Appendix 1 - Forecast Outturn 2022/23

Table 1: Forecast Outturn 2022/23

2022/23 (GROSS Revenue Budget £474.2m)	Revised Budget (NET) £m	Forecast Outturn £m	Forecast Variance £m
SERVICE DIRECTORATES			
Adult Social Care - Operations	117.5	126.1	8.6
Commissioning	3.6	3.9	0.3
Public Health	-	-	-
Adults and Health Committee	121.1	130.0	8.9
Directorate	1.0	0.6	(0.4)
Children's Social Care	47.0	49.5	2.5
Strong Start, Family Help and Integration	7.7	6.0	(1.7)
Education & 14-19 Skills	18.5	21.6	3.1
Children and Families Committee	74.2	77.7	3.5
Directorate	0.8	0.7	(0.1)
Growth & Enterprise	22.8	22.1	(0.7)
Economy and Growth Committee	23.6	22.8	(0.8)
Environment & Neighbourhood Services	44.4	47.3	2.9
Environment and Communities Committee	44.4	47.3	2.9
Highways & Infrastructure	13.8	13.6	(0.2)
Highways and Transport Committee	13.8	13.6	(0.2)
Directorate	1.4	1.3	(0.1)
Finance & Customer Services	12.5	13.1	0.6
Governance & Compliance Services	11.9	11.3	(0.6)
Communications	0.7	0.7	-
HR	2.4	2.2	(0.2)
ICT	9.8	10.5	0.7
Policy & Change	1.9	1.9	-
Corporate Policy Committee	40.6	41.0	0.4
TOTAL SERVICES NET EXPENDITURE	317.7	332.4	14.7
CENTRAL BUDGETS			
Capital Financing	19.0	19.0	-
Transfer to/(from) Earmarked Reserves	(3.2)	(9.2)	(6.0)
Corporate Contributions / Central Budgets	(5.2)	(6.2)	(1.0)
Finance Sub-Committee - Central Budgets	10.6	3.6	(7.0)
TOTAL NET EXPENDITURE	328.3	336.0	7.7
Business Rates Retention Scheme	(49.1)	(49.1)	-
Specific Grants	(24.5)	(24.5)	-
Council Tax	(254.7)	(254.7)	-
Finance Sub-Committee - Net Funding	(328.3)	(328.3)	-
NET (SURPLUS) / DEFICIT	-	7.7	7.7

1. The Council aims to operate a financial cycle of planning, monitoring and reporting throughout the year. The First Financial Review 2022/23 was reported to Corporate Policy Committee on 6 October 2022 with a Financial Review 2022/23 report going to all other Committees during November.

2. A Financial Review Update was presented at Corporate Policy Committee on 1 December. A forecast outturn of £8.7m net overspend was reported at this meeting (The full report can be found Agenda for Corporate Policy Committee on Monday, 1 December, 2022, 10.00 am, Item 10 | Cheshire East Council).

3. The outturn position is now forecast to be an overspend of £7.7m due to the following changes:
   - Increased care commitments, within Adults, Health and Integration, are being offset by income, for example, from direct payment reimbursements and external grants. This results in no net change to the forecast.
   - The Children and Families Directorate forecast has improved by -£0.5m. Additional costs of home to school transport from increasing SEND demand, fuel costs and contract costs is being offset by charging additional amounts to transformation costs to capital receipts and additional underspending in Strong Start from holding

vacancies. This forecast assumes that £1.6m of resettlement funding will be applied to costs incurred in 2022/23. Pressure remains on the DSG high needs block as a result of the growth in the number of pupils with an education, health and care plan. The Council holds an unusable reserve to manage DSG balances without impacting on the Council's General Reserves. The balance on the DSG reserve is forecast to be at least £45.6m deficit as at 31 March 2023.

- Environment and Neighbourhood Services forecast has worsened by £1.1m. Company pay pressures of £1.4m are partially offset by a number of vacancies within the Planning service which will not be filled before the year end, and lower waste tonnage and premises costs.
- Growth and Enterprise forecast has improved by -£0.9m. Cost reduction in Estates of £0.3m due to deferral of some non-essential maintenance work. £0.4m due to release of reserve for the ELENA project and £0.2m grant received relating to Reopening High Streets Safely.
- Highways and Infrastructure forecast has improved by -£0.7m. Continuing high levels of income is contributing a further £0.5m in 2022/23, costs of the Ringway Jacobs contract are predicted to be £0.2m lower than budget.
- Increase in the forecast overspend within the Transactional Service Centre due to additional temporary staff in recruitment and pay, external consultants costs (Agylisis), and additional Governance and Support staff costs. Fall in the underspend being forecast by Customer Services due to test and trace final grant income no longer being received, and back pay costs for staff regrades in the newly formed Continuous Improvements team (£0.4m).
- Confirmation of new burdens funding within the Elections Service and lower than previously forecast electoral registrations costs (-£0.2m).
- Improvement within ICT due to the use of capital reserve for laptop replacement and an improved revenue contracts forecast decreasing the ICT Strategy overspend (-£0.2m).
- No change in forecast for Central Budgets.

4. The 2022/23 Medium-Term Financial Strategy stated that short term variations in annual budgets are capable of being managed through the MTFS Earmarked Reserve. This approach protects such variations from having immediate negative impacts on services to residents.

5. The MTFS Earmarked Reserve is therefore forecast to be required to mitigate financial pressures in 2022/23. The Finance Sub-Committee received forecasts related to the MTFS reserve at its meeting of 7 September, which highlighted a potential balance of up to £5.5m could be available for this period. This balance would relieve the impact on General Reserves.

6. It is planned that £5.2m will be used from the MTFS reserve to mitigate the overspend. The residual impact on General Reserves would be a reduction of £2.5m,

decreasing the forecast closing balance of £14.9m to a potential closing balance of £12.4m, which is aligned to the risk assessed level of reserves for the 2023/24 Budget.

7. This forecast may be subject to variation in the final quarter, as budget managers will continue to take robust actions to control costs and reduce non-essential expenditure to improve this position further.

8. Individual pressures identified above are reflected in the MTFS for 2023/24 to 2026/27. Any betterment to the forecast outturn position should be utilised to replenish reserves in line with the priority of the Corporate Plan.

Appendix 2 – Revenue Grant Funding

Government Grant Funding of Local Expenditure

1. The detailed funding settlement from Government impacts on longer term financial planning. Key dates for 2023/24 include:
    - The Autumn Statement of 17 November 2022.
    - The release of the Provisional Settlement on 19 December 2022 confirming the allocation of grants, approach to Council Tax and confirmation of business rates baselines.
    - Final Settlement announced early February 2023.

   These have set out changes to:
    - General funding levels – confirming Social Care grants from 2022/23 levels, and one more year of NHB funding.
    - Additional funding announcements, payable to local authorities, for the following areas:
        - Social care and support
        - Disabled Facilities Grant
        - Highways
        - Strategic Housing Deals

2. The Government Grants provided to local authorities can be categorised under several main headings for 2023/24:
    - Revenue Support Grant (£388,000 – including items rolled in: Family Annex Council Tax Discount Grant and Local Council Tax Support Administration Subsidy).
    - Specific Grants (unring-fenced revenue) (£26.4m)
    - Specific Grants (ring-fenced revenue) (£273.2m)
    - Capital Grants (main programme) (£89.8m)

   More detail is provided on each of these elements below.

Revenue Support Grant (RSG)

3. The Council will receive £388,000 in Revenue Support Grant in 2023/24 which is almost wholly as a result of current grant items being rolled in (Family Annex Council Tax Discount Grant and Local Council Tax Support Administration Subsidy).

Unring-fenced Specific Grants

4. Separate unring-fenced Specific Grants have been largely retained, or increased, and total £26.4m in 2023/24, and are estimated to be £26.1m by 2026/27. The detail is shown in **Tables 6-12** (at the end of this appendix) and summarised in **Table 3. Table 3** shows the original budget for 2022/23 and **Tables 6-12** show the in-year position including grant received after the budget was set.

5. The list of Specific Grants mainly relates to funding for the New Homes Bonus (NHB) and Social Care Grants. They equate to 88% of the total unring-fenced specific grants in 2023/24.

6. The Autumn Statement (November 2022) and Provisional Local Government Finance Settlement (December 2022), included unring-fenced funding for 2023/24 of £19.4m for Cheshire East social care. This includes continuation of the Social Care Support grant (£11.3m) and a further allocation of £7.2m which is the Authority's share of the announced new monies. The Independent Living Fund grant of £0.9m has now also been rolled into this total Social Care Grant allocation.

7. Services Grant for 2023/24 is £1.7m. It has reduced partly due to removal of the National Insurance increase (1.25%) that has now been reversed and therefore no longer required.

8. Lower Tier Service Grant (£0.4m in 2022/23) has ceased. Funding has been recycled into a 3% Core Spending Power Funding Guarantee. Cheshire East do not qualify for this grant.

Table 3: Specific grant levels are increasing over time

	2022/23 £m	2026/27 estimated £m	Change £m	Change %
Revenue Support Grant	-	-0.4	-0.4	
New Homes Bonus	-6.6	-	+6.6	
Social Care Grants (now including Independent Living Fund – restated for 2022/23)	-12.2	-23.0	-10.8	
Other Grants	-5.1	-3.1	+2.0	
Total Specific Grants	**-23.9**	**-26.5**	**-2.6**	**11%**

Sources:

Cheshire East Council

Department for Levelling Up, Housing and Communities

9. The 2023/24 allocation of NHB is again to be paid for one year only (£3.8m) which extends the 2020/21, 2021/22 and 2022/23 single year allocations. Legacy payments have now been phased out.

Ring-fenced Specific Grants

Dedicated Schools Grant (DSG)

10. The Government announced the revised allocations of DSG for 2023/24 on 16 December 2022. DSG is a ring-fenced grant provided to the Council to meet certain educational costs.

11. Under the national funding formula (NFF) arrangements DSG is allocated in four funding blocks, namely the Schools Block, Early Years Block, High Needs Block and Central Schools Services Block.

12. The Schools Block allocation to the Council is based on the schools' block NFF. This takes October 2022 pupil data and provides a basic per pupil amount plus additional funding for issues such as deprivation and low attainment. The NFF also applies a minimum per pupil level of funding of £4,405 Primary and £5,715 Secondary in 2023/24. Those values must be used in local formula.

13. Local authorities can provide funding to schools through a local formula for 2023/24. The Schools Forum have agreed that a local formula using the NFF values, allocating any additional funding via the basic entitlement and applying a minimum funding guarantee of +0.5% should be submitted for consideration at the 13 February 2023 Children and Families Committee.

14. For 2023/24 the Schools Forum has not agreed to a transfer of 0.5% from the Schools Block to High Needs. Given the financial challenges facing schools, the Council has not applied to the DfE to reverse that decision.

15. Subject to Children's and Families Committee approval that formula will be used to allocate funding to schools for 2023/24. The per pupil figures in **Table 4** assume that the formula is approved.

16. For 2022/23 the DfE issued a supplementary grant for schools of £7.4m for Cheshire East. This was allocated to each school on a simpler basis than the funding formula.

17. That approach has been retained for 2023/24 with the release of the Mainstream Schools Additional Grant. This is estimated to be £9.1m with final school level figures confirmed in the new financial year.

18. The Early Years Block is mainly comprised of:

- Funding for the universal 15 hour entitlement for all three- and four-year-olds.
- Funding for the additional 15 hours for three- and four-year-old children of eligible working parents.
- Funding for two-year-olds.
- Funding for the Early Years pupil premium plus a few other areas.

19. The High Needs Block is a single block for local authorities' high needs pupils / students aged 0-24. The block includes place funding for pre-16 and post-16 places in appropriate establishments such as mainstream schools, special schools, and the pupil referral unit. The block includes top-up funding for pupils and students occupying places in such settings.

20. The high needs block is calculated through the high needs NFF. This is made up of a range of factors and weightings including:

- A basic entitlement.
- An historic spend factor.
- A population factor.
- Measures relating to low attainment and deprivation.
- A funding floor.
- An area cost adjustment.

21. A high needs supplementary grant was released for 2022/23 and that has also been repeated for 2023/24 with an additional payment of £2.3m expected.

22. The Central Schools Services Block is based on a NFF that includes:

- Historic commitments.
- Ongoing responsibilities.
- An area cost adjustment.

23. The historic commitments element of the central block has been subject to a further 20% reduction by the DfE for 2023/24. The council has approved a growth bid to replace the lost funding where those services cannot be reduced in line with the DfE's reduction. The main issue within the historic commitments is prudential borrowing costs.

24. **Table 4** shows the DSG received for 2022/23, the indicative DSG for 2023/24, and per pupil funding levels. (This excludes the adjustment for Academy recoupment).

25. All the schools block funding is passported directly through to schools.

Table 4: The largest increase in Dedicated Schools Grant is in the High Needs Block

Dedicated Schools Grant is allocated in four notional blocks in 2023/24	Actual 2022/23 £m	Provisional 2023/24 £m	Change £m	Change %
Total Dedicated Schools Grant	**331.9**	354.5	22.6	**6.8**
Comprising:				
Schools Block	254.7	270.5	15.8	**6.2**
Central School Services Block	2.6	2.4	-0.2	**-7.7**
Early Years Block	23.9	25.2	1.3	**5.4**
High Needs Block	50.7	56.4	5.7	**11.2**
Per Pupil Funding	**£ / pupil 2022/23**	**£ / pupil 2023/24**		
Dedicated Schools Grant:				
Schools Block				
Primary	4,540	4,769		
Secondary	5,779	6,005		
Central Schools Block (ongoing responsibilities)	51.07	44.92		
Early Years Block 3 and 4 hourly rate	4.61	4.87		
2-Year-old hourly rate	5.65	5.71		

Notes

- These figures are before the academy recoupment and before any High Needs deductions.

- Figures are prior to de-delegation and assumes Growth Funding is removed.

- The calculation of the primary and secondary split for 2023/24 uses census data at this stage rather than the DfE model which was not available at the time of writing.

- The above figures include the high needs supplement but exclude the school's supplement.

Sources: Cheshire East Council and DfE

Dedicated Schools Grant (DSG) ~ Academy Funding

26. The Department for Education are clear that becoming an academy should not bring about a financial advantage or disadvantage to a school but rather, enable academies to have greater freedom over how they use their budgets.

27. The Schools Block funding receivable for the 91 academies which opened before or during 2023/24 has not been removed from the total DSG award to be received (as reflected in **Table 4**). The funding for these academies of approximately £181m (based on 2022/23 funding) will be deducted from the Authority's DSG as part of the academy recoupment process.

Sixth Form Funding

28. Total sixth form funding of £2.7m is receivable for maintained schools (this is an estimated figure to be confirmed when actual sixth form pupil numbers are known). In 2022/23 a balance of £68.5m was allocated directly to academies by the Education and Skills Funding Agency. The allocation for 2023/24 is not yet known.

Pupil Premium Grant

29. The indicator for eligibility will be Free School Meals received in any of the prior six years by any pupil. The allocations for 2023/24 are £1,385 for primary aged pupils and £985 for secondary-aged pupils for every eligible child in both maintained schools and academies.

All looked after children, adopted children and children with guardians will attract funding of £2,410 and children whose parents are in the armed forces will attract £320 per annum for 2023/24. It is estimated that Cheshire East Council will receive £4.5m in relation to the Pupil Premium for 2023/24.

Physical Education Grant

30. The Council expects to receive £1m for 2023/24. This is an estimate after any reduction for academies.

Universal Infant Free School Meals (UIFSM)

31. The Council expects to receive £1.7m for 2023/24. This is an estimate for maintained schools. The figure is normally based on a set amount per eligible pupil. The grant is paid directly to local authorities or academies. The Council will comply with the requirement to pass on the grant to maintained schools in full.

School Improvement Monitoring and Brokering Grant

32. This is a grant for local authorities to continue to monitor and broker school improvement provision for low-performing maintained schools and intervene in certain cases. The Council has received funding up to March 2021.

Milk Subsidy Grant

33. This grant has not yet been confirmed for 2023/24, however based on previous allocations, the current grants register assumes £10,000 will be received in 2023/24.

DSG Reserve Forecasts

34. The Council holds a reserve to manage DSG balances without impacting on the Council's General Reserves. The pressure from high needs as a result of the growth in the number of pupils with an Early Health Care Plan (EHCP) had been reducing the reserve balance and in 2019/20 the reserve moved into a deficit position.

