowing to income generating, or long-term assets (40+ years). This is also to minimise the ongoing impact of borrowing.

3.3.5 We aim to fund the shorter-term projects, rolling programme and any other schemes from capital reserves and balances. We can also make a voluntary revenue contribution to capital, to reduce borrowing or to reduce the use of capital balances.

3.3.6 In line with our asset disposal strategy (see 2.3.10), we opt to apply additional capital receipts generated by this strategy, to reduce our CFR, thereby also reducing the impact on revenue of our borrowing.

Debt Repayment

3.3.7 We must ensure that we set enough money aside each year, for the repayment of our CFR. There are different statutory arrangements that govern the requirements for our General Fund and Housing Revenue Account.

3.3.8 For the General Fund, we maintain a minimum revenue provision (MRP) policy (Annex C). This sets out how we will determine over what period we should set aside funds to fully repay our CFR.

3.3.9 We will ensure that there is a balance between the cost of MRP and the affordability of debt, through the annual review of our MRP policy. Our general approach is to pay for an asset over its expected life, subject to the maximum statutory limits.

3.3.10 The Housing Revenue Account makes annual repayments of debt, and the affordability is assessed as part of our thirty-year business plan. Our business plan shows debt repayment well within the thirty-year period, demonstrating the affordability of our plans.

3.3.11 For the General Fund, in order to ensure affordability, we forecast and monitor the value of the minimum revenue provision (MRP). Based on our capital plans, our forecast of total MRP, and of the incremental impact of MRP, is shown in the following table:

	2025/26 £'m	2026/27 £'m	2027/28 £'m	2028/29 £'m	2029/30 £'m
Forecast closing MRP 2024/25	1.306	1.306	1.306	1.306	1.306
Change in MRP	(0.036)	0.056	0.165	0.218	0.270
Forecast MRP	**1.270**	**1.362**	**1.471**	**1.523**	**1.576**

3.3.12 Where we borrow to make investments into services, which do not have a direct financial return (for example the replacement of our fleet), overall affordability is monitored through the use of the following indicators:

- Value: Cost of general fund borrowing in relation to total service income (income generating services, excluding community and commercial property)
- Value: Cost of general fund borrowing in relation to council tax (non-income generating services)
- Term: Years until debt free (Housing Revenue Account*)*

Investments and Commercial Strategy

3.3.13 We do not undertake capital investment activities which are purely for the generation of profit, as the main purpose of our capital investment activities are usually to meet our corporate objectives. Some of these activities may not have a partial objective of generating profit.

3.3.14 To ensure that we make robust and informed decisions, including a full understanding of risk, we will maintain an Investment Strategy (Annex E).

3.3.15 In summary, where we undertake investment activities, we will ensure we maintain a suite of indicators to monitor against, ensure professional advice is taken where appropriate and ensure officers maintain their professional development.

3.3.16 Our key indicators for investments and commercial activities are as follows:

- Ratio: Loan to value / CFR to asset base (community and commercial property)
- Ratio: Principal cover / MRP to income stream (community and commercial property)
- Ratio: Interest Cover / Income to interest cost (community and commercial property)
- Ratio: Interest Cover / Income to interest cost (Housing Company)

3.3.17 Additional indicators to monitor performance (such as occupancy rates of community and commercial assets) are monitored as part of the Councils performance framework and reviewed annually.

Treasury Management Strategy

3.3.18 Our Treasury Management Strategy (Annex F) ensures we maintain sufficient and not excessive funds to meet our spending needs. It provides the framework for managing the risks involved with investing our surplus cash and borrowing for investment in services or for cashflow purposes.

3.3.19 Our main priorities for the investment of cash balances are to ensure the security of our cash, and to maintain the appropriate level of liquidity to meet our needs. We give these objectives priority over the return on investment (interest income).

3.3.20 Our main priorities when undertaking borrowing are to achieve a low but certain cost of finance, whilst retaining flexibility should plans change in the future. These objectives can be conflicting, and so we seek to strike a balance between short and long term borrowing.

3.3.21 We formally report on our treasury management activities regularly (strategy setting, mid-year, and at year-end) and monitor against a set of indicators. These are:

- Borrowing Limit – Operational Boundary
- Borrowing Limit – Authorised Limit
- Borrowing Limit – Maturity Structure of Borrowing
- Investment Limit – Cash invested beyond one year

3.3.22 This strategy also set out how we apportion interest costs and income between our revenue accounts, the limits with financial institutions and details our use of specialist advisors.

4 Professional Advice, Skills, Training and Capacity

In order to ensure we can enact our strategy and governance framework; we must ensure we have the correct skills and capacity to do so. This section applies to all areas of our medium-term financial strategy and governance framework, including our policies, strategies and frameworks.

4.1.1 We have professionally qualified staff across a range of disciplines, including finance, legal and property.

4.1.2 We ensure our staff maintain continual professional development and attend courses to keep abreast of new developments and to enhance and develop their skills.

4.1.3 We will ensure we have or procure the right skills and knowledge to support the delivery of our all of our financial strategies and governance frameworks. Where specialist or technical knowledge is required, we will engage professional external advisors.

4.1.4 We establish project teams from the relevant professional disciplines as required but will also utilise external professional advice to support with technical/professional specialisms and/or capacity.

4.1.5 External advice will always be sought for significant investments, including treasury investments (such as treasury advice), commercial investments (such as property, treasury and legal advice), or service investments (such as legal advice, market expert advice and treasury advice).

4.1.6 Internal and external training is also available to our Members to ensure they have the up to date knowledge and expertise to understand and scrutinise financial decisions.

Annex A – Reserves Policy

A1 This policy supports our Medium-Term Financial Strategy and is reviewed annually. It sets the minimum level of balances required, explains the different types of reserves held, and our governance arrangements.

A2 The policy applies to both the General Fund and Housing Revenue Account reserves, both revenue and capital. It is important that our Councillors understand the reserves policy and the importance of maintaining an adequate level of reserves when reviewing and approving our budget, which will be done with the advice of our Chief Financial Officer.

A3 CIPFA guidelines were issued in November 2008 under LAAP Bulletin No. 77. The main areas covered in these guidelines are set out in this policy together with our approach to these.

The Existing Legislative/Regulatory Framework

A4 The requirement for financial reserves and safeguards are set out in in statute (Local Government Finance Act 1992 and Local Government Act 2003). These requires us to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement, and to ensure safeguards are in place, including:

- Setting a balanced budget
- Having the view of the Chief Finance Officer on the robustness of estimates and adequacy of reserves when considering the budget requirement
- Making arrangements for proper administration of our financial affairs, where the Chief Finance Officer is the responsible person (Section 151 duties)

A5 The Chief Finance Officer must report (under section 114) to all our councillors if there is, or is likely to be, unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year. The issue of a section 114 notice by the Chief Finance officer cannot be taken lightly and has serious operational implications, likely including an immediate to all non-essential spending.

A6 The level of reserves and balances required is not set by statute, and no prescriptive guidance is issued by CIPFA or the Auditors. There is no statutory minimum level of reserves. It is up to local authorities themselves to set their own level of reserves and balances on the advice of the Chief Finance Officer.

The role of the Chief Financial Officer

A7 Within the existing statutory and regulatory framework, it is the responsibility of the Section 151 Officer to advise the Council about the level of reserves that it should hold and to ensure that there are clear protocols for their establishment and use. For the Council, the Section 151 Officer is the Executive Director (Finance and Transformation).

A8 The Council then, acting on the advice of the Section 151 Officer, and taking into account all local circumstances, must make its own judgements on the level of reserves and balances.

A9 Local circumstances include the strategic, operational and financial risks and the adequate and effective systems of internal control.

A10 The Chief Finance Officer will report to the Council on the adequacy of reserves, which is done alongside the budget, and reserve movements will be considered as part of our budget monitoring arrangements.

Types of Reserve

A11 Usable reserves can be held for three main purposes:

- Working Balances – These reserves help to cushion the impact of uneven cash flows, avoid unnecessary temporary borrowing, and provide funds for unexpected events or emergencies.
- Earmarked Reserves – These are where funds are set aside for a future purpose such as to help deliver a long-term strategy, to change processes, deliver specific one-off projects, or to manage and mitigate specific risks. These future purposes can be very specific, or may be quite broad, dependant on the level of detail known when setting up a reserve.
- Capital Reserves – These are where we keep the balance of any unutilised capital funds. These funds can be made up of capital receipts, contributions, grants and contributions from revenue.

A12 We also hold other 'un-useable' reserves that arise out of legislation and accounting standards. These reserves are not cash backed and cannot be used for other purposes. These are separated on the face of our core financial statements which are published each year.

Target Working Balances / Reserves

A13 The principles used by the Chief Finance Officer to assess the adequacy of unallocated general reserves when setting the budget, ensure that account is taken of the strategic, operational and financial risks facing the authority.

A14 Setting the level of reserves is just one of several interrelated decisions in the formulation of the medium-term financial strategy (MTFS) and the budget for a particular year.

A15 Consideration is given to the key assumptions underpinning the budget alongside the authority's financial management arrangements, and the risks, opportunities, economic and local factors identified in the MTFS. We also consider previous guidance issued by the Audit Commission.

A16 For the General Fund, a risk-based approach is taken to estimate reserve requirements, which is then considered as a percentage of turnover. This provides a risk-based approach to short term reserve levels, and a proxy for our forecasts of medium-term reserve requirements.

A17 For 2025/26, the minimum working balances have been assessed as £3.9m using a risk-based assessment, which equates to around 8.2% of turnover (excluding below the line items).

A18 We may decide to make use of the working balances to help balance the budget in the short term, such as for one off expenditure, due to a delay to an efficiency proposal, or to reduce the level of working balances to target. However, working balances will not be utilised for recurrent expenditure without this being explicit in the budget report, and on the advice of the Chief Financial Officer.

A19 In our medium term forecasts, for 2026/27 and 2027/28, we have planned for the use of some of our reserves to spread the impact of the anticipated funding cliff edge we face (see paragraphs 2.3.25 – 2.3.34 of the Medium-Term Strategy)

A20 For the Housing Revenue Account, due to the restricted nature of the funds, and lower exposure to as many risks, the target working balance is maintained as low as reasonably possible to minimise borrowing costs.

A21 Unlike the General Fund, the HRA also makes a large voluntary contribution to Capital each year. In the event of a substantial unforeseen event occurring, which impacts more than the level of reserves available, alternative funding of the event can be managed through a reduced revenue contribution to capital.

A22 On this basis, 5% of turnover is used, which supports cashflows, and provides a reasonable cushion for risk.

Earmarked Reserves

A23 Our earmarked reserve balances, the reason for holding these reserves, along with any budgeted contributions to and from these reserves, will be approved by Full Council as part of the annual budget setting process.

A24 Additional contributions to and from these reserves may be made during the year, or at the end of the year, as approved by Full Council or under delegated authority as appropriate.

A25 Priorities may also be identified as part of the budget setting process where new reserves, or increases to reserves may be required. Should there be a favourable variance at year end these would be the first areas for consideration.

A26 We will not create earmarked reserves for expenditure that should be treated as a provision, which is determined by accounting standards and the CIPFA code of practice on Local Government Accounting.

A27 Earmarked Reserves which have delegated authority to spend against, are set out below. Drawdowns from reserve not in line with original purposes, or which do not have delegated approval as set out below, will require supplementary estimates to be requested in line with the financial regulations:

Reserve	**Delegated Approval**
Transformation Reserve	Transformation Board in consultation with the Leader, Executive Member for Resources and the Section 151 Officer
Business Rates Retention Reserve	Section 151 Officer in consultation with the Executive Member for Resources
Grants and Contributions Reserve	Section 151 Officer
Climate Change Reserve	Climate Change Member Group in consultation with the Section 151 Officer
Commitments Reserve	Section 151 Officer
Local Plan Reserve	Section 151 Officer in consultation with the Executive Member for Resources and Executive Member for Planning
Civic Buildings Reserve	Section 151 Officer in consultation with the Executive Member for Resources

Capital Reserves

A28 There is no target/minimum balance for capital reserves.

A29 Capital receipts and contributions are restricted for capital use, and reserves are used in line with the capital financing strategies set out in the MTFS.

A30 Consideration will be given to other financing methods to enable reserves to be utilised for future capital expenditure, while balancing the risk of investing and cost to carry.

A31 We will consider the strategic disposal of assets to generate additional capital receipts where appropriate and will do this in line with our asset disposal strategy.

Reporting and Governance Framework

A32 The Chief Finance Officer has a duty to local taxpayers and must be satisfied that the decisions taken on balances and reserves represent proper stewardship of public funds.

A33 Compliance with this policy assists the Chief Finance Officer to be satisfied that there are governance arrangements in place for our reserves.