35. This is a national issue and local authorities are allowed to hold a negative reserve based on a temporary accounting override of accounting treatment approved by DLUHC which means they can be treated as unusable reserves.

36. In December 2022 the override was confirmed for a further three years through to March 2026. The removal of this override would present a significant risk to the financial sustainability of councils and the scale of the deficit already presents a cashflow issue before that point.

37. Further work will be done to look more closely at the cashflow issue in the new financial year and members will be briefed accordingly.

38. These pressures have continued and are forecast to extend the overall deficit in each financial year. Current forecasts suggest the reserve will continue to be in an

increasing deficit in the medium-term. Plans are being taken forward to reduce the spend pressures, but funding does not reflect forecast activity. It is not clear when, or even if, the reserve can be returned to surplus.

39. The Council's DSG Management Plan which sets out the forecasts of spend and deficit over the medium term was approved by Children and Families Committee on 23 September 2022. The Plan has been reviewed as part of the Council's role in the government led Delivering Better Value Programme and has been assessed as an accurate reflection on the Council's position. Work is ongoing to attempt to review the wider approach to EHCPs and the associated funding requirements.

40. **Table 5** summarises the reserve position for 2022/23. This position is unaffordable and unsustainable. The Council is not in a position to budget for removal of the accounting override which could require the deficit being met from other general funds or useable reserves. This risk will therefore continue to be a feature of ongoing liaison with the Department for Education and the Department for Levelling Up, Housing and Communities.

Table 5: Dedicated Schools Grant Reserve is negative

Table 5	2022/23 £m
Brought Forward Position	-25.7
Forecast Overspend for High Needs	-19.9
Predicted Carry Forward	**-45.6**

Source: Cheshire East Council

Public Health Grant

41. Public Health responsibilities cover a wide range of services including sexual health services; children's 0-19 services; NHS health check programmes; substance misuse services, infection control and One You services.

42. Public Health grant has been ring-fenced from 2013 and will continue to be so during 2023/24 to ensure expenditure is incurred in line with the public health framework.

43. Estimated allocations for 2023/24 set the grant at £17.4m. Confirmation of the final allocations has not been received.

COVID-19 Grants

44. The Contain Outbreak Management Fund (COMF) was originally announced in June 2020, and Cheshire East has been allocated £12.7m since the start of the pandemic.

45. The criteria for distribution and spending have adapted to allow English LAs to tailor their coronavirus responses to suit the needs of their communities, and to allow balances at the end of 2021/22 to be carried forward into 2022/23.

46. There was a remaining COMF balance at the end of 2021/22 of £5.3m, this was carried forward into 2022/23 in order to continue to deliver services which meet the

grant criteria and support the Council's COVID-19 response.

47. It is anticipated that the COMF funding will be fully utilised by the end of 2022/23.

Table 6: Summary of Grant Funding

Corporate Grants Register 2023-27 Summary	Revised Forecast 2022/23 £000	Forecast 2023/24 £000	Forecast 2024/25 £000	Forecast 2025/26 £000	Forecast 2026/27 £000
Specific Use					
Adults and Health Committee	52,634	36,554	37,418	36,316	36,316
Children and Families Committee	167,313	186,506	186,506	186,506	186,506
Corporate Policy Committee	73,626	47,300	47,128	47,092	47,060
Economy and Growth Committee	4,718	2,606	1,500	0	0
Environment and Communities Committee	387	240	0	0	0
Highways and Transport Committee	3,167	0	0	0	0
Total Specific Use Grants	**301,845**	**273,206**	**272,551**	**269,914**	**269,881**
General Purpose					
Adults and Health Committee	12,542	12,766	15,016	15,016	15,016
Children and Families Committee	498	6,939	8,289	8,289	8,289
Corporate Policy Committee	25,160	7,047	6,222	3,222	3,222
Economy and Growth Committee	0	0	0	0	0
Environment and Communities Committee	35	0	0	0	0
Highways and Transport Committee	13	0	0	0	0
Total General Purpose Grants	**38,248**	**26,752**	**29,527**	**26,527**	**26,527**
Total Grant Funding	**340,093**	**299,958**	**302,078**	**296,441**	**296,408**

Table 7: Grant Funding - Adults and Health Committee

Corporate Grants Register 2023-27	National Allocation 2022/23 £m	Revised Forecast 2022/23 £000	Forecast 2023/24 £000	Forecast 2024/25 £000	Forecast 2025/26 £000	Forecast 2026/27 £000	Treatment by CEC
SPECIFIC USE (Held within Services)							
Adults and Health Committee[(1)]							
Additional Better Care (for Adult Social Care)	2,039.256	8,706	8,706	8,706	8,706	8,706	Allocated direct to service
Market Sustainability and Fair Cost of Care Fund	162.000	979	979	979	0	0	Allocated direct to service
Market Sustainability and Fair Cost of Care Fund - topup	not available	0	2,400	4,080	4,080	4,080	Allocated direct to service
Implementation support grant	15.467	98	0	0	0	0	Allocated direct to service
Trailblazer support funding	0.805	162	0	0	0	0	Allocated direct to service
Early assessment funding allocation Part 1	2.127	585	0	0	0	0	Allocated direct to service
Discharge Fund	3,000	1,200	1,200	2,000	2,000	2,000	Allocated direct to service
Multiply - Supported Employment	not available	462	0	0	0	0	Allocated direct to service
Supported Internship Grant	not available	14	29	29	0	0	Allocated direct to service
Syrian Resettlement Programme - brought forward	not available	39	0	0	0	0	Allocated direct to service
Afghan Wrap Around support - brought forward	not available	146	910	0	0	0	Allocated direct to service
Afghan Resettlement support - brought forward	not available	263	288	94	0	0	Allocated direct to service
Homes for Ukraine Scheme	not available	9,450	0	0	0	0	Allocated direct to service
Private Finance Initiative (PFI) credits	not available	4,125	4,125	4,125	4,125	4,125	Allocated direct to service
Journey First and Parents First (originally provided by the European Social Fund but now DWP)	not available	2,500	0	0	0	0	Allocated direct to service
COVID-19 Shielding Grant for the Clinically Extremely Vulnerable Cohort - brought forward	not available	485	0	0	0	0	Allocated direct to service
COVID-19 Emergency Assistance Grant for Food & Essential Supplies - brought forward	not available	40	0	0	0	0	Allocated direct to service
Total		**29,254**	**18,636**	**20,013**	**18,911**	**18,911**	

Corporate Grants Register 2023-27	National Allocation 2022/23 £m	Revised Forecast 2022/23 £000	Forecast 2023/24 £000	Forecast 2024/25 £000	Forecast 2025/26 £000	Forecast 2026/27 £000	Treatment by CEC
SPECIFIC USE (Held within Services)							
Adults and Health Committee - Public Health							
Public Health Grant	3,417.400	17,405	17,405	17,405	17,405	17,405	Allocated direct to service
CHAMPS TTCE contact tracer staff - ICT Workforce: Contract Extension Funding	not available	149	0	0	0	0	Allocated direct to service
COVID-19 COMF & T&T - brought forward	not available	5,341	0	0	0	0	Allocated direct to service
DHSC Additional drug and alcohol treatment funding allocations: 2022 to 2023	101.200	347	353	0	0	0	Allocated direct to service
North West Probation Service funding for SMS rehabilitative and resettlement interventions	not available	77	114	0	0	0	Allocated direct to service
CHAMPS Marmot Place Funding - encourage pregnant women to stop smoking	not available	21	0	0	0	0	Allocated direct to service
CHAMPS SMS - inpatient detox	9.740	30	46	0	0	0	Allocated direct to service
CHAMPS Mouth Care Matters programme - to be confirmed	not available	10	0	0	0	0	Allocated direct to service
Total		**23,380**	**17,918**	**17,405**	**17,405**	**17,405**	
GENERAL PURPOSE (Held Corporately)							
Adults and Health Committee							
Social Care Support Grant	2,346.368	11,341	12,426	14,676	14,676	14,676	Unring-fenced Grant - Held Centrally
Independent Living Fund	160.600	861	0	0	0	0	Unring-fenced Grant - Held Centrally
Local Reform & Community Voices	34.410	213	207	207	207	207	Unring-fenced Grant - Held Centrally
Social Care in Prisons	10.950	71	73	73	73	73	Unring-fenced Grant - Held Centrally
War Pension Scheme Disregard	12.000	56	60	60	60	60	Unring-fenced Grant - Held Centrally
Total		**12,542**	**12,766**	**15,016**	**15,016**	**15,016**	
Total Adults and Health Committee		**65,176**	**49,320**	**52,434**	**51,332**	**51,332**	

(1) In respect of Private Finance Initiatives (PFI), Cheshire East Council are currently reflecting the total PFI grant monies received, even though Beechmere Extra Care Housing building, which was destroyed in a fire, no longer stands. No agreement has been reached with the HM Treasury on any possible reduction of grant income and Cheshire East Council continues to pay the residual unitary charge excluding Beechmere to Avantage. Discussions are continuing with the private sector partner, who has recently restructured, along with other relevant stakeholders, for example Central Government and the Nationwide Building Society, with regard to both the reinstatement of Beechmere and the remediation of the other four sites which make up the PFI scheme.

Table 8: Grant Funding – Children and Families Committee

Corporate Grants Register 2023-27	National Allocation 2022/23 £m	Revised Forecast 2022/23 £000	Forecast 2023/24 £000	Forecast 2024/25 £000	Forecast 2025/26 £000	Forecast 2026/27 £000	Treatment by CEC
SPECIFIC USE (Held within Services)							
Children and Families Committee - Schools							
Dedicated Schools Grant		331,867	331,867	331,867	331,867	331,867	
Less Academy Recoupment		189,061	189,061	189,061	189,061	189,061	
Dedicated Schools Grant (Cheshire East)	53,651.489	142,806	142,806	142,806	142,806	142,806	Allocated direct to service
Pupil Premium Grant	2,683.555	4,500	4,500	4,500	4,500	4,500	Allocated direct to service
Sixth Forms Grant	not available	2,729	2,729	2,729	2,729	2,729	Allocated direct to service
Universal Infant Free School Meals (UIFSM)	not available	1,732	1,732	1,732	1,732	1,732	Allocated direct to service
Primary Physical Education Sports Grant	324.111	981	981	981	981	981	Allocated direct to service
Teachers Pay Grant	not available	12	0	0	0	0	Allocated direct to service
Teachers Pension Grant	not available	99	0	0	0	0	Allocated direct to service
COVID-19 Recovery Premium	not available	447	0	0	0	0	Allocated direct to service
School Led Tutoring Grant	not available	279	0	0	0	0	Allocated direct to service
School Improvement Monitoring & Brokering Grant	not available	98	0	0	0	0	Allocated direct to service
Milk Subsidy	not available	18	10	10	10	10	Allocated direct to service
Schools Supplementary Grant	not available	2,072	0	0	0	0	Allocated direct to service
Senior Mental Health Lead Training Grant	not available	5	0	0	0	0	Allocated direct to service
Newly Qualified Teachers (Education Recovery 5% Time off Timetable)	not available	58	0	0	0	0	Allocated direct to service
Delivering Better Value in SEND	not available	45	0	0	0	0	Allocated direct to service
COVID-19 Workforce Fund	not available	22	0	0	0	0	Allocated direct to service
Apprentice Incentive Scheme	not available	1	0	0	0	0	Allocated direct to service
Digital Education Platform	not available	1	0	0	0	0	Allocated direct to service
Mass Testing	not available	9	0	0	0	0	Allocated direct to service
Vaccination funding	not available	9	0	0	0	0	Allocated direct to service
Total		**155,923**	**152,758**	**152,758**	**152,758**	**152,758**	

Corporate Grants Register 2023-27	National Allocation 2022/23 £m	Revised Forecast 2022/23 £000	Forecast 2023/24 £000	Forecast 2024/25 £000	Forecast 2025/26 £000	Forecast 2026/27 £000	Treatment by CEC
SPECIFIC USE (Held within Services)							
Children and Families Committee							
Asylum Seekers	not available	1,411	788	788	788	788	Allocated direct to service
Tackling Troubled Families (Payments by Results)	not available	238	0	0	0	0	Allocated direct to service
Supporting Families PBR Upfront Grant	not available	719	719	719	719	719	Allocated direct to service
Reducing Parental Conflict Grant	not available	36	0	0	0	0	Allocated direct to service
Adoption Support Fund	not available	36	28	28	28	28	Allocated direct to service
KS2 Moderation & Phonics	not available	11	11	11	11	11	Allocated direct to service
NHS Cheshire CCG Grant to fund CEIAS Services	not available	26	10	10	10	10	Allocated direct to service
Skills & Lifelong Learning	not available	903	903	903	903	903	Allocated direct to service
Remand Grant	not available	75	20	20	20	20	Allocated direct to service
Domestic Abuse Safe Accommodation Housing Grant	124.998	650	650	650	650	650	Allocated direct to service
Holiday Activities & Food Grant Programme	201.100	879	900	900	900	900	Allocated direct to service
Extension of the Role of Virtual School Heads to children with a social worker Implementation	not available	118	118	118	118	118	Allocated direct to service
Homes for Ukraine, education and childcare elements	not available	1,508	0	0	0	0	Allocated direct to service
Household Support Fund	not available	4,408	4,400	4,400	4,400	4,400	Allocated direct to service
Hong Kong UK Welcome Programme (British Nationals)	not available	14	0	0	0	0	Allocated direct to service
Early Years Professional Development programme	not available	21	0	0	0	0	Allocated direct to service
Early Years - Experts and Mentors Programme	not available	2	0	0	0	0	Allocated direct to service
Family Hubs Transformation Funding	not available	335	0	0	0	0	Allocated direct to service
Total		**11,390**	**8,547**	**8,547**	**8,547**	**8,547**	
GENERAL PURPOSE (Held Corporately)							
Children and Families Committee							
Social Care Support Grant	not available	0	6,939	8,289	8,289	8,289	Unring-fenced Grant - Held Centrally
Staying Put Implementation Grant	99.834	130	0	0	0	0	Unring-fenced Grant - Held Centrally
Extended Rights to Free Transport (Home to School Transport)	43.311	250	0	0	0	0	Unring-fenced Grant - Held Centrally
Extended Personal Adviser Duty Implementation	12.118	57	0	0	0	0	Unring-fenced Grant - Held Centrally
Extension of the role of Virtual School Heads	not available	61	0	0	0	0	Unring-fenced Grant - Held Centrally
Total		**498**	**6,939**	**8,289**	**8,289**	**8,289**	
Total Children and Families Committee		**167,811**	**168,244**	**169,594**	**169,594**	**169,594**	

Table 9: Grant Funding – Corporate Policy Committee

Corporate Grants Register 2023-27	National Allocation 2022/23 £m	Revised Forecast 2022/23 £000	Forecast 2023/24 £000	Forecast 2024/25 £000	Forecast 2025/26 £000	Forecast 2026/27 £000	Treatment by CEC
SPECIFIC USE (Held within Services)							
Corporate Policy Committee							
Housing Benefit Subsidy	not available	52,676	46,652	46,652	46,652	46,652	Allocated direct to service
Discretionary Housing Payments Grant	98.000	349	314	283	254	229	Allocated direct to service
Housing Benefit (HB) Award Accuracy Initiative	11.417	31	29	28	27	25	Allocated direct to service
LADS - VEP (RTI) funding	10.900	29	24	20	17	14	Allocated direct to service
New Burdens: Universal Credit, maintenance & natural migration	not available	8	8	7	7	7	Allocated direct to service
LADS - New Burdens - Welfare Reform Changes (S4/2022)	19.500	64	62	60	58	57	Allocated direct to service
LADS - New Burdens - Supported & Temporary Accommodation Change Request	not available	2	2	2	2	2	Allocated direct to service
LADS - New Burdens - Supported & Temporary Accommodation	not available	5	5	5	4	4	Allocated direct to service
LADS - New Burdens - Single Housing Benefit Extract Automation	not available	5	5	5	4	4	Allocated direct to service
Incapacity Benefit Reassessment (S5/2022)	0.478	2	2	2	2	2	Allocated direct to service
Council Tax Rebate Scheme - New Burdens on Account Payment	28.047	450	0	0	0	0	Allocated direct to service
Council Tax Energy Rebate Scheme	3,069.445	19,852	0	0	0	0	Allocated direct to service
Business Rates Grant NB	not available	19	0	0	0	0	Allocated direct to service
Democratic Services:	not available						
Police and Crime Commissioner's Panel grant	not available	65	65	65	65	65	Allocated direct to service
Electoral Integrity Programme - New Burdens	7.478	69	132	0	0	0	Unring-fenced Grant - Held Centrally
Total		**73,626**	**47,300**	**47,128**	**47,092**	**47,060**	
GENERAL PURPOSE (Held Corporately)							
Corporate Policy Committee							
Housing Benefit Administration Subsidy	163.721	736	626	595	595	595	Unring-fenced Grant - Held Centrally
Unidentified Ministry of Justice Grant	not available	9	0	0	0	0	Unring-fenced Grant - Held Centrally
NNDR Administration Allowance	not available	587	587	587	587	587	Allowance as per NNDR - not a grant
Council Tax Family Annexe Discount	7.422	25	0	0	0	0	Unring-fenced Grant - Held Centrally
Revenue Support Grant	1,672.058	7	388	388	388	388	Unring-fenced Grant - Held Centrally
New Homes Bonus	556.003	6,614	3,794	3,000	0	0	Unring-fenced Grant - Held Centrally
Lower Tier Services Grant	111.000	360	0	0	0	0	Unring-fenced Grant - Held Centrally
Services Grant	822.000	2,932	1,652	1,652	1,652	1,652	Unring-fenced Grant - Held Centrally
Business Rates Reliefs Grant	4,076.389	13,890	0	0	0	0	Unring-fenced Grant - Held Centrally
Total		**25,160**	**7,047**	**6,222**	**3,222**	**3,222**	
Total Corporate Policy Committee		**98,786**	**54,347**	**53,350**	**50,314**	**50,282**	