A34 The level and utilisation of reserves is determined formally by the Council at its meetings to approve the annual budget and the final accounts. These decisions are informed by the advice and judgement of the Chief Finance Officer.

A35 The budget report presented annually will include the budget for the next financial year and will include a statement from the Chief Financial Officer on the adequacy of reserves over the lifetime of the medium-term financial strategy.

A36 We actively monitor our budgets throughout the year, and we will report on any forecast changes in the level of balances or reserves.

A37 Our annual statement of accounts includes a schedule of all reserves in the balance sheet. Significant reserve movements are explained in the Chief Finance Officer's foreword to the accounts and out-turn reports.

Annex B – Fees and Charges Strategy

B1 This Strategy supports our Medium-Term Financial Strategy and is reviewed annually. It sets out our approach to setting our fees and charges.

B2 A significant proportion of our income is derived from fees and charges and a balance has to be struck between meeting our statutory responsibilities and the subsidies we provide for discretionary services. Our strategy has three core underlying principles:

- We will raise income from users of services wherever there is a power/duty to do so
- Income raised should cover the full costs of providing the service, and will rise annually
- Any departures from this policy must be justified with reference to the Council's priorities and policies

Raising Income for Services

B3 We believe that raising charges to recover costs is preferable to removing a service completely, and we aim to recover costs of services from the users of those services, unless there are wider benefits for funding a service in another way.

B4 Statutory defined fees and charges will change in line with the governing legislation.

B5 We will approve a full list of fees and charges at Full Council as part of our budget setting process, which will be published.

B6 Concessionary charges may be set for a service and will be appropriate to the circumstances of the customer while encouraging increased participation for less advantaged groups. This should not lead to unjustifiable preferential treatment.

B7 Delegation is provided to the Executive Member of Resources, in consultation with the Chief Financial Officer, to amend fees and charges in year, where there are changes in legislation or changes to external costs which directly impact on the amount we need to recover (an example is if the Land Registry amends their fees and charges, our legal fees which include the recovery of these costs, would need to be amended).

B8 These delegations do not extend to a broader ability to amend fees and charges, but is limited to these particular circumstances. Where these circumstances do not apply, amendments to fees and charges would require Full Council approval.

Covering Service Cost

B9 We will aim to recover the full cost of services through the collection of fees and charges, including overheads, where it is possible to do so.

B10 Our fees and charges will increase at least in line with inflation unless there is a clear reason for an alternative approach.

B11 Consideration will be given to local circumstances, economic conditions, comparability/ benchmarking, the impact of changes on the usage of the service and the user's ability to pay.

Departures from Policy

B12 When we do not raise income in areas where we have the power to do so, we forego the opportunity to cover the cost of the service, which will increase our savings targets.

B13 Members will scrutinise fees and charges and will be supplied with information to allow them to make decisions in a structured and explicit manner. Any decision to forego income or to subsidise a service is considered a policy decision and will be summarised as part of the budget pack provided to Council.

Annex C – Minimum Revenue Provision Policy

C1 This Strategy supports our Medium-Term Financial Strategy and is reviewed annually. It sets out our approach to determining how we will efficiently and prudently set aside funds for the repayment of our borrowing.

C2 Where we finance General Fund capital expenditure through debt, we must also ensure we put aside resources to repay that debt in future years.

C3 An amount is charged to the revenue account on an annual basis for this, and this is known as the Minimum Revenue Provision (MRP).

C4 In determining how much we should set aside each year, we must have regard to the guidance issued by the Government and the Local Government Act. The most recent guidance was issued in 2024 by the Ministry for Housing, Communities and Local Government.

C5 In order to ensure a prudent and efficient approach is taken to the repayment of debt, we will align the period of MRP charges to the period by which the capital expenditure/asset provides benefit, subject to statutory caps on repayment periods.

C6 The guidance requires us to produce this annual statement/policy each year and sets out a number of options for determining an MRP charge. Our policy on charging MRP is as follows:

- We will adopt the Asset Life method for the calculation of our MRP, where the charge is calculated to reflect the life of the asset.

- We will calculate MRP on a straight-line basis, where an equal instalment is made each year, and this charge will go to the repayment of external debt, or to the balance sheet to reduce the level of capital financing requirement.

- We will not charge MRP in the year of purchase/scheme completion. MRP will be charged from the following financial year.

- For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, we will follow the government guidance on MRP, applying capital repayments against MRP where allowed to do so.

Annex D – Financial Planning Framework

D1 This Framework supports our Medium-Term Financial Strategy and is reviewed annually. It sets out our approach to how we will determine our budget priorities, how we will assess budget changes, and our governance process.

D2 When setting our budget, we start with our medium-term strategy, which includes all previously known factors and assumptions. We then take into account any changes to our plans based on the outturn of the most recent financial year. Outlined in the table below are the key stages involved in producing the budget:

June	We agree our strategic priorities for the next year. Cabinet approves the framework for the budget setting process for the following year.
July/August	Budget setting guidance if issued to our senior officers. Officers are then asked to submit bid forms which outlines any proposals they are recommending for incorporation into our budgets, including capital projects, efficiencies and growth.
September / October	We update our medium-term financial forecasts to reflect the new bids submitted and/or amendments made to existing bids. All of the bids are reviewed by the Section 151 officer to ensure that the bids submitted have complied with the approved budget guidance.
October / November	All bids are then challenged and scrutinised by the Corporate Management Team, before discussion with for comments and recommendations.
December	The Provisional Local Government Finance Settlement is announced by the government (this indicates the levels of funding we will receive and any policy decisions that may change our budgets).
January	Our draft capital and revenue budgets are presented to Cabinet and to Overview Scrutiny Committee for consideration. Growth, savings and capital bids are considered against our priorities, and the impact on affordability and risk indicators considered. Any budget consultation with the public and/or business rates payers is also analysed and fed into the budget decision process.
February	Full Council approves next financial year's council tax, capital and revenue budget, and new Medium-Term Financial Strategy and Financial Governance Framework.
April	The new financial year commences, and the budget approved is then assessed under the monitoring process.

Annex E – Investment Strategy

E1 This policy supports our Medium-Term Financial Strategy (MTFS) and is reviewed annually. It ensures we fully understand and consider the risks and opportunities of commercial and service-based investments.

E2. It sets out our approach to investing money, specifically in relation these commercial and service investment activities.

E3 Service based investment activities covers us lending money to, or buying shares in, other organisations.

E4 Commercial investment activities cover property and other similar investments to where profit/return is the main purpose of the investment.

E5 Investments made for treasury management activities (surplus cash arising from day to day activities and cash-flows), are covered separately by the council's Treasury Management Strategy (Annex F).

E6 We will ensure we have professionally qualified staff, and make use of external professional advice where appropriate, as set out in our MTFS.

Service Based Investments - Loans

E7 We have a number of loan arrangements with local charities, residents, its joint venture and its employees to support local public services and stimulate economic growth and provide affordable housing.

E8 These loans are treated as capital expenditure. The main risks associated with service loans, is that the borrower will be unable to repay the principal amount lent and/or interest due. In order to limit the risk, and exposure remains appropriate and proportionate, limits are set.

E9 We will set these limits giving consideration to the financial risks, an assessment of the demand for such services, our risk appetite and professional advice received. A summary of our loans for service purposes, and limits are shown in the table below:

	2023/24 Actual			2024/25	2025/26
Category of borrower	**Balance Owing £000**	**Loss Allowance £000**	**Net Figure in accounts £000**	**Forecast Balance £000**	**Limit £000**
Joint Venture	107	0	107	107	172
Local Charities	69	0	69	55	87
Local residents	4,045	0	4,045	3,641	4,450
Employees	8	0	8	16	500
Total	**4,229**	**0**	**4,229**	**3,819**	**5,209**

E10 We are required through accounting standards to set aside a loss allowance for loans, to reflect the likelihood of non-payment. We make every reasonable effort to recover sums lent and have appropriate credit control arrangements in place.

E11 Loans to residents shown in the table, are for the rent to mortgage scheme, which in no longer in operation. Although not in operation, balances are still collectable, and a charge is made against the relevant properties which ensures recovery when the asset is sold. There is therefore minimal risk with non-recovery.

E12 In making loans, we will ensure we fully consider risk implications, both on the individual loan, and the cumulative exposure to risk.

E13 We will ensure that full due diligence is undertaken, that security is in place where appropriate, and that loans are actively monitored.

E14 Any business case will set out the benefits and risks of the investment and will require approval in line with our constitution and approved policies.

E15 To monitor the exposure risks associated with service-based investments, we will report the following information:

- Total service investments made
- Ratio of Cost to Returns (Cost of borrowing against returns generated)

Commercial Property Investments

E16 We hold a small portfolio of local commercial property, purely for the intention of generating a profit to support local services. These assets are historical asset holdings, and have no debt associated with them.

E17 These properties are defined as investment properties, and per international accounting standard 40, and had a value as at the 31 March 2024 of £4.520m, generating around £392k per annum in rental income, which supports the delivery of local services.

E18 While we have no plans to invest in further property, purely for financial return, we monitor our existing commercial property investments.

E19 We consider property investment to be secure, if its accounting value is the same as, or higher than its purchase price including taxes and transaction costs.

E20 We review our investment property valuations each year to monitor the risk of fluctuations in value.

E21 We also monitor the net rental income generated by our property investments to identify trends, as reductions in market rent could point to a fall in property value.

E22 We will not undertake any future investment in property purely for financial return. Any investments of this type would require budget approval from Full Council and would prevent the council from undertaking borrowing from the public works loan board, so would be unlikely to be recommended.

Service Based Property Investments

E23 In addition to the property we hold purely for commercial returns, we also hold a large portfolio of assets for service reasons, and these assets also generate returns for the Council. Such assets include town centre and neighbourhood centre retail units, car parks, community assets and business centres.

E24 These properties had a (gross book) value as at 31 March 2024 of £102.35m, generating around £7.722m per annum in rental income, and had £35.010m of debt associated with them.

E25 Whilst the primary purpose of holding these assets is not financial return, they do face similar risks to those assets held purely for financial return.

E26 For this reason, we make use of three ratios to help us monitor risks for the community and commercial asset portfolio. These indicators are:

- Loan to value (Capital Financing Requirement related to these assets, compared to the value of the assets)
- Principal cover (Minimum Revenue Provision Charge in relation to these assets, compared to the net income stream generated from these assets)
- Interest Cover (Income derived from these assets divided by the interest cost associated with these assets)

Annex F – Treasury Management Strategy

F1.1 This strategy supports our Medium-Term Financial Strategy (MTFS) and is reviewed annually. It ensures we appropriately manage and protect our cash balances and carefully manage our borrowing to support our activities.

F1.2 Treasury Management is the management of our cash flows, borrowing and investments and associated risks. This activity involves substantial sums of money and therefore exposes us to financial risks such as loss of funds and impacts from changing interest rates.

F1.3 The successful identification, monitoring and control of these risks are therefore central to prudent financial management.

F1.4 Our treasury risk management is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code), which requires the approval of a treasury management strategy before the start of each year.

F1.5 Our strategy also fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code. It ensures we fully understand and consider the risks and opportunities of commercial and service-based investments.

Balance sheet summary and forecast

F2.1 To take a view on likely treasury activity in 2025/26 it is necessary to look at the Council's balance sheet to estimate the level of funds available for investment purposes and any borrowing requirements, as shown in the forecast closing balances table below:

Table 1: Balance sheet summary and forecast

	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m	2028/29 Forecast £m	2029/30 Forecast £m
General Fund CFR	53.033	51.179	51.389	51.490	51.161	50.779	50.480
HRA CFR	244.784	266.063	300.938	334.955	355.011	376.131	370.027
Total CFR	**297.817**	**317.242**	**352.328**	**386.445**	**406.172**	**426.910**	**420.507**
Less: Other debt liabilities	(2.266)	(2.248)	(2.230)	(2.212)	(2.194)	(2.176)	(2.158)
Loans CFR	**295.551**	**314.994**	**350.098**	**384.233**	**403.978**	**424.734**	**418.349**
Less: Existing borrowing	(246.051)	(233.582)	(204.163)	(172.944)	(141.226)	(126.207)	(110.188)
Under/(Over) borrowing	**49.500**	**81.412**	**145.935**	**211.289**	**262.752**	**298.527**	**308.161**
Less: Usable reserves	(45.029)	(40.680)	(43.927)	(40.376)	(42.095)	(44.353)	(44.154)
Less: Working capital	(22.245)	(3.000)	(3.000)	(3.000)	(3.000)	(3.000)	(3.000)
New Borrowing (Cumulative)	0.000	(47.731)	(109.007)	(177.913)	(227.657)	(261.174)	(271.006)
Investments	**17.774**	**10.000**	**10.000**	**10.000**	**10.000**	**10.000**	**10.000**