Table 10: Grant Funding - Economy and Growth Committee

Corporate Grants Register 2023-27	National Allocation 2022/23 £m	Revised Forecast 2022/23 £000	Forecast 2023/24 £000	Forecast 2024/25 £000	Forecast 2025/26 £000	Forecast 2026/27 £000	Treatment by CEC
SPECIFIC USE (Held within Services)							
Economy and Growth Committee							
Rough Sleeping Initiative	not available	231	0	0	0	0	Allocated direct to service
Homelessness Prevention Grant	315.800	582	0	0	0	0	Allocated direct to service
Housing Winter Grant	not available	90	0	0	0	0	Allocated direct to service
Shared Prosperity Fund	2,600.000	1,226	0	0	0	0	Allocated direct to service
Local Enterprise Partnership (LEP): Core Funding	not available	375	375	0	0	0	Passported to providers
Local Enterprise Partnership (LEP): Growth Hub Funding	not available	231	231	0	0	0	Passported to providers
Local Enterprise Partnership (LEP): NP (Northern Powerhouse) 11	not available	520	500	0	0	0	Passported to providers
Local Enterprise Partnership (LEP): Skills Advisory Panel	not available	56	0	0	0	0	Passported to providers
Local Enterprise Partnership (LEP): Local Digital Skills Partnership Catalyst grant	not available	56	0	0	0	0	Passported to providers
Local Enterprise Partnership (LEP): Skills Bootcamp	not available	1,037	1,500	1,500	0	0	Passported to providers
Innovate UK / Adapt - brought forward	not available	102	0	0	0	0	Allocated direct to service
First Trenitalia West Coast Rail Limited	not available	50	0	0	0	0	Allocated direct to service
COVID-19 Welcome Back Fund (Opening High Streets) - brought forward	not available	162	0	0	0	0	Allocated direct to service
Total		**4,718**	**2,606**	**1,500**	**0**	**0**	
Total Economy and Growth Committee		**4,718**	**2,606**	**1,500**	**0**	**0**	

Table 11: Grant Funding - Environment and Communities Committee

Corporate Grants Register 2023-27	National Allocation 2022/23 £m	Revised Forecast 2022/23 £000	Forecast 2023/24 £000	Forecast 2024/25 £000	Forecast 2025/26 £000	Forecast 2026/27 £000	Treatment by CEC
SPECIFIC USE (Held within Services)							
Environment and Communities Committee							
Bikeability Grant	not available	240	240	0	0	0	Passported to providers
Enforcement Grant (Planning) - brought forward	not available	30	0	0	0	0	Allocated direct to service
Air Quality Grant - brought forward	not available	18	0	0	0	0	Allocated direct to service
Air Quality Grant scheme	not available	55	0	0	0	0	Allocated direct to service
Offensive weapons	not available	4	0	0	0	0	Allocated direct to service
Cosmetic fillers	not available	7	0	0	0	0	Allocated direct to service
Food Information Grant - Natasha's Law - brought forward	not available	1	0	0	0	0	Allocated direct to service
Food Information Grant - Natasha's Law	not available	10	0	0	0	0	Allocated direct to service
Section 31 grant - Biodiversity net gain	not available	20	0	0	0	0	Allocated direct to service
Natural England - Stewardship scheme	not available	2	0	0	0	0	Allocated direct to service
Total		**387**	**240**	**0**	**0**	**0**	
GENERAL PURPOSE (Held Corporately)							
Environment and Communities							
Neighbourhood Planning Grant	not available	35	0	0	0	0	Unring-fenced Grant - Held Centrally
Total		**35**	**0**	**0**	**0**	**0**	
Total Environment and Communities Committee		**422**	**240**	**0**	**0**	**0**	

Table 12: Grant Funding - Highways and Transport Committee

Corporate Grants Register 2023-27	National Allocation 2022/23 £m	Revised Forecast 2022/23 £000	Forecast 2023/24 £000	Forecast 2024/25 £000	Forecast 2025/26 £000	Forecast 2026/27 £000	Treatment by CEC
SPECIFIC USE (Held within Services)							
Highways and Transport Committee							
Bus Service Operators Grant	not available	348	0	0	0	0	Allocated direct to service
Bus Capacity Grant - brought forward	not available	326	0	0	0	0	Allocated direct to service
Bus Capacity Grant	not available	574	0	0	0	0	Allocated direct to service
Better Deal for Buses - Supported Bus Services - brought forward	not available	320	0	0	0	0	Allocated direct to service
Better Deal for Buses - Rural Mobility Grant - brought forward	not available	5	0	0	0	0	Allocated direct to service
Bus Service Improvement Fund - brought forward	not available	7	0	0	0	0	Allocated direct to service
Local Authority Capability Fund - brought forward	15.385	132	0	0	0	0	Allocated direct to service
Active Travel Social Prescribing Grant - brought forward	2.231	42	0	0	0	0	Allocated direct to service
Active Travel Capability Fund	not available	143	0	0	0	0	Allocated direct to service
Mini Holland Feasibility - brought forward	83.395	79	0	0	0	0	Allocated direct to service
On Street Residential Chargepoint Scheme (ORCS)	not available	0	0	0	0	0	Allocated direct to service
LTA Enhanced Bus Partnership Grant	10.824	171	0	0	0	0	Allocated direct to service
Rural Mobility Fund - brought forward	not available	1,020	0	0	0	0	Allocated direct to service
Total		**3,167**	**0**	**0**	**0**	**0**	
GENERAL PURPOSE (Held Corporately)							
Highways and Transport							
Pavement Licensing - New Burdens	not available	13	0	0	0	0	Unring-fenced Grant - Held Centrally
Total		**13**	**0**	**0**	**0**	**0**	
Total Highways and Transport Committee		**3,180**	**0**	**0**	**0**	**0**	

Appendix 3 - Revenue Budget Changes for the Period 2023/24 to 2026/27

Executive Director Commentary:

Central Budgets and general Council Funding are not specifically related to services that residents use but are important in resourcing the overall budget. The following proposals relate to Council borrowing, investments and forecast income from general grants and local taxation.

For more information on each item please see the following sections of the report:

- Capital Financing – Section 2: Financial Stability and Capital Strategy: Annex 10
- Pension Costs Adjustment – Section 2: Financial Stability (Other Economic Factors section)
- Bad Debt Provision – Section 2: Financial Stability (Other Economic Factors section)
- Capital Receipts Income – Section 2: Financial Stability and Capital Strategy: Annex 10
- Use of Earmarked Reserves – Reserves Strategy Annex 13
- Council Tax - Section 2: Financial Stability and Local Taxation (The Collection Fund): Annex 5 *(to be completed during January 2023)*
- Business Rates - Section 2: Financial Stability and Local Taxation (The Collection Fund): Annex 5 *(to be completed during January 2023)*
- Unring-fenced Grants - Section 2: Financial Stability and Revenue Grant Funding: Annex 7

(Extract from Cheshire East Council Constitution – Dec 2021)

Proposals to vary the Budget in the Finance Sub-Committee Budget are focused on these areas:

Finance Sub-Committee **Policy Proposals (Central Budget items)**	**2023/24 £m***	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**
[109] Capital Financing - Minimum Revenue Provision The Council increases spending on Capital Financing to ensure the capital programme is affordable on an annual basis. Capital spending includes Highways and Regeneration projects across the borough. The annual increase reflects the size of the Council's ambitious programme, as well as returns on investment income that can reduce the impact of increasing interest rates on borrowing. *Impact on central budget =*		**1.000**	**1.000**	**1.000**
[110] Pension Costs Adjustment This item relates to a change in the required employer's contribution rate to the Cheshire Pension Fund. Following the most recent triennial revaluation of the Fund, the contribution rate reduced to 26.7% (from 33.9%) and initially this reduced cost was reflected centrally. This item removes the central 'credit' budget and is matched by corresponding reductions in service budgets (as shown in the 'Pension cost adjustment' items within the proposals for each Service Committee). *Impact on central budget =*	**5.350**			
**Values represent a +/- variation to the [Cheshire East Council approved budget for 2022/23]* *Subsequent years are the incremental change from the previous year*				

Finance Sub-Committee **Policy Proposals (Central Budget items)**	**2023/24 £m***	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**
[111] Bad Debt Provision adjustment The Council collects approximately £90m of debt annually, related to a wide range of services. Bad debt relates to uncollectable income, such as debt with individuals or organisations that enter into administration. It is responsible to reflect the annual impact of bad debt within the Council's revenue budget. The Council will continue to enforce debt payments in an appropriate way taking into account the circumstances of the debtor. *Impact on central budget =*	**-0.800**	**0.600**		
[112] Capital Receipts Income Sale of Council assets usually provides a capital receipt. The Council is permitted to use such receipts to fund transformation costs or fund items within the Capital Programme. The 2023/24 to 2026/27 MTFS proposes the annual use of £1m to support transformation costs. This reflects the level of change required to ensure services remain sustainable and meet the needs of residents. Expectation of annual receipts at this level is reasonable based on recent trends of income from Right-to-Buy properties and Farm's Estate sales. *Impact on central budget =*	**-1.000**			
**Values represent a +/- variation to the [Cheshire East Council approved budget for 2022/23](#)* *Subsequent years are the incremental change from the previous year*				

Finance Sub-Committee **Policy Proposals (Central Budget items)** The Reserves Strategy (**Annex 13**) identifies the approach to managing reserves over the medium-term, which also covers items 115-118 below	**2023/24 £m***	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**
[113] Use of Earmarked Reserves – MTFS reserve This reserve manages annual changes in the MTFS. It minimises short-term decision making. The negative figure in 2023/24 also reflects drawdown from the reserve related to overspending in 2022/23. Contributions to the reserve in 2024/25 enable further drawdowns in 2026/27 to keep the overall MTFS balanced without further disruption to services. *Impact on central budget =*	**-4.951**	**3.019**	**0.102**	**-3.754**
[114] Use of Earmarked Reserves – Collection Fund reserve The Collection Fund records local taxation transactions in excess of £400m per year. This reserve manages in-year variations to avoid disruption to services. *Impact on central budget =*	**1.674**	**1.400**	**0.337**	**0.337**
[115] Use of Earmarked Reserves – Capital Financing reserve This reserve manages in-year variations in revenue costs for capital programme. *Impact on central budget =*	**-1.700**		**-1.000**	**1.000**
[116] Use of Earmarked Reserves – Transformation reserve Contributions from this reserve will support Brighter Futures Activity. *Impact on central budget =*	**-0.100**			
**Values represent a +/- variation to the [Cheshire East Council approved budget for 2022/23](#)* *Subsequent years are the incremental change from the previous year*				

Finance Sub-Committee Policy Proposals (Funding items)	2023/24 £m*	2024/25 £m	2025/26 £m	2026/27 £m
[117] Council Tax - % increase Council Tax currently provides 78% of the net funding for Council services and is paid by occupiers and owners of domestic property within the borough. The MTFS includes increases of 4.99% in 2023/24 and 2024/25, and 2.99% each year after that. *Impact on funding budget =*	**-12.709**	**-13.487**	**-8.567**	**-8.959**
[118] Council Tax – Base increase The Council Tax base is increasing each year due to ongoing housing development. The calculation of additional Council Tax from the growth in the tax base also reflects any changes in discounts, exemptions, premiums and Council Tax Support. The increase in housing numbers in the MTFS is currently forecast to be 2,400 in 2023/24, 2,200 in 2024/25, 2,000 in 2025/26 and 1,800 in 2026/27. *Impact on funding budget =*	**-3.707**	**-3.354**	**-3.144**	**-2.875**
**Values represent a +/- variation to the [Cheshire East Council approved budget for 2022/23](#)* *Subsequent years are the incremental change from the previous year*				

Finance Sub-Committee Policy Proposals (Funding items)	2023/24 £m*	2024/25 £m	2025/26 £m	2026/27 £m
[119] Business Rates Business Rates currently provides 15% of the net funding for Council Services and is paid by owners and occupiers of non-domestic properties within the borough. Approximately 28% of business rates collected locally is retained for services after levy and tariff payments, with the remainder being retained by Central Government. Business growth in Cheshire East is positive, however the forecasts within the MTFS reflect limited increases in income from Business Rates as there is ongoing consultation about reform of this scheme. *Impact on funding budget =*	**-6.191**			
[120] Unring-fenced Grants + Revenue Support Grant Grant income is set out in detail within **Annex 7**. *Impact on funding budget =*	**-2.789**	**-2.775**	**3.000**	
**Values represent a +/- variation to the Cheshire East Council approved budget for 2022/23* *Subsequent years are the incremental change from the previous year*				

Revenue Budget Financial Table:

FINANCE SUB COMMITTEE - Central Items — REVENUE BUDGET

Service Area	Aim Reference	Budget including Policy Proposals 2023/24 Expenditure £000	2023/24 Income £000	2023/24 Net £000	2024/25 Net £000	2025/26 Net £000	2026/27 Net £000
Capital Financing		19,900	-900	**19,000**	**20,000**	**21,000**	**22,000**
Income from Use of Capital Receipts			-1,000	**-1,000**	**-1,000**	**-1,000**	**-1,000**
Transfer to/(from) Earmarked Reserves		-3,771		**-3,771**	**648**	**87**	**-2,330**
Bad Debt Provision		-650		**-650**	**-50**	**-50**	**-50**
Other Income / Expenditure		1		**1**	**1**	**1**	**1**
Total Cost of Service		**15,480**	**-1,900**	**13,580**	**19,599**	**20,038**	**18,621**

Policy Proposals	Aim Reference	Policy Proposals included above: 2023/24 Expenditure £000	2023/24 Income £000	2023/24 Net £000	2024/25 Net £000	2025/26 Net £000	2026/27 Net £000
Capital Financing - Minimum Revenue Provision	**Open**			**0**	**1,000**	**1,000**	**1,000**
Pension Cost Adjustment	**Open**	5,350		**5,350**			
Bad Debt Provision Adjustment	**Open**	-800		**-800**	**600**		
Use of Earmarked Reserves	**Open**	-5,077		**-5,077**	**4,419**	**-561**	**-2,417**
Capital Receipts Income	**Open**		-1,000	**-1,000**			
Financial Impact of Policy Proposals		**-527**	**-1,000**	**-1,527**	**6,019**	**439**	**-1,417**

Appendix 4 – Capital Strategy

Executive Summary

10.1 This capital strategy provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services. It provides an overview of how associated risk is managed alongside future financial sustainability.

10.2 Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to a local policy framework, summarised in this report.

10.3 The strategy includes a programme of capital investment which is aimed at delivering sustainable and inclusive economic growth in the borough and supporting the delivery of essential front-line services. The Capital Programme includes:

- Investment that supports the aim to be a Carbon Neutral Council by 2025 and borough wide by 2045.
- Town centre redevelopment and regeneration projects.
- Investment in infrastructure to improve walking, cycling and rail capacity in the borough, and capacity on the roads to reduce congestion and improve air quality.
- Investment to enable the delivery of housing sites that meet the needs of residents including affordable housing and housing for vulnerable and older people.
- Investment in assets to support key front-line services such as improvement to our ICT systems, expansion of our schools and planned investment to maintain the highway network.