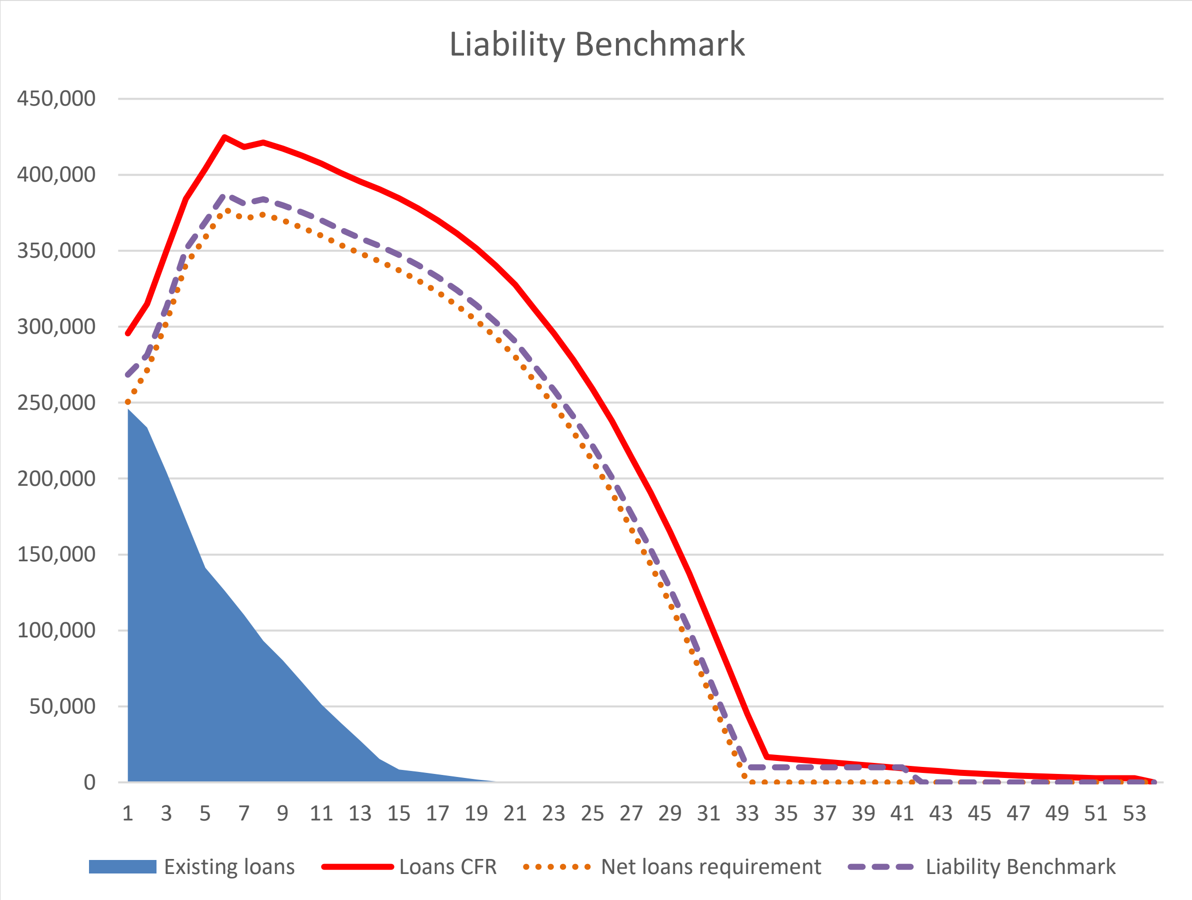
F2.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. The Council's has an increasing CFR due to the capital programme, but minimal investments and will therefore be required to borrow up to £271m over the forecast period. This will also cover replacing maturing loans.

F2.3 CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that an Authority's total debt should be lower than its highest forecast over the next three years, Table 1 shows that the Council expects to comply with this recommendation during 2025/26.

F2.4 The liability benchmark is effectively the net borrowing requirement of a local authority plus a liquidity allowance and shows the lowest risk level of borrowing. The objective of the liability benchmark is to show the optimum level of borrowing in order to ensure appropriate funding and liquidity for both longer term projects and short term cashflow needs. This assumes the same forecasts as in Table 1 above, but that cash and investment balances are kept to a minimum level of £10m at each year end to maintain sufficient liquidity but minimise credit risk. Table 2 shows the figures and they are also produced in graphical format below.

Table 2: Prudential Indicator – Liability benchmark

	31.3.24 Actual £m	31.3.25 Estimate £m	31.3.26 Estimate £m	31.3.27 Estimate £m	31.3.28 Estimate £m
Loans CFR	295.553	314.994	350.097	384.233	403.978
Less: Balance Sheet Resources	(45.029)	(43.680)	(46.927)	(43.376)	(45.095)
Net Loans requirement	**250.524**	**271.314**	**303.170**	**340.857**	**358.883**
Plus: liquidity allowance	17.772	10.000	10.000	10.000	10.000
Liability Benchmark	**268.296**	**281.314**	**313.170**	**350.857**	**368.883**



Interest rate forecasts

F3.1 Another factor to consider when setting a treasury management strategy is the forecast for interest rates. The rates assumed are set out in our MTFS (section 2.1), which are provided by our treasury management advisors, Arlingclose Ltd.

Borrowing Strategy

F4.1 **Objectives:** The Council's primary objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

F4.2 **Strategy:** Whether external borrowing is taken out depends on the level of cash balances held by the Council, and forecasts relating to this are set out in section F2.1.

F4.3 We manage and monitor our cash position to ensure sufficient funds are available to meet all requirements, taking advice from the Council's treasury advisors Arlingclose Ltd in relation to timing and structure of borrowing. This may be through utilising cash balances held by the Council (internal borrowing) in the short or medium term, where it is cost effective to do so. By using internal resources, the Council is able to reduce net borrowing costs and reduce overall treasury risk.

F4.4 When required and prudent, the Council will borrow externally from external bodies (such as the Government through the Public Works Loan Board (PWLB) or the money markets). Although all long term borrowing to date is from the PWLB, the Council will consider other sources in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA code.

F4.5 We may borrow in advance of need to take advantage of low interest rates, if deemed to be in our financial interest. Any borrowing in advance of need will not exceed the capital financing requirement for the current year plus 2 years. Borrowing for short periods of time to cover unexpected cash flow shortages may also be undertaken if required.

F4.6 Under advice from the Council's treasury advisors, we may also consider arranging forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved for the future without incurring costs immediately.

F4.7 **Context:** At 1 April 2025 the Council will hold around £210m of long term HRA loans. The debt portfolio was originally structured to mirror projected cash surpluses arising from the HRA business plan on the introduction of self-financing, with all loans being repaid by 2028.

F4.8 The Government's four-year rent reduction policy impacted on our ability to repay loans as quickly as it originally intended. This meant that in the medium term of the 30 Year HRA Business Plan, additional borrowing will be needed to extend the duration of the repayment period.

F4.9 The latest HRA Business Plan forecasts that borrowing will be repaid within 33 years, so within the 30 Year plan.

F4.10 Our budget shows there is further borrowing requirement of £62m in 2025/26, to support the Affordable Housing Programme, major repair works and refinancing of existing debt. We continue to generate receipts from right to buy sales.

F4.11 At 1 April 2025 General Fund borrowing, which relates to the acquisition and refurbishment of properties in recent years to support the economic development and regeneration of town and neighbourhood centres in the Borough, will amount to £23.7m.

F4.12 **Sources of borrowing:** Our approved sources of long-term and short-term borrowing will be:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- Any institution approved for investments (see section 7)
- Any other bank or building society authorised to operate in the UK
- Any other UK public sector body
- UK public and private sector pension funds (except Hertfordshire Pension Fund)
- Capital market bond investors
- UK Municipal Bonds Agency plc and special purpose companies created to enable local authority bond issues
- National Wealth Fund Ltd (formerly UK Infrastructure Bank Ltd)

F4.13 **Other sources of debt finance:** In addition, we may finance our capital expenditure through other methods that are not directly borrowing cash, but would be classed as debt liabilities:

- Leasing
- Hire purchase
- Private Finance Initiative
- Sale and leaseback

F4.14 **Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates.

F4.15 We may take advantage of this and replace some of our loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in our risk exposure. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

F4.16 **Governance and Reporting:** We maintain a number of indicators to monitor and limit our risk exposure in relation to our debt, some of which are required by legislation.

F4.17 **Maturity structure of borrowing:** This indicator is set to control the Council's exposure to refinancing risk. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Table 3: Maturity Structure of borrowing

Period	Upper Limit	Lower Limit
Under 12 months	30%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	80%	0%
10 years and within 20 years	100%	0%
20 years and above	100%	0%

F4.18 **Authorised Borrowing Limit:** The authorised limit is what we determine to be our maximum affordable borrowing in any one year. It is not the amount the Council expects to borrow to meet its capital expenditure requirements but provides headroom over and above our capital requirements to allow for unusual cash movements, or to take advantage of low interest rates and to borrow in advance of need.

Table 4: Authorised Borrowing Limit

Authorised Borrowing Limit	2025/26 £m	2026/27 £m	2027/28 £m
External Borrowing	380.097	414.233	433.978
Other Long-term Liabilities	2.230	2.212	2.194
TOTAL	**382.327**	**416.445**	**436.172**

F4.19 **Operational Boundary:** The operational boundary is based on the Council's estimate of most likely scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement, and is a key management tool for in-year monitoring. The operational boundary below is set based upon our expected year end position and may be exceeded during the year based on upon cashflow requirements, and the timing of borrowing repayments.

Table 5: Operational Boundary

Operational Boundary	2025/26 £m	2026/27 £m	2027/28 £m
External Borrowing	350.097	384.233	403.978
Other Long-term Liabilities	2.230	2.212	2.194
TOTAL	**352.327**	**386.445**	**406.172**

Treasury Investment Strategy

F5.1 The Council holds significant invested funds, representing the income we have received in advance of our expenditure, plus the balances and reserves we hold. It is expected that our treasury investment balances will range between £10m and £50m in the 2025/26 financial year.

F5.2 Our non-treasury investments, such as investment in property, are covered separately by our investment strategy (Annex E of our MTFS).

F5.3 **Objective:** To ensure funds are invested prudently, giving regard to the security and liquidity of investments, before seeking the highest rate of return, or yield. We will aim to strike a balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

F5.4 **Strategy:** As demonstrated by the liability benchmark above, the Council expects to be a long-term borrower and new treasury investments will be made primarily to manage day-to-day cash flows, using short term, low risk investments. The existing investment in the CCLA property fund will be maintained, however, to diversify risk into different sectors.

F5.5 The CIPFA Code does not permit local authorities to both borrow and invest long term for cash flow management. The Council may, though, make long term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by adding diversification to the strategic pooled fund portfolio.

F5.6 **ESG policy:** Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

F5.7 **Business Models:** Under the IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its treasury investments by a business model of collecting the contractual cashflows and therefore, where other criteria as also met, these investments will continue to be accounted for at amortised cost.

Managing Treasury Investment Risks

F6.1 We maintain a list of counterparties that we can invest with (section F7), and actively monitor the risk of investing with these counterparties.

F6.2 **Risk assessment and use of credit ratings:** Credit ratings are obtained and monitored by our treasury advisors, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- No new investments will be made;
- any existing investments that can be recalled or sold at no cost will be; and
- full consideration will be given to recall or sale of all other existing investments with the affected counterparty.

F6.3 Where a credit rating agency announces that a rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative"), and that indicates that a rating is likely to fall below the approved rating criteria, we will only invest in these institutions if the investment can be withdrawn on the next working day. This policy will not apply to negative outlooks, which indicate a long term direction of travel rather than an imminent change of rating.

F6.4 **Other information on the security of investments:** We understand that credit ratings are good predictors of investment default, but not perfect.

F6.5 Full regard will be given to other available information on the credit quality of the organisations in which we invest, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from our treasury management advisor.

F6.6 No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet other criteria such as minimum credit rating.

F6.7 When deteriorating financial market conditions affect the creditworthiness of all organisations, as in 2008, 2020 and 2022, this is not generally reflected in credit ratings but can be seen in other market measures.

F6.8 In these circumstances, we will restrict our investments to those organisations of higher credit quality and reduce the maximum duration of our investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions.

F6.9 If these restrictions mean that insufficient commercial organisations of “high credit quality” are available to invest our cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office, invested in government treasury bills, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

F6.10 **Liquidity management:** We use cash flow analysis to determine the maximum period for which funds may prudently be committed. Our forecasts are compiled on a prudent basis to minimise the risk of being forced to borrow on unfavourable terms to meet our financial commitments. Limits on long term investments are set with reference to the Council’s medium-term financial strategy and cash flow forecast.