10.4 The arrival of HS2 services to the borough provides a significant opportunity for regeneration and economic growth. The Council has been working alongside Government, Network Rail and regional partners including Cheshire & Warrington Local Enterprise Partnership and Transport for the North to develop proposals for a Crewe HS2 Hub Station.

10.5 Most investment decisions are subject to key Government decisions and funding commitments that can secure the necessary funding and revenue streams to support the associated borrowing.

Five Principles

10.6 Five Principles underpin the Capital Strategy:

1. Capital expenditure is priority based and is aligned with the Council’s Corporate Plan priorities
2. The financial implications of capital projects are aligned with the Medium-Term Financial Strategy

3. Capital projects will be focused on achieving the best return on investment
4. Decisions will follow a clear framework
5. There will be a corporate approach to generate and apply capital resources

10.7 The overarching aim of the Capital Strategy is to provide a framework within which the Council's capital investment plans will be achieved. The plans are driven by the Corporate Plan.

Comment from the Section 151 Officer

10.8 The Capital Strategy forms a key part of the Council's Medium-Term Financial Strategy (MTFS) alongside the Treasury Management and Investment Strategies. Each of these strategies is reviewed each year and supports my opinion on the robustness of the Council's financial plans.

10.9 The capital strategy:

- provides a framework for the management and monitoring of the capital programme
- creates the process for bidding for capital resources
- sets out the approach to funding capital expenditure
- takes account of the significant revenue implications associated with capital investment

10.10 The Strategy also sets out the Council's processes for:

- setting the financial parameters for capital expenditure in the medium-term
- confirming the flexible use of capital receipts in the medium-term
- the option appraisal of capital project proposals
- deciding on the prioritisation of capital projects
- monitoring and evaluating approved schemes

10.11 The Strategy incorporates confirmation of the Council's Minimum Revenue Provision and gives details of the Prudential Indicators.

Alex Thompson

Alex Thompson FCPFA, IRRV(Hons)

Director of Finance and Customer Services

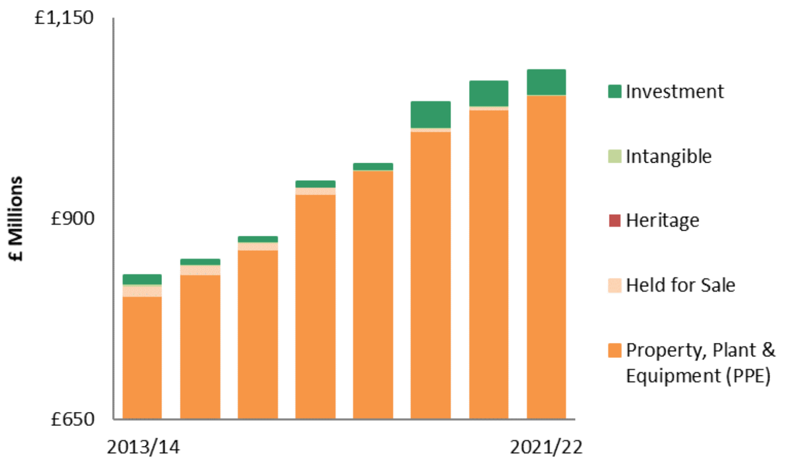
(Section 151 Officer)

1. Introduction

10.12 As a public sector organisation, with assets valued in excess of £1 billion, Cheshire East Council maintains a robust capital strategy that is clearly related to the priorities within the Corporate Plan, is linked with infrastructure and asset planning; and has consistent approaches to investment.

Chart 1: Total Asset Values held by the Council

Property, Plant and Equipment is the most significant category of assets for the Council.



Source: Cheshire East Council: Statement of Accounts 2013 to 2022

10.13 The capital programme, which is developed in line with the Strategy, is the list of capital projects that the Council plans to undertake within a given timeframe.

10.14 The programme is approved in line with the Council's Constitution and covers a minimum period of four years. It is reviewed annually by Council. The programme may include projects that require a longer time to develop and design and these will remain in the programme for many years.

10.15 The Chartered Institute of Public Finance and Accountancy (CIPFA) definition of capital expenditure is:

Definition of Capital Expenditure

"An expenditure on assets that will provide a benefit to the organisation beyond the current financial year including expenditure on purchase of new assets, creation of new assets and enhancing and/or extending the useful life of existing assets."

A more detailed definition of capital expenditure, as it applies to UK local authorities, is contained in *Practitioners' Guide to Capital Finance in Local Government* (CIPFA, 2019).

10.16 Accounting treatment of capital is compliant with International Accounting Standard 16 Property, Plant and Equipment.

10.17 Capital investment is subject to due process, and assurance is provided that plans are prudent, affordable and sustainable in accordance with the Prudential

Framework (the Prudential Framework being an umbrella term for several statutory provisions and professional requirements that allow authorities largely to determine their own plans).

10.18 Non-capital expenditure normally falls outside the scope of the framework and is charged to revenue in the year that it occurs. If expenditure meets the definition of capital, there may be opportunities to finance the outlay from capital receipts or by spreading the cost over future years' revenues.

10.19 The capital strategy is the foundation of long-term planning of capital investment and how it is to be delivered. Robust processes are relied upon to ensure projects are evaluated and prioritised and approved to the programme along with the resources to fund it. This requires clear parameters to be set at the beginning of the process. Clarity must be supplied via supporting information on the project proposal and clear criteria, related to the organisation's corporate objectives, for prioritising projects.

10.20 In determining how much capital investment to undertake, the Council will consider the long-term impact of borrowing and other forms of capital funding on revenue budgets. The same principle applies to leases, public–private partnerships and outsourcing arrangements to procure public assets.

10.21 Delivering the capital programme requires efficient programme management, project management and procurement, as well as appropriate systems for monitoring, control and scrutiny.

Capital Strategy Principles

10.22 Five Principles underpin the Cheshire East Council Capital Strategy. The principles will be adhered to by members and employees of the Council and the Section 151 Officer will determine the framework for administering and monitoring the effective application of the principles.

10.23 These principles will be achieved through a process of prioritisation, setting financial parameters, asset management and managing risk as set out in the following chapters.

The Five Principles of the Capital Strategy

1.	Capital expenditure is priority based and is aligned with the Council's priorities.
2.	The financial implications of capital projects are aligned with the Medium-Term Financial Strategy and the Asset Management Plan.
3.	Capital projects will be focused on delivering the best return on investment. This will be demonstrated through: - infrastructure which will generate local economic growth. - investment in new service delivery models that provide reductions in revenue expenditure. - improvements in the Council's asset base that generate a financial return or provide cost effective avoidance of future expenditure. - Capital Projects will be externally funded or supported by private sector investment in a way that maximises the Council's financial interest in the asset. - Borrowing will be appropriate based on the lifetime benefits of a scheme and all investments will be subject to strong control arrangements and risk analysis. - The impact of financing capital expenditure will be reviewed annually to ensure it remains appropriate in terms of the expected return on the overall investment. - Capital investment will follow an agreed set of prudential limits and indicators in order to demonstrate that plans and borrowing are affordable, prudent and sustainable.
4.	Decisions in relation to the programme will follow a clear framework with an appropriate gateway review and robust management of risk relating to capital projects.
5.	There will be a corporate approach to generating and applying capital resources.

2. Prioritisation of Capital Expenditure

10.24 Capital Projects will be approved for inclusion in the Capital Programme based on how they meet the needs of the Corporate Plan and adherence with Capital Strategy.

10.25 Capital ambitions in most Councils exceed the potential capital resources, particularly given recent funding cuts and demand pressures in the public sector. The Council manages this issue through prioritisation on a variety of factors.

10.26 The Capital Strategy stands above operational strategies that are needed for key services such as housing, transport, education and other spending areas.

10.27 The Council agrees a rolling four year programme each year consistent with the Capital Strategy and the resources available. The proposed capital programme includes investment plans of £683.4m. 62.2% of the funding is planned to come from Government grants or contributions from other external partners. In addition, 5.3% will come from the Council's work to maximise the value of asset sales.

10.28 The starting point for the Capital Strategy is the Corporate Plan and identification of capital investment that will help to achieve the Council's key vision:

- **Open:** An open and enabling organisation;
- **Fairer:** A Council which empowers and cares about people;
- **Greener:** A thriving and sustainable place.

10.29 The capital programme includes investment in education and children's social care, transport infrastructure, major regeneration activities, environmental, cultural and leisure services; all of which contribute to achieving these priorities.

Environment Strategy and Carbon Action Plan

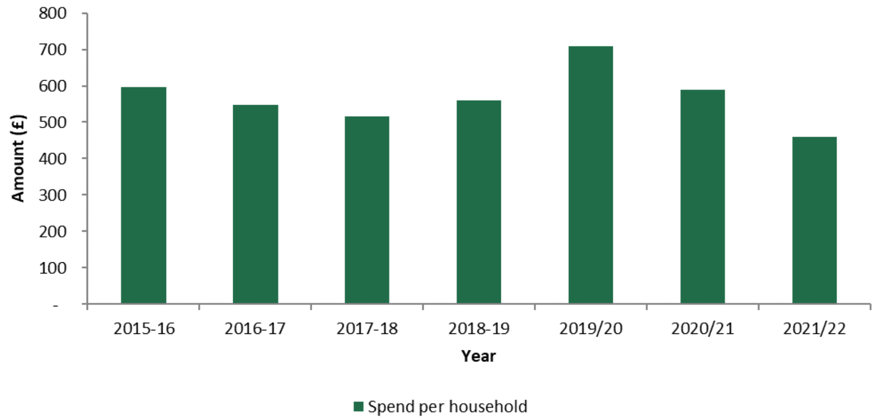
10.30 The Council committed to be carbon neutral for its own emissions by 2025, and pledged to work with others to achieve borough wide carbon neutrality by 2045.

10.31 Various actions are helping the Council reach carbon neutrality, and encourage businesses, residents and organisations to reduce emissions, such as:

- Introduce carbon pricing or more rigorous carbon consideration into capital investment decisions;
- embed carbon reduction into Asset Management;
- new buildings achieve sustainable buildings standard;
- assess retrofit options for Council influenced buildings, including leisure centres and schools;
- continue to progress district heating at Crewe Town Centre, Handforth Garden village – and Alderley park;
- plan and develop natural climate solutions such as tree planting and peatland management to sequester

carbon on at least 100 ha of Council owned land by 2025.

Chart 2: Capital Spend per Household



10.32 The Council uses the Five Case Business Model developed by HM Treasury and the Welsh Government. Business cases for major projects include full option appraisal and links to core strategy to ensure they deliver on key Council objectives.

The Five Case Business Model includes:

1. Strategic Case (Contribution to the Corporate Plan)
2. Economic Case
3. Commercial Case
4. Financial Case
5. Management Case

10.33 Assessing these areas within the business case ensures all aspects of a scheme are analysed and the impact on stakeholders identified. Therefore, the Council is able to gain understanding on how a scheme impacts on the overall strategy, the local economy, officers and resources of the Council.

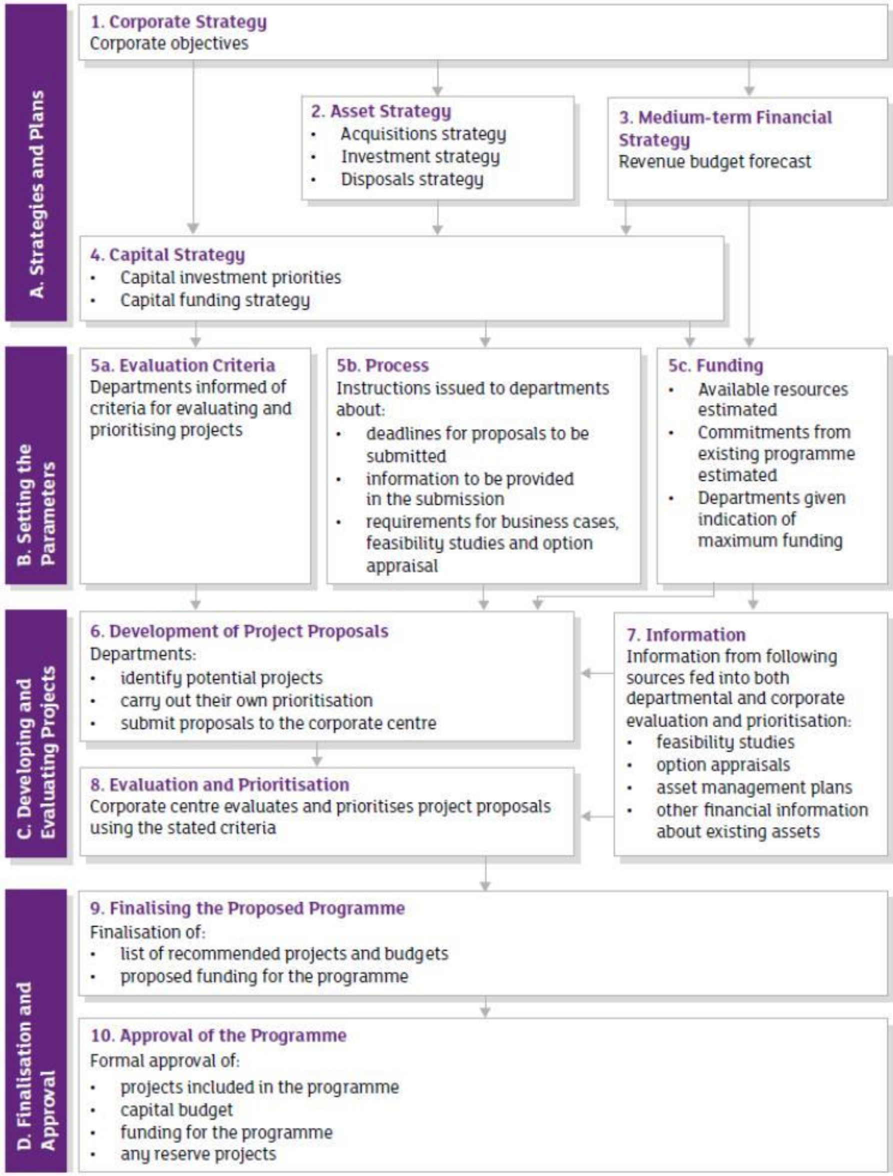
10.34 The ‘full’ model is appropriate for major infrastructure projects; but the ‘light touch’ version is insufficiently detailed for some projects. We have taken the ‘best of both’ to construct a scalable version that is flexible.

10.35 Business Case annexes provide benefits realisation, risks, constraints and dependencies, contractual arrangements, costs and funding, governance arrangements and key milestones.

10.36 High Level Business Cases are submitted as part of the Business Planning process. The Section 151 Officer considers each case to grade them as High, Medium or Low in accordance with the following table.

10.37 **Annex A** provides the current Capital Programme for the Council.

Priority	Description
High likely to be recommended for approval within the capital programme.	Essential replacement and enhancement Infrastructure that meets priorities of the Local Plan and attracts Government investment An agreed service provision within the MTFS Required compliance and legislative needs Fully funded by external sources Self-funding projects with high financial returns
Medium recommended only if funding is available within the parameters of the MTFS	Cost effective replacement and enhancement Projects with positive financial returns Part funded projects of strategic importance to Council priorities
Low unlikely to be recommended for approval, unless specific strategic importance is associated with the project, or public demand is significant.	Unfunded projects without financial returns



3. Financial Controls

Setting Financial Parameters

10.38 The Medium-Term Financial Strategy (MTFS) provides the basis for budget forecasts and annual budget planning for revenue and capital expenditure. This describes the activities to be carried out over the next four years to achieve the corporate priorities alongside the revenue and capital resources which will be needed to deliver those improvements.

10.39 As part of the revenue budget setting process, the estimated financing costs for the capital programme and for existing debt are calculated to update the Capital Financing budget (CFB).

10.40 The Section 151 Officer will invite bids for Capital Expenditure and present a capital programme at each Budget Council meeting. The Section 151 Officer will determine the prioritisation (see Section 2) and the financial implications to assess whether bids are affordable, and will then report to members for approval in line with the Constitution.

10.41 Strategic management of the capital programme allows schemes to be added throughout the financial year. These will be reported to Committees on a regular basis.

10.42 If the CFB varies from the strategy the Section 151 Officer will consider options to top-up or draw down from the Financing Earmarked Reserve and will report this approach to members.

10.43 Underspends on the CFB due to programme slippage will automatically be transferred to the Financing Reserve.

10.44 Current forecasts are that the CFB will continue from 5.8% to 5.6% of the Net Revenue budget in the medium-term.

10.45 **Table 1,** provides the Financial Parameters for the period 2023/24 to 2026/27, followed by the strategy behind each element of the calculation.

Table 1: Financial Parameters for 2023/24 to 2026/27

Parameter	Value (£m)			
	2023/24	2024/25	2025/26	2026/27
Repayment of Borrowing				
Minimum Revenue Provision*	17.6	20.1	22.7	23.4
External Loan Interest	6.0	6.0	6.0	6.0
Investment Income	(2.4)	(2.3)	(2.3)	(2.3)
Contributions from Services Revenue Budgets	(1.4)	(1.5)	(2.4)	(2.8)
Total Capital Financing Costs	**19.8**	**22.3**	**24.0**	**24.3**
Use of Financing EMR	**(0.8)**	**(2.3)**	**(3.0)**	**(2.3)**
Actual CFB in MTFS	**19.0**	**20.0**	**21.0**	**22.0**
***Capital Receipts targets**	**1.0**	**1.0**	**1.0**	**1.0**
Flexible Use of Capital Receipts	**1.0**	**1.0**	**1.0**	**1.0**

* Anticipated MRP based on achieving capital receipts targets

Repayment of Borrowing

10.46 The use of prudential borrowing allows the Council to spread the cost of funding the asset over its useful economic life. Using prudential borrowing as a funding source increases the Council's capital financing requirement (CFR), and will create revenue costs through interest costs and minimum revenue provision.

10.47 Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, requires local authorities to charge to their revenue account for each financial year a minimum amount to finance the cost of capital expenditure. Commonly referred to as MRP (Minimum Revenue Provision). This ensures that the revenue costs of repaying debt are spread over the life of the asset, similar to depreciation.

Chart 3: Capital Financing as a percentage of Net Budget

10.48 The projection of the Council's Capital Financing Requirement (CFR) and external debt, based on the proposed capital budget and treasury management strategy is shown in **Annex B**. This highlights the level to which the Council is internally borrowed (being the difference between the CFR and external debt), and the expected repayment profile of the external debt.

10.49 The nature and scale of the Council's capital programme means that it is a key factor in the Council's treasury management, including the need to borrow to fund capital works.

10.50 The Council's current strategy is to use available cash balances, known as 'internal borrowing' and to borrow short-term loans. As short-term interest rates are currently much lower than long-term rates this is likely to be more cost effective.

Investment Income

10.51 The Treasury Management Strategy determines the approach and financial limits associated with providing a financial return on the Council's investment portfolio.

10.52 The Section 151 Officer, with advice from treasury management advisors, is responsible for considering the prudent level of available balances in any year and then assessing risk against potential financial returns to determine a level of income to be achieved from investments.

10.53 The Council's strategy is to utilise the net financial returns from investments to reduce the overall Capital Financing Budget.

Contributions from Services

10.54 All business cases supporting capital expenditure will include full analysis of the financial implications of the scheme alongside a clear indication of how the financial implications will be managed within the Medium-Term Financial Strategy.

10.55 When including any scheme in the Council's Capital Programme the Section 151 Officer will determine the appropriate impact on the Revenue Budget. This impact will require service budgets within the MTFS to fund either all, part or none of the net capital costs of the scheme.

10.56 In making a determination about funding capital schemes from revenue budgets the level of potential revenue savings or additional revenue income will be considered. If a capital scheme will increase revenue costs within the MTFS, either from the future costs of maintaining the asset or from the costs of financing the capital expenditure, then the approach to funding such costs must be approved as part of the business planning process before the scheme can commence.

10.57 The Council’s strategy is to use revenue contributions to the Capital Programme to reduce the overall Capital Financing Budget.

Use of Financing Earmarked Reserve

10.58 To allow a longer term approach to setting the Financial Parameters of the Capital Strategy the Council will maintain an earmarked reserve to minimise the financial impact of annual variations to the Capital Financing Budget.

10.59 The Council’s Reserves Strategy determines the appropriate use of reserves and how they are set up and governed. In the first instance any under or overspending of the CFB within any financial year will provide a top-up or draw-down from the Financing Earmarked Reserve. As part of the 2023/27 MTFS there is a proposal to utilise £0.8m in 2023/24 from the reserve to cover future capital financing commitments.

10.60 The Council’s current strategy is to draw-down £8.4m from the Financing Earmarked Reserve for the period 2023/24 to 2026/27.

Capital Receipts from Asset Disposals

10.61 The Council has a substantial land and property estate, mainly for operational service requirements and administrative buildings.

10.62 Council Plans, such as the Local Plan, Local Transport Plan, Farms Strategy and Asset Management Plans, set the strategic framework for significant land and property asset disposals and acquisitions associated with these key areas. In each financial year the net impact of these plans will allow the Section 151 Officer, in consultation with the Executive Director for Place, to determine the net impact of disposals and acquisitions on the CFB.

10.63 Capital receipts from asset disposal represent a finite funding source and it is important that a planned and structured manner of disposals is created to support the priorities of the Council. Cash receipts from the disposal of surplus assets are to be used to fund new capital investment or offset future debt or transitional costs, included within the new flexibilities provisions, as and when received.

10.64 The Council will continue to maintain a policy of not ring-fencing the use of capital receipts to fund new investment in specific schemes or service areas unless a suitable business case is made available, but instead subject to any claw back provisions, to allocate resources in accordance with key aims and priorities. Capital receipts have been an important source of finance in previous financial years.

10.65 In considering the 2023/24 capital programme, a prudent approach has been taken and there has been no assumption of any significant additional capital receipts. A minimum amount of £1.0m additional capital receipts has been anticipated in 2023/24.

10.66 The Council’s current strategy is to realise net receipts of £4.0m for the period 2023/24 to 2025/26 and that these receipts will reduce the overall Capital Financing Budget.

Flexible use of Capital Receipts

10.67 Following the 2015 Spending Review, in March 2016 DLUHC (formerly MHCLG) published statutory guidance on the flexible use of capital receipts initially for a three-year period covering 2016/17 to 2018/19. The guidance has been updated a number of time since then and most recently in April 2022 which has allowed the flexibility to continue to use capital Receipts to fund transformational programmes within Council’s now extends to March 2025.

10.68 There are plans to utilise £1.0m of capital receipts to offset the cost of transformational projects over the period 2023/24 to 2026/27.

Government Grants

10.69 Government capital grants are generally allocated by specific Government departments to fund projects either as part of a block allocation or following a specific application process. The Council must therefore allocate such funding to support the spending programmes for which they are specifically approved.

10.70 Overall Government funding has reduced in recent years, but the Council still receives Government grants including:

- DfT Local Transport Plan
- Housing Infrastructure Fund
- Disabled Facilities Grants
- DfE Devolved Formula Capital; Schools Condition, Basic Needs and High Needs/SEN Allocations

10.71 The Council’s strategy is to ring-fence capital grants to the service that they are allocated to.

Developer Contributions

10.72 Developer contributions will be sought to ensure that the necessary physical, social, public realm, economic and green infrastructure is in place to deliver development. Contributions will be used to mitigate the adverse impacts of development and to help facilitate the infrastructure needed to support sustainable development.

10.73 Development proposals will be expected to provide a contribution to the cost of infrastructure including initial design, capital costs and ongoing revenue such as the maintenance of services and facilities.

10.74 The Council’s strategy is to forward fund anticipated Section 106 contributions for major infrastructure and education schemes.

Community Infrastructure Levy (CIL)

10.75 The Community Infrastructure Levy (CIL) is a planning charge on new development which became operational in Cheshire East on 1 March 2019. The Levy allows the Council to raise financial contributions from certain chargeable development in the borough such as housing (except affordable housing, self-build housing and apartments) and retail development at the Crewe Grand Junction and Handforth Dean retail parks. The CIL regulations require Councils to spend the monies raised on the infrastructure needed to support the development of their area. The definition of infrastructure allows a broad range of facilities to be funded such as play areas, open spaces, parks and green spaces, cultural and sports facilities, as well as those relating to transport, health and education. CIL monies can be used in conjunction with S106 contributions and other monies to deliver infrastructure.

10.76 The Council passes on either 15% or 25% of its CIL receipts to the town or parish council where the CIL chargeable development has taken place, with the higher amount being paid to those Councils with a Neighbourhood Plan. The Council will use the MTFS process to allocate the remaining CIL receipts and this will be done within the general framework detailed below:

- Up to 5% of the receipts will go towards the costs of administering CIL and the rest will be used to deliver the Council’s planned infrastructure priorities;
- The Council’s infrastructure priorities will be identified in its annual Infrastructure Funding Statement (IFS) which will be published on the Council’s website by the end of December each year. This will also contain details on the amount of CIL receipts received, spent and remaining unspent in the previous financial year;
- CIL monies will only be used to fund the provision, improvement, replacement, operation or maintenance of infrastructure to support the development of Cheshire East;
- The MTFS process requires a business case to be made for the funding of projects. Where CIL monies are being sought, the business case for the proposed infrastructure must identify how it will support the planned development of the area. This should include reference to how it relates to and meets the priorities identified in the current IFS, the Council’s Local Plan and the Infrastructure Delivery Plan;
- CIL spending decisions will be primarily based on achieving the delivery of published infrastructure priorities and the growth identified in the Local Plan. Other considerations will include the extent to which non CIL funding sources can be leveraged into the infrastructure project and assurance that the ongoing operational and maintenance costs of the project will be met over the life of the infrastructure; and
- The reasons and decisions made on all CIL funding bids considered through the MTFS process will be published to ensure transparency.

10.77 The Council has decided that it intends to spend the first £2.6m of the CIL money it receives on helping to deliver the provision of the Middlewich Eastern Bypass (MEB). This is a significant infrastructure road scheme with a current budget forecast of some £68m for the period 2023-27, including some £55.6m of leveraged money from grants and external contributions, as detailed in the capital programme.

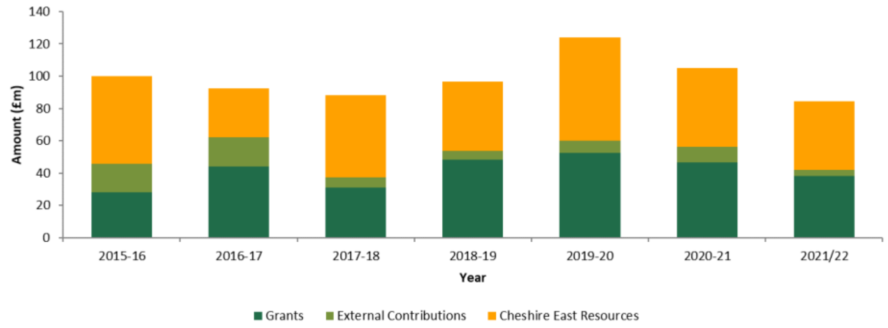
10.78 The scheme will help support growth in Middlewich and the wider Borough, as detailed in the Council's Local Plan Strategy (LPS). This includes the delivery of the large (121ha) Midpoint 18 employment site and some 960 new homes in the town. The MEB is also identified as a priority 1 scheme in the Council's Infrastructure Delivery Plan (July 2016) that was used as supporting evidence in the independent LPS examination.

Funding Capital Expenditure

10.79 The inclusion of schemes within the Council’s capital budget is intrinsically linked with the way schemes can be financed. This ensures that the affordability of the capital programme reflects the organisation’s long-term objectives rather than short-term expedience.

10.80 The Council’s strategy is to fund capital expenditure in the first instance from sources other than the Council’s Capital Financing Revenue Budget.

Chart 4: Capital Expenditure split by funding type



10.81 The Council has a good track record of producing business cases that are supported by government and then backed by subsequent grants and for aligning expenditure with local developments that are then backed by external developer contributions.

10.82 Main forecasted income sources are:

- Government Grants (£321m / 47%)
- Other external contributions (£104m / 15%)
- Receipts from Council Assets (£37m / 6%)
- Borrowing or Revenue Contributions (£221m / 32 %)

10.83 Capital expenditure may be funded directly from revenue, but not vice-versa. Overall financial pressure on the Council makes returns on capital investment a key element of the overall financial stability of the Medium-Term Financial Strategy.

10.84 Capital budgeting differs from revenue budgeting because:

- the need for capital investment tends to fluctuate year on year to a much greater degree than the need for revenue spending
- there is usually significant discretion over how or when to make use of the capital funding that is potentially available, such as determining the level of borrowing and the use made of capital receipts in a particular period
- there is usually significant discretion over when particular capital projects take place capital budgets, unlike revenue budgets, can usually be carried forward from one year to another
- many public sector organisations are able to fund capital expenditure from sources that they are not permitted to use to fund revenue expenditure, such as borrowing.

10.85 The Section 151 Officer will therefore use judgement, as part of the medium-term financial planning process, to determine how schemes can be accommodated within the overall programme, depending on the organisation's overall financial position and its capital investment priorities.

10.86 The Council will ensure every effort is made to provide value for money from capital expenditure, and to maximise the local benefits from capital projects the Council will always target alternative funding sources before committing to contributions from the funding parameters set within the MTFS. All high-level business cases will therefore contain reference to benefits realisation.

10.87 All high-level business cases will include information on how alternative funding sources have been considered. All capital scheme budget managers will also provide regular updates on the status of all funding sources, as required by the Section 151 Officer. Funding sources will be categorised as either 'received', 'contractually committed' or 'in negotiation'.

Contingencies in the Capital Programme

10.88 In the initial stages of development, major capital projects will have significant uncertainties. For example, these may relate to the planning process, the views / interest of stakeholders who must be consulted, ground conditions, or the costs of rectifying or demolishing existing buildings (for example the cost of asbestos removal).

10.89 For this reason, the Council will develop a structured process of identifying and managing risk. In the initial stages of a project these are necessarily broad estimates due to the number of unknown factors. As projects progress the unknown factors will become clearer and project managers will focus on managing these in the most effective way possible, utilising contingencies to do so as needed.

10.90 The process of identifying risk will be two stage, firstly at the project development stage with further refinement at the contract award stage.

4. Investment and Risk Strategy

10.91 The Council is faced with diminishing capital finance and reduced access to grants and external funding. Spend will need to be monitored effectively against available funds. The Council has seen an unprecedented increase in costs for a number of its key projects due to inflationary pressures being experienced nationwide. This pressure is likely to continue in the forthcoming years as well. However, less dependence and more self-reliance will tend to reduce the exposure to risk.

10.92 A risk management framework in place and the core of this framework is set out in the Corporate Risk Management Strategy. Each directorate has its own operational risk register which integrates the relevant directorate Performance Strategy, improvement plans and budgets. In accordance with the HM Treasury Five Case model, a detailed Risk Assessment must be completed for each capital scheme.

10.93 Supporting the Council's budget with adequate reserves is a key element to creating financial resilience and a flexible approach to transferring money from general and earmarked reserves provides protection for Council Taxpayers against year on year fluctuations in expenditure.

10.94 The significant resources applied to capital expenditure require the adopted principles of value for money to be at the heart of this strategy. Effective procurement is therefore essential, and the Council seeks to apply rigorous procurement standards in the selection of suppliers and contractors throughout the life of a project.

10.95 The Capital Programme should be kept under review having regard to the prevailing economic climate, property market and Government policy. Capital receipts estimates should therefore be kept under review with any significant changes reflected in reporting.

10.96 Cheshire East's strong taxbase and independence provides financial stability and offers some "local protection" from the impact of national economic fluctuations and total spending per head of population is below average when compared to neighbouring authorities. Given this national and local context, overall financial risk profile should continue to reduce.

5. Governance

10.97 It is important given the risks surrounding Capital Projects that the appropriate governance arrangements are in place:

- The Capital Strategy, including the overall Capital Programme to be approved annually as part of the Medium-Term Financial Strategy at full Council.
- Updates to the capital programme will be reported to the relevant Committee on a regular basis.
- Committees will review progress against the capital programme and monitor levels of slippage against reported profiled spend.
- Management of Committee work programmes provides the opportunity for members to consider how scrutiny and amendment of the capital programme ensures alignment to the Council's ambitions.
- Proposals for inclusion in the Capital programme can be made throughout the year. All schemes are subject to approval in accordance with the Finance Procedure Rules before inclusion in the programme.
- An officer group, the Assets Board, meets monthly and is chaired by the Director of Growth & Enterprise. The Board has a key role in the development and implementation of the strategy and reviews performance of the programme.
- The board has strategic oversight of land and property assets and reports on acquisition, disposal, development and management strategies.
- The Assets Board delegates responsibility for the detailed tasks to a sub-group ~ Capital Programme Board.