F6.11 **Interest rate risk:** We manage our exposure to fluctuations in interest rates with a view to containing interest costs and/or securing interest revenues, to meet budget expectations. This is achieved through the prudent use of approved instruments, methods and techniques, primarily to create stability, and certainty of costs and revenues, whilst retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. Advice is taken from our treasury advisors in this respect.

F6.12 **Governance and Reporting:** We maintain key indicators to monitor and limit our risk exposure in relation to our investments:

F6.13 **Long term treasury management investments:** The purpose of this indicator is to balance our liquidity needs and control our exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long term treasury management investments will be:

Table 6: Longer term investments

	2025/26 £m	2026/27 £m	2027/28 £m	No fixed date £m
Sums invested beyond one year	5.000	5.000	5.000	5.000

Long term investments with no fixed maturity date include strategic pooled funds but exclude money market funds and bank accounts with no fixed maturity date as these are considered short term.

Approved investment counterparties

F7.1 We may invest our surplus funds with any of the counterparties in the following table, subject to the cash limits (per counterparty) and time limits shown. The table must be read in conjunction with the remainder of this section.

Table 7: Approved investment counterparties

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	3 years	Unlimited	n/a
Local authorities & other government entities	3 years	£3m	£20m
Secured investments *	3 years	£4m	£20m
Banks (unsecured) *	7 months	£3m	£15m
Building societies (unsecured) *	7 months	£3m	£15m
Registered providers (unsecured) *	3 years	£3m	£6m
Money market funds *	n/a	£4m	£32m
Strategic pooled funds	n/a	£4m	£8m

*** Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A- Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

F7.2 **UK Government:** This class includes loans to, and bonds and bills issued or guaranteed by the UK Government. Investments with the UK Central Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts. The maximum duration is set at 3 years to make clear that the Council does not borrow to invest primarily for financial return.

F7.3 **Local Authorities and Other Government Entities:** This category includes loans to, and bonds and bills issued or guaranteed by regional and local authorities, multilateral development banks and other Government entities. These investments are not subject to bail-in and there is generally a lower risk of insolvency, although they are not zero risk. The maximum duration is set at 3 years as it is for the UK Government.

F7.4 **Secured Investments:** These investments are secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds, secured deposits, reverse repurchase agreements with banks or building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments. The maximum duration is set at 3 years as it is for the UK Government and local authorities.

F7.5 **Banks and Building Societies (Unsecured):** These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. This class includes accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks.

F7.6 **Registered Providers (Unsecured)**: These bodies are regulated by the Regulator of Social Housing and, as providers of public services, they retain the likelihood of receiving government support if needed. This class includes loans to, and bonds issued or guaranteed by registered providers of social housing and registered social landlords, formerly known as Housing Associations.

F7.7 **Money Market Funds:** These are pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee., The Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

F7.8 **Strategic Pooled Funds:** These allow diversification into asset classes other than cash without the need to own and manage the underlying investments. As these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting our investment objectives will be monitored regularly. This class includes bond, equity and property funds, including exchange traded funds, that offer enhanced returns over the longer term but are more volatile in the short term.

F7.9 **HSBC Group:** Unexpected receipts to the council's operational bank account may take the overnight balance above the HSBC end of day projected balance, which is used make daily treasury decisions. These operational balances will not count towards the investment limit, on the basis that they cannot always be controlled and unexpected payments are often received.

F7.10 **Investment Limits:** The maximum that will be lent to any one organisation (other than the UK government) will be £4m in order that no sum in excess of available reserves is put at risk in the case of a single default. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on investments in brokers' nominee accounts and industry sectors as below.

Table 8: Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£4m each
Any group of organisations under the same ownership	£4m per group
Any group of pooled funds under the same management	£4m per manager
Investments held in a broker's nominee account	£10m per broker

Policy on Use of Financial Derivatives

F8.1 The CIPFA Code requires us to clearly state our policy on the use of derivatives. We do not plan to use derivatives currently.

F8.2 If required, we will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that we are exposed to. Any additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk.

F8.3 Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall strategy.

F8.4 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. The current value of any amount due from a derivative counterparty will count against the counterparty credit limits.

F8.5 We will seek and consider external advice before entering into financial derivatives to ensure that we fully understand any implications.

Markets in Financial Instruments Directive

F9.1 We have opted up to professional client status with our providers of financial services, including advisors, banks, brokers and fund managers. This allows us access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies.

F9.2 Given the size and range of the Council’s treasury management activities the Council’s s151 Officer believes this to be the most appropriate status. This status requires the Council to maintain a minimum of £10m in investments.

Policy on apportioning interest to the Housing Revenue Account

F10.1 All long-term loans in the Council’s portfolio are assigned in their entirety to either the General Fund or the HRA pool at the time the loan is agreed. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account.

F10.2 Differences between the value of the HRA loans pool and the HRA’s underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA. The interest rate to be applied will be the DMADF rate for the weighted average maturity period of the investment portfolio, determined on a weekly basis.

Treasury Management Practices

F11.1 The CIPFA Code requires the Council to maintain a set of Treasury Management Practice documents setting out how we will implement the treasury management strategy. They include a detailed set of schedules covering operational matters. The Section 151 officer has reviewed the documents and made some minor changes to ensure the documents are up to date.

Annex G – Summary of Performance and Risk Indicators

G1.1 This strategy supports our Medium-Term Financial Strategy (MTFS) and is reviewed annually. It provides a summary of all of our key indicators used to monitor performance and manage risk.