Capital Programme Board – Terms of Reference

10.98 The detailed appraisal of projects, taking into consideration the Council's priorities and annual aims and objectives.

- To ensure that all capital decisions are compliant with the capital strategy.
- To provide a forum for establishing and providing robust challenge of the business cases and debate around the capital programme once signed off by each Directorate's Management Team to ensure all projects meet corporate objectives.
- Undertake gateway reviews and risk management reviews of major capital projects.
- Undertake a detailed annual review of the capital programme.
- Monitor the capital programme on an ongoing basis and to ensure it is achieving the agreed outcomes and report to the Finance Sub-Committee
- Receive post project completion reports to assess benefit realisation and lessons learnt.

10.99 The Capital Programme Board will assess submissions for capital expenditure with the exception of schemes fully funded by external resources (such as specific grants or developer contributions); these will be approved in accordance with Finance Procedure Rules.

10.100 The Capital Programme Board provides monthly updates and makes recommendations to the Assets Board who will refer decisions to the appropriate decision maker, whether this is an Officer under delegated responsibility, Finance Sub-Committee, Service Committee or Council.

Knowledge and Skills

10.101 The Capital Strategy and Treasury Management and Investment Strategies are managed by a team of professionally qualified accountants with extensive Local Government finance experience between them. They all follow a Continuous Professional Development plan (CPD) and attend courses on an ongoing basis to keep abreast of new developments and skills.

10.102 The Council's Section 151 Officer is the officer with overall responsibility for Capital and Treasury activities. He is a professionally qualified accountant and follows an ongoing CPD programme.

10.103 The Senior Responsible Officers and Project Managers who manage a capital project receive training which provides up to date information on the CIPFA Code of Practice, the Prudential Code, principles of capital accounting including eligible capital expenditure, capital funding and the capital financing budget.

Background Papers

Cheshire East Reports –

- Statement of Accounts
- Medium-Term Financial Strategy
- Quarterly Review of Finance Reports
- Financial Resilience - Value for Money
- Finance Procedure Rules

Arlingclose Ltd, Independent Treasury Management Advisors –

- Capital Strategy Template

Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (CIPFA)

Local Authority Capital Accounting: A Reference Manual for Practitioners (CIPFA, 2019)

The Prudential Code for Capital Finance in Local Authorities (CIPFA, 2019 and 2021)

Annex A: Capital Programme

CHESHIRE EAST COUNCIL CAPITAL PROGRAMME SUMMARY

CAPITAL PROGRAMME 2023/24 - 2026/27

	Prior Years £000	Budget 2023/24 £000	Budget 2024/25 £000	Budget 2025/26 £000	Budget 2026/27 £000	Total Budget £000
Committed Schemes - In Progress						
Adults and Health	104	472	0	0	0	**576**
Children and Families	7,801	53,660	33,400	20,956	8,310	**124,127**
Highways & Transport	274,117	47,351	66,383	113,005	4,014	**504,870**
Economy & Growth	48,179	71,017	51,864	78,175	3,859	**253,094**
Environment & Communities	19,659	10,406	16,726	616	0	**47,407**
Corporate Policy	147	11,900	9,738	5,793	150	**27,728**
Total Committed Schemes - In Progress	**350,007**	**194,806**	**178,111**	**218,545**	**16,333**	**957,802**

CAPITAL PROGRAMME 2023/24 - 2026/27

	Prior Years £000	Budget 2023/24 £000	Budget 2024/25 £000	Budget 2025/26 £000	Budget 2026/27 £000	Total Budget £000
New Schemes						
Adults and Health	0	0	0	0	0	0
Children and Families	0	750	750	0	0	**1,500**
Highways & Transport	0	16,597	16,861	17,130	15,051	**65,639**
Economy & Growth	0	0	0	0	0	**0**
Environment & Communities	0	1,605	1,991	3,301	0	**6,897**
Corporate Policy	0	926	627	0	0	**1,553**
Total New Schemes	**0**	**19,878**	**20,229**	**20,431**	**15,051**	**75,589**
Total Capital Schemes	**350,007**	**214,684**	**198,340**	**238,976**	**31,384**	**1,033,391**

CHESHIRE EAST COUNCIL CAPITAL PROGRAMME SUMMARY

CAPITAL PROGRAMME 2023/24 - 2026/27

Funding Requirement

	Prior Years £000	Budget 2023/24 £000	Budget 2024/25 £000	Budget 2025/26 £000	Budget 2026/27 £000	Total Budget £000
Indicative Funding Analysis: (See note 1)						
Government Grants	181,950	115,039	117,373	69,329	19,703	**503,394**
External Contributions	23,814	16,769	20,921	56,492	9,940	**127,936**
Revenue Contributions	362	400	0	0	0	**762**
Capital Receipts	382	3,321	1,000	31,500	1,000	**37,203**
Prudential Borrowing (See note 2)	143,499	79,145	59,046	81,655	741	**364,086**
Total	**350,007**	**214,674**	**198,340**	**238,976**	**31,384**	**1,033,381**

Note 1:

The funding requirement identified in the above table represents a balanced and affordable position, in the medium term. The Council will attempt to maximise external resources such as grants and external contributions in the first instance to fund the capital programme. Where the Council resources are required the preference will be to utilise capital receipts from asset disposals. The forecast for capital receipts over the next four years 2023-27 assumes a prudent approach based on the work of the Asset Management team and their most recently updated Disposals Programme.

Note 2:

Appropriate charges to the revenue budget will only commence in the year following the completion of the associated capital asset. This allows the Council to constantly review the most cost effective way of funding capital expenditure.

CAPITAL PROGRAMME 2023/24 - 2026/27

Scheme Description	Forecast Expenditure						Forecast Funding					
	Prior Years £000	Budget 2023/24 £000	Budget 2024/25 £000	Budget 2025/26 £000	Budget 2026/27 £000	Total Budget £000	Government Grants £000	External Contributions £000	Revenue Contributions £000	Capital Receipts £000	Prudential Borrowing £000	Total Funding £000
Committed Schemes												
Adult Social Care												
Electronic Call Monitoring System	0	389	0	0	0	**389**	0	0	389	0	0	**389**
People Planner System	39	55	0	0	0	**94**	55	0	0	0	0	**55**
Replacement Care4CE Devices	65	28	0	0	0	**93**	28	0	0	0	0	**28**
Total Adults Social Care Schemes	**104**	**472**	**0**	**0**	**0**	**576**	**83**	**0**	**389**	**0**	**0**	**472**

Children and Families CAPITAL

CAPITAL PROGRAMME 2023/24-2026/27

Scheme Description	Forecast Expenditure						Forecast Funding					
	Prior Years	Forecast Budget 2023/24	Forecast Budget 2024/25	Forecast Budget 2025/26	Forecast Budget 2026/27	Total Forecast Budget 2023/27	Grants	External Contributions	Revenue Contributions	Capital Receipts	Prudential Borrowing	Total Funding
Committed Schemes												
Childrens Social Care												
Foster Carers Capacity Scheme	349	286	0	0	0	**286**	0	0	0	0	286	**286**
Crewe Youth Zone	702	2,740	1,358	0	0	**4,098**	1,898	0	0	0	2,200	**4,098**
Children's Home Sufficiency Scheme	100	2,000	0	0	0	**2,000**	0	0	0	0	2,000	**2,000**
Total Children's Social Care	**1,151**	**5,026**	**1,358**	**0**	**0**	**6,384**	**1,898**	**0**	**0**	**0**	**4,486**	**6,384**
Strong Start, Family Help & Integration												
Early Years Sufficiency Capital Fund	913	123	0	0	0	**123**	123	0	0	0	0	**123**
Total Strong Start, Family Help & Integration	**913**	**123**	**0**	**0**	**0**	**123**	**123**	**0**	**0**	**0**	**0**	**123**
Education and 14-19 Skills												
Adelaide Academy	39	550	195	0	0	**745**	575	0	0	0	170	**745**
Basic Need Grant Allocation	11	2,500	4,808	0	0	**7,308**	7,308	0	0	0	0	**7,308**
Congleton Planning Area	94	3,940	1,000	0	0	**4,940**	2,593	2,347	0	0	0	**4,940**
Congleton Planning Area - Primary (1)	0	500	1,700	0	0	**2,200**	1,000	1,200	0	0	0	**2,200**
Congleton Planning Area - Primary (2)	100	525	0	0	0	**525**	525	0	0	0	0	**525**
Congleton Planning Area - Primary (3)	0	250	1,500	5,750	0	**7,500**	4,300	3,200	0	0	0	**7,500**
Devolved Formula Capital	0	350	340	330	310	**1,330**	1,330	0	0	0	0	**1,330**
Handforth Planning Area - New School	0	0	500	8,500	4,000	**13,000**	136	12,864	0	0	0	**13,000**
Holmes Chapel Planning Area	780	2,845	0	0	0	**2,845**	2,470	375	0	0	0	**2,845**
Macclesfield Planning Area - Secondary	1,106	1,500	1,478	0	0	**2,978**	2,978	0	0	0	0	**2,978**
Macclesfield Planning Area - Secondary New	100	0	500	0	0	**500**	500	0	0	0	0	**500**
Macclesfield Planning Area - New School	0	0	0	2,000	2,000	**4,000**		4,000	0	0	0	**4,000**
Mobberley Primary School	50	850	0	0	0	**850**	550	0	0	300	0	**850**
Nantwich Planning Area (Primary)	304	4,800	2,676	0	0	**7,476**	4,287	3,189	0	0	0	**7,476**
Nantwich Planning Area (Secondary)	0	700	0	0	0	**700**	700	0	0	0	0	**700**
Provision of Sufficient School Places - SEND	16	5,028	1,000	0	0	**6,028**	500	0	0	0	5,528	**6,028**
Resource Provision - Wistaston	0	1,400	0	0	0	**1,400**	1,100	0	0	0	300	**1,400**
Sandbach Planning Area - Primary	0	2,000	1,683	0	0	**3,683**	3,173	510	0	0	0	**3,683**
Sandbach Planning Area (secondary - 300 places)	3	38	0	0	0	**38**	38	0	0	0	0	**38**
School Condition Capital Grant	0	2,868	2,000	2,000	2,000	**8,868**	8,868	0	0	0	0	**8,868**

CAPITAL PROGRAMME 2023/24-2026/27

Scheme Description	Forecast Expenditure: Prior Years	Forecast Budget 2023/24	Forecast Budget 2024/25	Forecast Budget 2025/26	Forecast Budget 2026/27	Total Forecast Budget 2023/27	Forecast Funding: Grants	External Contributions	Revenue Contributions	Capital Receipts	Prudential Borrowing	Total Funding
Committed Schemes												
Sen/High Needs Grant Allocation	93	1,195	1,195	0	0	**2,390**	2,390	0	0	0	0	**2,390**
Shavington Planning Area - Primary	10	500	5,114	2,376	0	**7,990**	5,633	2,357	0	0	0	**7,990**
Shavington Planning Area - secondary	170	1,773	1,557	0	0	**3,330**	3,330	0	0	0	0	**3,330**
Springfield Satellite Site (Dean Row)	141	5,459	500	0	0	**5,959**	5,159	0	0	0	800	**5,959**
The Dingle Primary School Expansion	10	990	385	0	0	**1,375**	1,375	0	0	0	0	**1,375**
Wilmslow High School BN	2,708	7,950	3,286	0	0	**11,236**	8,501	2,687	0	0	48	**11,236**
Wilmslow Primary Planning Area	1	0	625	0	0	**625**	125	500	0	0	0	**625**
								0	0	0	0	
Total Education & 14-19 Skills	**5,738**	**48,511**	**32,042**	**20,956**	**8,310**	**109,819**	**69,443**	**33,230**	**0**	**300**	**6,846**	**109,819**
												0
Total Committed Schemes	**7,801**	**53,660**	**33,400**	**20,956**	**8,310**	**116,326**	**71,464**	**33,230**	**0**	**300**	**11,332**	**116,326**
New Schemes												
Education and 14-19 Skills												
Poynton Planning Area	0	750	750	0	0	**1,500**	697	803	0	0	0	**1,500**
Total New Schemes	**0**	**750**	**750**	**0**	**0**	**1,500**	**697**	**803**	**0**	**0**	**0**	**1,500**
Total Children and Families Schemes	**7,801**	**54,410**	**34,150**	**20,956**	**8,310**	**117,826**	**72,161**	**34,033**	**0**	**300**	**11,332**	**117,826**

CAPITAL PROGRAMME 2023/24 - 2026/27

Scheme Description	Forecast Expenditure						Forecast Funding					
	Prior Years £000	Forecast Budget 2023/24 £000	Forecast Budget 2024/25 £000	Forecast Budget 2025/26 £000	Forecast Budget 2026/27 £000	Total Forecast Budget 2023/27 £000	Grants £000	External Contributions £000	Revenue Contributions £000	Capital Receipts £000	Prudential Borrowing £000	Total Funding £000
Committed Schemes												
ICT Services												
Care Act Phase 2	0	1,100	1,038	0	0	**2,138**	0	0	0	0	2,138	**2,138**
Digital Customer - Delivery Programme Phase 1	128	122	0	0	0	**122**	0	0	0	0	122	**122**
Digital Customer Enablement	0	1,400	474	0	0	**1,874**	0	0	0	0	1,874	**1,874**
Info' Assurance And Data Mgmt	0	1,941	1,850	0	0	**3,791**	0	0	0	626	3,165	**3,791**
Infrastructure Investment(IIP)	0	1,869	1,656	1814	0	**5,339**	0	0	0	0	5,339	**5,339**
Total ICT Services Schemes	**128**	**6,432**	**5,018**	**1,814**	**0**	**13,264**	**0**	**0**	**0**	**626**	**12,638**	**13,264**
Finance & Customer Services												
Core Financials	0	741	720	741	0	**2,202**	0	0	0	0	2,202	**2,202**
Strategic Capital Projects	0	4,727	4,000	3,087	0	**11,814**	0	0	0	0	11,814	**11,814**
Vendor Management - Phase 2	19	0	0	151	150	**301**	0	0	0	150	151	**301**
Total Finance & Customer Services Schemes	**19**	**5,468**	**4,720**	**3,979**	**150**	**14,317**	**0**	**0**	**0**	**150**	**14,167**	**14,317**
Total Committed Schemes	**147**	**11,900**	**9,738**	**5,793**	**150**	**27,581**	**0**	**0**	**0**	**776**	**26,805**	**27,581**
New Schemes												
ICT Services												
ICT Hybrid Model	0	926	627	0	0	**1,553**	0	0	0	0	1,553	**1,553**
Total ICT Services New Schemes	**0**	**926**	**627**	**0**	**0**	**1,553**	**0**	**0**	**0**	**0**	**1,553**	**1,553**
Total Corporate Policy Schemes	**147**	**12,825**	**10,365**	**5,793**	**150**	**29,134**	**0**	**0**	**0**	**776**	**28,358**	**29,134**

Economy and Growth CAPITAL

CAPITAL PROGRAMME 2023/24- 2026/27

Scheme Description	Prior Years £000	Forecast Budget 2023/24 £000	Forecast Budget 2024/25 £000	Forecast Budget 2025/26 £000	Forecast Budget 2026/27 £000	Total Forecast Budget 2023/27 £000	Grants £000	External Contributions £000	Revenue Contributions £000	Capital Receipts £000	Prudential Borrowing £000	Total Funding £000
	Forecast Expenditure						Forecast Funding					
Committed Schemes												
Culture & Tourism												
Countryside Vehicles	132	455	193	219	0	**867**	0	0	0	0	867	**867**
New Archive Premises	0	4100	5699	451	0	**10,250**	0	0	0	0	10,250	**10,250**
Public Rights of Way - CMM A6 MARR	8	93	0	0	0	**93**	93	0	0	0	0	**93**
Rural & Green Section 106 Schemes	21	52	0	0	0	**52**	0	52	0	0	0	**52**
Tatton Park Investment Phase 2	264	1205	500	0	0	**1,705**	0	0	0	0	1,705	**1,705**
Total Culture & Tourism Committed Schemes	**425**	**5,905**	**6,392**	**670**	**0**	**12,967**	**93**	**52**	**0**	**0**	**12,822**	**12,967**
Economic Development												
Connecting Cheshire 2020	1,500	2,500	2,238	1,000	0	**5,738**	5,738	0	0	0	0	**5,738**
Connecting Cheshire Phase 2	0	0	0	883	0	**883**	0	313	0	0	570	**883**
Connecting Cheshire	0	0	0	595	0	**595**	0	48	0	0	547	**595**
Connecting Cheshire Phase 3	100	1,500	2,400	4,000	0	**7,900**	0	7,900	0	0	0	**7,900**
Crewe Town Centre Regeneration	14,906	15,595	0	0	1,517	**17,112**	0	0	0	850	16,262	**17,112**
Crewe Towns Fund	1,438	3,312	9,000	5,810	0	**18,122**	18,122	0	0	0	0	**18,122**
Demolition of Crewe Library Site	318	1,077	1,370	0	0	**2,447**	924	0	0	0	1,523	**2,447**
Future High Street Funding - CEC Innovation Centre	58	1,111	0	0	0	**1,111**	1,111	0	0	0	0	**1,111**
Future High Street Funding - Christ Church Innovation Centre	71	1,863	0	0	0	**1,863**	1,863	0	0	0	0	**1,863**
Handforth Heat Network	0	9,910	2,000	1,800	0	**13,710**	5,420	4,890	0	0	3,400	**13,710**
Leighton Green	1,465	331	300	0	0	**631**	0	0	0	0	631	**631**
Macclesfield Indoor Market Toilet Refurbishment	80	80	0	0	0	**80**	70	0	10	0	0	**80**
Macclesfield Town Centre	1,869	349	0	0	0	**349**	0	0	0	0	349	**349**
North Cheshire Garden Village	6,091	12,300	9,000	37,317	0	**58,617**	21,232	0	0	21,568	15,817	**58,617**
South Macclesfield Development Area	3,339	1,291	10,000	20,000	0	**31,291**	10,000	10,000	0	11,291	0	**31,291**
Total Economic Development Committed Schemes	**31,235**	**51,220**	**36,307**	**71,404**	**1,517**	**160,449**	**64,480**	**23,151**	**10**	**33,709**	**39,100**	**160,449**

CAPITAL PROGRAMME 2023/24- 2026/27

Scheme Description	Prior Years £000	Forecast Budget 2023/24 £000	Forecast Budget 2024/25 £000	Forecast Budget 2025/26 £000	Forecast Budget 2026/27 £000	Total Forecast Budget 2023/27 £000	Grants £000	External Contributions £000	Revenue Contributions £000	Capital Receipts £000	Prudential Borrowing £000	Total Funding £000
	Forecast Expenditure						Forecast Funding					
Committed Schemes												
Estates												
Corporate Landlord - Land Acquisitions	0	1,336	0	0	0	**1,336**	0	1,336	0	0	0	**1,336**
Farms Strategy	8	306	306	1,090	0	**1,702**	0	0	0	306	1,396	**1,702**
Malkins Bank Landfill Site	711	649	0	0	0	**649**	0	0	0	0	649	**649**
Premises Capital (FM)	4,282	4,232	3,500	2,469	0	**10,201**	0	0	0	0	10,201	**10,201**
Public Sector Decarbonisation - 3	4,464	750	0	0	0	**750**	0	0	0	0	750	**750**
Schools Capital Maintenance	932	1,650	0	0	0	**1,650**	1,490	0	0	0	160	**1,650**
Septic Tanks	300	337	0	0	0	**337**	0	0	0	0	337	**337**
Total Estates Committed Schemes	**10,696**	**9,260**	**3,806**	**3,559**	**0**	**16,625**	**1,490**	**1,336**	**0**	**306**	**13,493**	**16,625**
Housing												
Crewe Towns Fund - Warm and Healthy Homes	26	74	0	0	0	**74**	74	0	0	0	0	**74**
Disabled Facilities Grant	3,845	2,342	2,342	2,342	2,342	**9,368**	9,368	0	0	0	0	**9,368**
Future High Street Funding - Chester Street	3	5	1,370	0	0	**1,375**	1,375	0	0	0	0	**1,375**
Future High Street Funding - Delamere Street	7	5	1,447	0	0	**1,452**	1,452	0	0	0	0	**1,452**
Gypsy and Traveller Sites	1,695	2,006	0	0	0	**2,006**	700	0	0	0	1,306	**2,006**
Home Repairs for Vulnerable People	246	200	200	200	0	**600**	0	0	0	0	600	**600**
Total Housing Committed Schemes	**5,822**	**4,632**	**5,359**	**2,542**	**2,342**	**14,875**	**12,969**	**0**	**0**	**0**	**1,906**	**14,875**
Total Economy and Growth Schemes	**48,179**	**71,017**	**51,864**	**78,175**	**3,859**	**204,916**	**79,032**	**24,539**	**10**	**34,015**	**67,321**	**204,916**

CAPITAL PROGRAMME 2023/24-2026/27

Scheme Description	Prior Years £000	Forecast Budget 2023/24 £000	Forecast Budget 2024/25 £000	Forecast Budget 2025/26 £000	Forecast Budget 2026/27 £000	Total Forecast Budget 2023/27 £000	Grants £000	External Contributions £000	Revenue Contributions £000	Capital Receipts £000	Prudential Borrowing £000	Total Funding £000
	Forecast Expenditure						Forecast Funding					
Committed Schemes												
Environment Services												
Arnold Rhodes Public Open Space Improvements Phase 2	89	5	0	0	0	**5**	0	5	0	0	0	**5**
Barony Skate Park Refurbishment	0	100	0	0	0	**100**	100	0	0	0	0	**100**
Carbon Offset Investment	125	125	250	500	0	**875**	0	0	0	0	875	**875**
Congleton Household Waste Recycling Centre Development	35	15	0	0	0	**15**	0	0	0	0	15	**15**
Energy Improvements at Cledford Lane	845	140	0	0	0	**140**	0	0	0	0	140	**140**
Fleet Vehicle Electric Charging	65	225	179	116	0	**520**	0	0	0	0	520	**520**
Future High Street Funding - Sustainable Energy Network	302	2,275	0	0	0	**2,275**	2,275	0	0	0	0	**2,275**
Green Investment Scheme (Solar Farm)	464	3,486	0	0	0	**3,486**	0	0	0	0	3,486	**3,486**
Household Waste Recycling Centres	50	810	0	0	0	**810**	0	0	0	0	810	**810**
Litter and Recycling Bins	106	50	52	0	0	**102**	0	0	0	0	102	**102**
Park Development Fund	560	236	150	0	0	**386**	0	0	0	0	386	**386**
Pastures Wood Decarbonisation	39	12	0	0	0	**12**	0	0	12	0	0	**12**
Solar Energy Generation	20	280	13,880	0	0	**14,160**	0	0	0	0	14,160	**14,160**
Victoria Park Pitch Improvements	17	12	0	0	0	**12**	0	12	0	0		**12**
Total Environment Services Schemes	**2,718**	**7,770**	**14,511**	**616**	**0**	**22,897**	**2,375**	**17**	**12**	**0**	**20,493**	**22,897**
Neighbourhood Services												
Congleton Leisure Centre	12,175	50	0	0	0	**50**	0	0	0	0	50	**50**
Macclesfield Leisure Centre Improvements	3,398	467	0	0	0	**467**	0	0	0	0	467	**467**
Libraries - Next Generation - Self Service	323	51	0	0	0	**51**	0	0	0	0	51	**51**
Poynton Leisure Centre	391	2,000	2,215	0	0	**4,215**	0	0	0	0	4,215	**4,215**
Total Neighbourhood Services	**16,287**	**2,568**	**2,215**	**0**	**0**	**4,783**	**0**	**0**	**0**	**0**	**4,783**	**4,783**
Planning Services												
Replacement Planning & Building	365	45	0	0	0	**45**	0	0	0	0	45	**45**
Regulatory Services & Enviromental Health ICT System	290	23	0	0	0	**23**	0	0	0	0	23	**23**
Total Planning Services	**655**	**68**	**0**	**0**	**0**	**68**	**0**	**0**	**0**	**0**	**68**	**68**
Total Committed Schemes	**19,659**	**10,406**	**16,726**	**616**	**0**	**27,748**	**2,375**	**17**	**12**	**0**	**25,344**	**27,748**
New Schemes												
Environment Services												
Fleet EV Transition	0	1,605	1,991	3,301	0	**6,897**	0	0	0	0	6,897	**6,897**
Total New Schemes	**0**	**1,605**	**1,991**	**3,301**	**0**	**6,897**	**0**	**0**	**0**	**0**	**6,897**	**6,897**
Total Environment and Communities Schemes	**19,659**	**12,011**	**18,717**	**3,917**	**0**	**34,645**	**2,375**	**17**	**12**	**0**	**32,241**	**34,645**

Highways and Transport **CAPITAL**

CAPITAL PROGRAMME 2023/24- 2026/27

Scheme Description	Forecast Expenditure						Forecast Funding					
	Prior Years £000	Forecast Budget 2023/24 £000	Forecast Budget 2024/25 £000	Forecast Budget 2025/26 £000	Forecast Budget 2026/27 £000	Total Forecast Budget 2023/27 £000	Grants £000	External Contributions £000	Revenue Contributions £000	Capital Receipts £000	Prudential Borrowing £000	Total Funding £000
Committed Schemes												
Strategic Infrastructure												
A500 Dualling Scheme	10,866	1,627	26,990	49,973	0	**78,590**	51,683	4,300	0	0	22,607	**78,590**
A50 / A54 Holmes Chapel	106	347	150	0	0	**497**	0	497	0	0	0	**497**
A54 / A533 Leadsmithy Street, Middlewich	174	389	0	0	0	**389**	0	389	0	0	0	**389**
A556 Knutsford to Bowdon	366	40	98	0	0	**138**	0	138	0	0	0	**138**
A6 MARR CMM Disley	1,661	61	0	0	0	**61**	0	7	0	0	54	**61**
A6 MARR CMM Handforth	617	184	400	0	0	**584**	101	48	0	0	434	**584**
A6 MARR Technical Design	323	150	0	0	0	**150**	17	133	0	0	0	**150**
Congleton Link Road	73,017	2,457	6,040	2,915	4,014	**15,426**	0	12,437	0	0	2,989	**15,426**
Crewe Green Roundabout	7,063	50	190	197	0	**437**	0	437	0	0	0	**437**
Flowerpot Phs 1 & Pinchpoint	1,631	2,631	3,510	2,265	0	**8,406**	1,944	726	0	0	5,736	**8,406**
Future High Streets Fund - Highways	1,415	2,198	2,251	304	0	**4,753**	4,640	113	0	0	0	**4,753**
Highway S106 Schemes	245	549	168	0	0	**717**	10	707	0	0	0	**717**
Infrastructure Scheme Development	0	250	0	0	0	**250**	250	0	0	0	0	**250**
Middlewich Eastern Bypass	22,982	11,091	13,817	43,268	0	**68,176**	39,973	14,645	0	0	13,558	**68,176**
North-West Crewe Package	20,490	14,758	3,445	3,658	0	**21,861**	7,374	2,631	0	1,730	10,126	**21,861**
Old Mill Road / The Hill Junction	185	1,139	0	0	0	**1,139**	0	1,139	0	0	0	**1,139**
Peacock Roundabout Junction	0	250	500	0	0	**750**	0	750	0	0	0	**750**
Poynton Relief Road	45,872	46	1,355	5,385	0	**6,785**	0	5,740	0	0	1,046	**6,785**
Sydney Road Bridge	10,113	50	140	198	0	**388**	0	388	0	0	0	**388**
Total Strategic Infrastructure Schemes	**197,125**	**38,265**	**59,054**	**108,163**	**4,014**	**209,496**	**105,991**	**45,225**	**0**	**1,730**	**56,550**	**209,496**
												0
Highways												
A532 Safer Road Fund Scheme	648	575	0	0	0	**575**	476	0	0	0	99	**575**
A536 Safer Road Fund Scheme	2,060	344	0	0	0	**344**	250	0	0	0	94	**344**
Alderley Edge Bypass Scheme Implementation	60,464	147	0	0	0	**147**	0	0	0	0	147	**147**
Managing and Maintaining Highways	440	4,529	4,619	4,712	0	**13,860**	0	0	0	0	13,860	**13,860**
Traffic Signs and Bollards - LED Replacement	1,025	225	0	0	0	**225**	0	0	0	0	225	**225**
Winter Service Facility	609	130.00	130.00	130.00	0	**390**	0	0	0	0	390	**390**
Total Highways Schemes	**65,246**	**5,950**	**4,749**	**4,842**	**0**	**15,541**	**726**	**0**	**0**	**0**	**14,815**	**15,541**

Highways and Transport

CAPITAL

CAPITAL PROGRAMME 2023/24- 2026/27

Scheme Description	Forecast Expenditure						Forecast Funding					
	Prior Years £000	Forecast Budget 2023/24 £000	Forecast Budget 2024/25 £000	Forecast Budget 2025/26 £000	Forecast Budget 2026/27 £000	Total Forecast Budget 2023/27 £000	Grants £000	External Contributions £000	Revenue Contributions £000	Capital Receipts £000	Prudential Borrowing £000	Total Funding £000
Committed Schemes												
Strategic Transport & Parking Services						0	0	0	0	0		**0**
Car Parking Improvements (including residents parking)	292	30	0	0	0	**30**	0	0	0	0	30	**30**
Digital Car Parking Solutions	93	47	0	0	0	**47**	0	0	0	0	47	**47**
On-street Residential Charging	50	205	0	0	0	**205**	105	0	0	0	100	**205**
Pay and Display Parking Meters	539	41	40	0	0	**81**	0	0	0	0	81	**81**
Sustainable Travel Access Prog	2,111	1,312	0	0	0	**1,312**	765	309	0	0	238	**1,312**
Total Strategic Transport & Parking Services Schemes	**3,085**	**1,636**	**40**	**0**	**0**	**1,676**	**870**	**309**	**0**	**0**	**496**	**1,676**
HS2 Programme												
Crewe HS2 Hub Project Development	8,661	1,500	2,540	0	0	**4,040**	0	0	0	0	4,040	**4,040**
Total HS2 Schemes	**8,661**	**1,500**	**2,540**	**0**	**0**	**4,040**	**0**	**0**	**0**	**0**	**4,040**	**4,040**
Total Committed Schemes	**274,117**	**47,351**	**66,382**	**113,005**	**4,014**	**230,752**	**107,588**	**45,534**	**0**	**1,730**	**75,901**	**230,752**
New Schemes												
Highways												
Pothole Funding	0	5,799	5,799	5,799	5,799	**23,196**	23,196	0	0	0	0	**23,196**
Integrated Block - LTP	0	2,003	2,003	2,003	2,003	**8,012**	8,012	0	0	0	0	**8,012**
Maintenance Block - LTP	0	7,345	7,609	7,878	5,799	**28,632**	23,196	0	0	0	5,436	**28,632**
Incentive Fund - LTP	0	1,450	1,450	1,450	1,450	**5,800**	5,800	0	0	0	0	**5,800**
Total Highways New Schemes	**0**	**16,597**	**16,861**	**17,130**	**15,051**	**65,640**	**60,204**	**0**	**0**	**0**	**5,436**	**65,640**
Total Highways & Transport Schemes	**274,117**	**63,948**	**83,244**	**130,135**	**19,065**	**296,392**	**167,792**	**45,534**	**0**	**1,730**	**81,337**	**296,392**

Annex B: Prudential Indicators revisions to: 2022/23 and 2023/24 – 2026/27

Background

10.104 There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. There is a requirement to monitor and report the performance of the indictors on a quarterly basis during the financial year.