Reserves and Balances

We will maintain minimum working balances as follows:

	2025/26 Minimum £'m	2026/27 Minimum £'m	2027/28 Minimum £'m
General Fund	3.900	3.500	3.000
Housing Revenue Account	3.234	3.372	3.475

Capital Expenditure and Financing

Based on our capital schemes, we expect our capital expenditure to be as follows:

	2025/26 £'m	2026/27 £'m	2027/28 £'m	2028/29 £'m	2029/30 £'m
General Fund (GRF)	4.090	2.778	2.393	2.393	2.578
Housing Revenue Account (HRA)	63.974	65.474	43.538	43.178	17.500
TOTAL	**68.064**	**68.252**	**45.931**	**45.571**	**20.078**

Based on this expenditure we expect our financing to be as follows:

General Fund	2025/26 £'m	2026/27 £'m	2027/28 £'m	2028/29 £'m	2029/30 £'m
Grants and Contributions	1.672	0.592	0.592	0.592	0.592
Reserves and Revenue Contributions	1.092	0.879	0.814	0.814	0.864
Borrowing	1.326	1.307	0.987	0.987	1.122
TOTAL	**4.090**	**2.778**	**2.393**	**2.393**	**2.578**

Housing Revenue Account	2025/26 £'m	2026/27 £'m	2027/28 £'m	2028/29 £'m	2029/30 £'m
RTB Receipts	1.477	0.300	0.305	0.310	0.157
Reserves and Revenue Contributions	26.779	26.967	23.482	21.757	21.604
Borrowing	35.719	38.207	19.751	21.111	(4.261)
TOTAL	**63.974**	**65.474**	**43.538**	**43.178**	**17.500**

Based on the above expenditure and financing, we expect our capital financing requirement (CFR) to be:

	2025/26 £'m	2026/27 £'m	2027/28 £'m	2028/29 £'m	2029/30 £'m
General Fund	51.389	51.490	51.161	50.779	50.480
Housing Revenue Account	300.938	334.955	355.011	376.131	370.027
TOTAL CFR	**352.328**	**386.445**	**406.172**	**426.910**	**420.507**

Based on these capital plans, and the longer-term 30-year Housing business plan, we expect our HRA debt to be repaid in 33 years.

We have set the following maturity structure limits for borrowing:

Maturity Structure of Borrowing	Upper Limit	Lower Limit
Under 12 months	30%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	80%	0%
10 years and within 20 years	100%	0%
20 years and above	100%	0%

We have set the following authorised limits (maximum) for borrowing:

Authorised Borrowing Limit	2025/26 £m	2026/27 £m	2027/28 £m
External Borrowing	380.097	413.233	433.978
Other Long-term Liabilities	2.230	2.212	2.194
TOTAL	**382.327**	**416.445**	**436.172**

We have set the following operational boundaries (expected levels) for borrowing:

Operational Boundary	2025/26 £m	2026/27 £m	2027/28 £m
External Borrowing	350.097	384.233	403.978
Other Long-term Liabilities	2.230	2.212	2.194
TOTAL	**352.327**	**386.445**	**406.172**

Investments (Cash/Treasury)

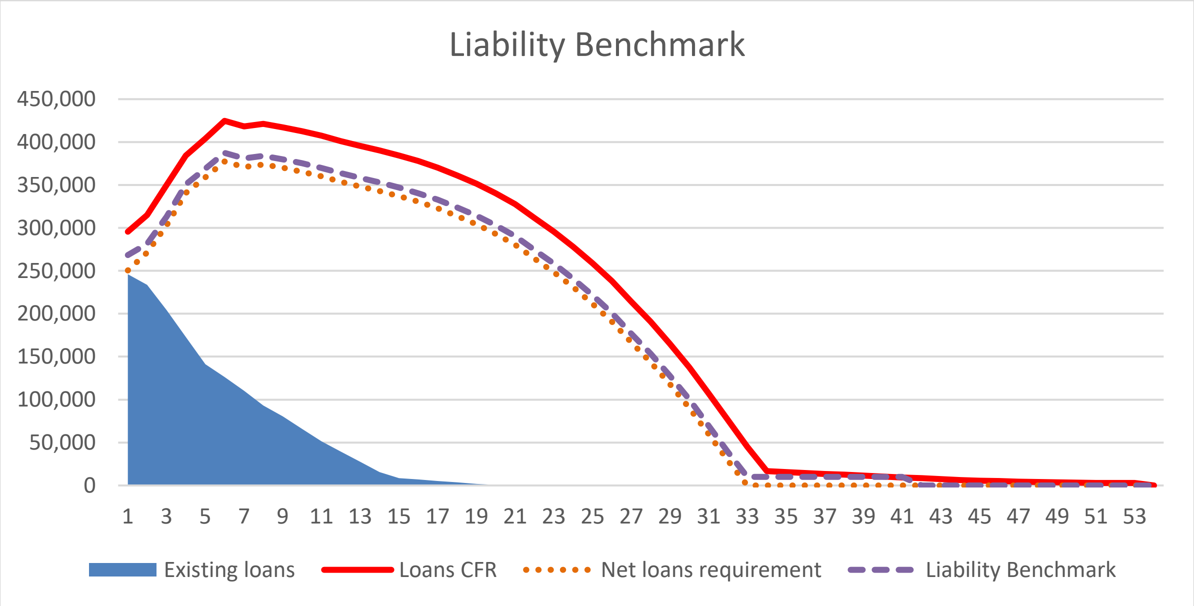
We have set the following limits for long term investments:

	2025/26 £m	2026/27 £m	2027/28 £m	No fixed date £m
Sums invested beyond one year	5.000	5.000	5.000	5.000

We have set the following counterparty limits:

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	3 years	Unlimited	n/a
Local authorities & other government entities	3 years	£3m	£20m
Secured investments *	3 years	£4m	£20m
Banks (unsecured) *	7 months	£3m	£15m
Building societies (unsecured) *	7 months	£3m	£15m
Registered providers (unsecured) *	3 years	£3m	£6m
Money market funds *	n/a	£4m	£32m
Strategic pooled funds	n/a	£4m	£8m

*** Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.



Investments (Non-Treasury)

We monitor a suite of indicators to monitor performance and risk of service based and commercial investments:

	2023/24 Actual £'m	2024/25 Estimate £'m	2025/26 Estimate £m
Income Generating Assets held for service purposes			
Ratio: Loan to value (CFR to asset base)	£1 : £2.75	£1 : £2.73	£1 : £2.76
Ratio: Principal cover (MRP to income stream)	£1 : £13.84	£1 : £11.02	£1 : £10.33
Ratio: Interest cover (interest cost to income)	£1 : £8.59	£1 : £14.93	£1 : £13.84
Non-Income Generating Assets held for service purposes			
Cost of borrowing in relation to council tax	£6.16	£9.16	£9.30
Commercial Assets			
Ratio: Loan to value (CFR to asset base)	N/A *	N/A *	N/A *
Ratio: Principal cover (MRP to income stream)	N/A *	N/A *	N/A *
Ratio: Interest cover (interest cost to income)	N/A *	N/A *	N/A *

* As there is currently no debt associated with these assets, these indicators have not been calculated. These assets had a value of £4.52m as at 31 March 2024, generating around £392k per annum in rental income.