Estimates of Capital Expenditure

10.105 In 2023/24, the Council is planning capital expenditure of £214.7m as summarised below:

Capital Expenditure	2022/23 Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
	130.4	214.7	198.3	239.0	31.4

Source: Cheshire East Finance

Capital Financing

10.106 All capital expenditure must be financed either from: external sources (Government grants and other contributions); the Council's own resources (revenue reserves and capital receipts); or debt (borrowing, leasing and Private Finance Initiative). The planned financing of capital expenditure is as follows:

Capital Financing	2022/23 Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Capital Receipts	0.0	3.3	1.0	31.5	1.0
Government Grants	65.7	115.1	117.4	69.3	19.7
External Contributions	17.3	16.8	20.9	56.5	9.9
Revenue Contributions	0.7	0.4	0.0	0.0	0.0
Total Financing	**83.7**	**135.6**	**139.3**	**157.3**	**30.6**
Prudential Borrowing	46.7	79.1	59.0	81.7	0.8
Total Funding	**46.7**	**79.1**	**59.0**	**81.7**	**0.8**
Total Funding and Financing	**130.4**	**214.7**	**198.3**	**239.0**	**31.4**

Source: Cheshire East Finance

Replacement of debt finance

10.107 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets may be used to replace debt finance. Planned MRP repayments are as follows:

Replacement of debt finance	2022/23 Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Total	**15.3**	**17.5**	**20.1**	**22.7**	**23.4**

Source: Cheshire East Finance

10.108 The Council's full MRP Statement is available in **Annex C**.

Estimates of Capital Financing Requirement

10.109 The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP repayments and capital receipts used to replace debt. The CFR is expected to increase by £58m during 2023/24. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Capital Financing Requirement	2022/23 Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Total	**448**	**506**	**538**	**595**	**568**

Source: Cheshire East Finance

Asset disposals

10.110 When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt for example. The Council is currently also permitted to spend capital receipts on service transformation project until 2024/25. Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive £4.8m of capital receipts in the coming financial years as follows.

Capital Receipts	2022/23 Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Asset Sales	3.0	1.0	1.0	1.0	1.0
Loans Repaid	0.2	0.2	0.2	0.2	0.2
Total	**3.2**	**1.2**	**1.2**	**1.2**	**1.2**

Source: Cheshire East Finance

Gross Debt and the Capital Financing Requirement

10.111 The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in the future. These objectives are often conflicting and the Council therefore seeks to strike a balance between cheaper short-term loans (currently available at around 3.5%) and long-term fixed rate loans where the future cost is known but higher (currently 4.2% – 4.5%).

10.112 Projected levels of the Council's total outstanding debt (which comprises borrowing, PFI liabilities, leases are show below, compared with the capital financing requirement.

Gross Debt and the Capital Financing Requirement	2022/23 Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Borrowing	123	77	77	77	77
Finance Leases	0	0	0	0	0
PFI Liabilities	19	18	17	17	15
Total Debt	**142**	**95**	**94**	**94**	**92**
Capital Financing Requirement	**448**	**506**	**538**	**595**	**568**

Source: Cheshire East Finance

10.113 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from the above table, the Council expects to comply with this in the medium-term.

Liability Benchmark

10.114 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £20m at each year-end. This benchmark is currently £222m and is forecast to rise to £401m over the next four years.

Borrowing and the Liability Benchmark	2022/23 Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Outstanding Debt	123	77	77	77	77
Liability Benchmark	222	312	354	420	401

Source: Cheshire East Finance

10.115 The table shows that the Council expects to remain borrowed below its liability benchmark.

Affordable borrowing limit

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

	2022/23 Limit £m	2023/24 Limit £m	2024/25 Limit £m	2025/26 Limit £m	2026/27 Limit £m
Authorised Limit for Borrowing	440	500	535	590	565
Authorised Limit for Other Long-Term Liabilities	19	18	17	17	15
Authorised Limit for External Debt	**459**	**518**	**552**	**607**	**580**
Operational Boundary for Borrowing	430	490	525	580	555
Operational Boundary for Other Long-Term Liabilities	19	18	17	17	15
Operational Boundary for External Debt	**449**	**508**	**542**	**597**	**570**

Source: Cheshire East Finance

Investment Strategy

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

10.118 The Council's policy on treasury investments is to prioritise security and liquidity over yield; that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with money market funds, other local authorities or selected high quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in shares and property, to balance the risk of loss against the risk of returns below inflation.

Treasury Management Investments	2022/23 Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Short-term	20	20	20	20	20
Long-term	20	20	20	20	20
Total Investments	**40**	**40**	**40**	**40**	**40**

Source: Cheshire East Finance

10.119 Further details on treasury investments are in the Treasury Management Strategy, **Appendix 5**.

10.120 Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Section 151 Officer and staff, who must act in line with the treasury management strategy approved by Council. Quarterly reports on treasury activity are reported to Finance Sub-Committee as part of the Finance Update reports. The Audit and Governance Committee is responsible for scrutinising treasury management decisions.

10.121 Further details on investments for service purposes and commercial activities are in the Investment Strategy, **Appendix 6**.

Revenue budget implications

10.122 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by an investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream, or in other words, the amount funded from Council Tax, business rates and general Government grants.

Ratio of Financing Costs to Net Revenue Stream	2022/23 Forecast	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Financing Costs (£m)	19.0	19.0	20.0	21.0	22.0
Proportion of net revenue stream (%)	5.8%	5.4%	5.4%	5.5%	5.6%

Source: Cheshire East Finance

10.123 Further details on the revenue implications of capital expenditure are on paragraphs 112-129 of the 2023-2027 Medium-Term Financial Strategy (**Appendix C**).

10.124 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Section 151 Officer is satisfied that the proposed capital programme is prudent, affordable and sustainable. The longer term revenue implications have been considered and built into the revenue budget forecasts post the period of the current Medium-Term Financial Strategy.

Annex C: Minimum Revenue Provision

10.125 Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Department for Levelling Up, Housing and Communities' *Guidance on Minimum Revenue Provision* (the DLUHC Guidance) most recently issued in 2018.

10.126 The broad aim of the DLUHC Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

10.127 The DLUHC Guidance requires the Authority to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the guidance.

- For capital expenditure incurred before 1 April 2008 and for supported capital expenditure incurred on or after that date, MRP will be charged at 2% annuity rate over a 50-year period.
- For capital expenditure incurred after 31 March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets, as the principal repayment on an annuity rate of 2%, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

  (Option 3 in England and Wales)
- For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.
- For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational.

10.128 Capital expenditure incurred during 2023/24 will not be subject to an MRP charge until 2024/25.

Appendix 5 – Treasury Management Strategy

1. Background

11.1 Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

11.2 Treasury risk management at the Authority 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 Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

11.3 In preparing this strategy the Council has had regard to the advice received from its appointed Treasury Management advisors, Arlingclose Ltd who have helped shape the content of this strategy. The current contract for advice is for four years expiring on 31 December 2025.

11.4 Investments held for service purposes or for commercial profit are considered in the Investment Strategy (see **Appendix 6**).

2. External Context

11.5 **Economic background:** The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Authority's treasury management strategy for 2023/24.

11.6 The Bank of England Base Rate (Bank Rate) increased by 0.75% to 3.0% in November 2022, the largest single rate hike since 1989 and the eighth successive rise since December 2021. The decision was voted for by a 7-2 majority of the Monetary Policy Committee (MPC), with one of the two dissenters voting for a 0.50% rise and the other for just a 0.25% rise.

11.7 The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with Consumer Price Index (CPI) inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected to remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

11.8 The UK economy grew by 0.2% between April and June 2022, but the Bank of England (BoE) forecasts Gross Domestic Product (GDP) will decline by 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.

11.9 CPI is expected to peak at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets with a peak of 5.25%. However, the BoE has stated it considers this path to be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target.

11.10 The labour market remains tight for now, with the most recent statistics showing the unemployment rate fell to 3.5%, driven mostly by a shrinking labour force. Earnings were up strongly in nominal terms by 6% for total pay and 5.4% for regular pay but factoring in inflation means real total pay was -2.4% and regular pay -2.9%. Looking forward, the MPR shows the labour market weakening in response to the deteriorating outlook for growth, leading to the unemployment rate rising to around 6.5% in 2025.

11.11 Interest have also been rising sharply in the US, with the Federal Reserve increasing the range on its key interest rate by 0.75% in November 2022 to 3.75%-4.0%. This was the fourth successive 0.75% rise in a pace of tightening that has seen rates increase from 0.25%-0.50% in March 2022. Annual inflation has been slowing in the US but remains above 8%. GDP grew at an annualised rate of 2.6% between July and September 2022, a better-than-expected rise, but with official interest rates expected to rise even further in the coming months, a recession in the region is widely expected at some point during 2023.

11.12 Inflation has been rising consistently in the Euro Zone since the start of the year, hitting an annual rate of 10.7% in October 2022. Economic growth has been weakening with an expansion of just 0.2% in the three months to September 2022. As with the UK and US, the European Central Bank has been on an interest rate tightening cycle, pushing up its three key interest rates by 0.75% in October, the third major increase in a row, taking its main refinancing rate to 2% and deposit facility rate to 1.5%.

11.13 **Credit outlook:** Credit default swap (CDS) prices have followed an upward trend throughout the year, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic.

11.14 The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them from to negative from stable.

11.15 There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability. However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

11.16 **Interest rate forecast:** The Authority's treasury management adviser, Arlingclose forecasts that Bank Rate will continue to rise in 2022 and 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.

11.17 While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher.

11.18 Yields are expected to remain broadly at current levels over the medium-term, with 5, 10 and 20-year gilt yields expected to average around 3.6%, 3.7%, and 3.9% respectively over the three year period to September 2025. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

11.19 A more detailed economic and interest rate forecast provided by Arlingclose Ltd is attached at **Annex A**.

11.20 For the purpose of setting the budget, it has been assumed that new treasury management investments will be made at an average rate of 4.60%, which takes into account strategic fund investments, and that new borrowing in the form of short-term loans will be borrowed at an average of 4.00%.

3. Local Context

11.21 As at 28 November 2022 the Authority currently has borrowings of £225m and treasury investments of £87m. This is set out in further detail at **Annex B.** Forecast changes in these sums are shown in the balance sheet analysis in **Table 1**.

Table 1: Balance Sheet Summary and Forecast

	31/03/23 Estimate £m	31/03/24 Estimate £m	31/03/25 Estimate £m	31/03/26 Estimate £m	31/03/27 Estimate £m
General Fund CFR	448	506	538	595	568
Less: Other long-term liabilities *	(19)	(18)	(17)	(17)	(15)
Loans CFR	**429**	**488**	**521**	**578**	**553**
Less: External borrowing **	(123)	(77)	(77)	(77)	(77)
Internal (over) borrowing	**306**	**411**	**444**	**501**	**476**
Less: Usable reserves	(147)	(122)	(114)	(109)	(103)
Less: Working capital	(80)	(75)	(73)	(71)	(69)
Treasury Investments (or New borrowing)	**(79)**	**(214)**	**(257)**	**(321)**	**(304)**

* PFI liabilities that form part of the Authority's debt
** shows only loans to which the Authority is committed and excludes optional refinancing

11.22 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

11.23 The Authority has an increasing CFR due to the capital programme and will therefore be required to borrow up to £124m over the forecast period.

11.24 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. **Table 1** shows that the Authority expects to comply with this recommendation during 2023/24.

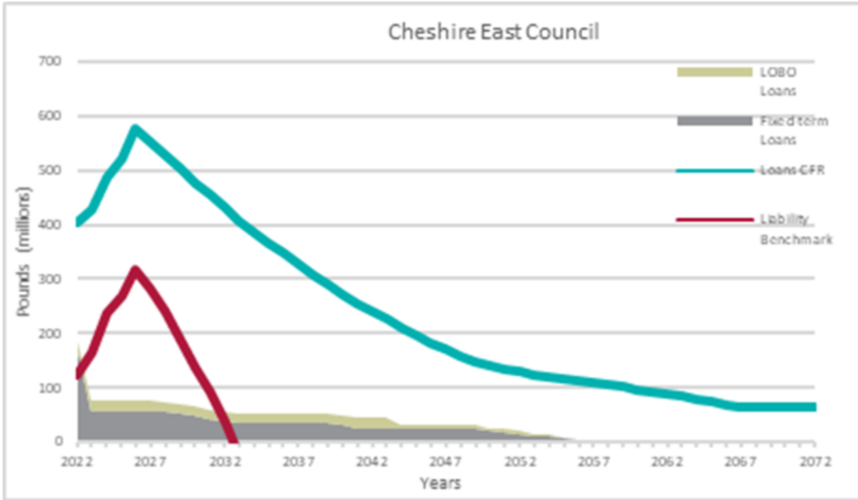
11.25 **Liability Benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as **Table 1** above, but that cash and investment balances are kept to a minimum level of £20m at each year-end to maintain a core strategic investment.

Table 2: Liability Benchmark

	31/03/23 Estimate £m	31/03/24 Estimate £m	31/03/25 Estimate £m	31/03/25 Estimate £m	31/03/26 Estimate £m
Loans CFR	429	488	521	578	553
Less: Usable reserves	(147)	(122)	(114)	(109)	(103)
Less: Working capital	(80)	(75)	(73)	(71)	(69)
Plus: Minimum investments	20	20	20	20	20
Liability Benchmark	**222**	**311**	**354**	**418**	**401**

11.26 Following on from the medium-term forecasts in **Table 2** above, the long-term liability benchmark assumes minimum revenue provision on new capital expenditure based on a 25-year asset life and income, expenditure and reserves all increasing by inflation of 3.0% a year. This is shown in **Chart 1**.

Chart 1: Liability Benchmark Chart



4. Borrowing Strategy

11.27 The Authority currently holds loans of £225m. Cash flow shortfalls arising from past debt repayments and capital spending are currently being funded through cheaper short-term borrowing. The Authority may also borrow additional sums to pre-fund future years' requirements providing this does not exceed the authorised limit for borrowing although at the present time we are not expecting to do this.

11.28 The Authority's chief 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 Authority's long-term plans change is a secondary objective.

11.29 Given the significant cuts to public expenditure and in particular to Local Government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to use both internal resources and to borrow short-term loans instead.

11.30 By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Our treasury advisors will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2023/24 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

11.31 The Authority will consider sources other than PWLB when raising long-term loans including banks, pension funds and Local Authorities and will investigate the possibility of issuing bonds and similar instruments in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.

11.32 Alternatively, the Authority may arrange forward starting loans during 2023/24, 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 without suffering a cost of carry in the intervening period.

11.33 In addition, the Authority may borrow further short-term loans to cover unexpected or planned temporary cash flow shortages.

11.34 The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB Lending facility (formerly the Public Works Loan Board)
- Any UK public sector body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Cheshire Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- Salix Finance Ltd energy efficiency loans

11.35 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

11.36 **Municipal Bond Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report.

11.37 **LOBO's:** The Authority holds £17m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBO's have options during 2023/24, and with interest rates having risen recently, there is now a reasonable chance that the lender will exercise their option. If they do, the Authority will take the option to repay the LOBO loans to reduce refinancing risk in future years.

11.38 **Short-term and variable rate loans:** These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).

11.39 **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. Other lenders may also be prepared to negotiate premature redemption terms.

5. Treasury Investment Strategy

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

11.41 The CIPFA Code requires the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

11.42 As demonstrated by the liability benchmark above, the Authority expects to be a long-term borrower and new treasury investments will, therefore, be made primarily to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of £20m strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.

11.43 The CIPFA code does not permit local authorities to both borrow and invest long-term for cash flow management. However, the Authority may 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 risk 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.

11.44 **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 Authority'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 Authority 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. In the past year the Authority has moved some of the Money Market Fund investments into a HSBC fund which prioritises ESG credentials.

11.45 Under the new IFRS9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

11.46 The Authority may invest its surplus funds with any of the counterparties in **Table 3**, subject to the cash limits (per counterparty) and time limits shown.

Table 3: Treasury Investment Counterparties and Limits

Sector	Time Limit	Counterparty Limit	Sector Limit
UK Government	3 years	Unlimited	n/a
Local Authorities and other Government Entities	3 years	£12m	Unlimited
Secured Investments*	3 years	£12m	Unlimited
Banks (unsecured)*	13 months	£6m	Unlimited
Building Societies (unsecured)*	13 months	£6m	£12m
Registered Providers (unsecured)*	3 years	£6m	£25m
Money Market Funds*	n/a	£12m	Unlimited
Strategic Pooled Funds	n/a	£12m	£50m
Real Estate Investment Trusts	n/a	£12m	£25m
Other investments*	3 years	£6m	£12m

This table must be read in conjunction with the notes below.

11.47 *** Minimum Credit Rating:** Treasury Investments in sectors marked with an Asterix 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. For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

11.48 **Government:** Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities, and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

11.49 **Secured Investments:** Investments 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 and reverse repurchase agreements with banks and 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 with any one counterparty will not exceed the cash limit for secured investments.

11.50 **Banks and Building Societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. 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. See below for arrangements relating to operational bank accounts.

11.51 **Registered Providers (unsecured):** Loans to, and bonds issued or guaranteed by registered providers of social housing or registered social landlords, formerly known as housing associations. 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.

11.52 **Money Market Funds:** 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 risk, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

11.53 **Strategic Pooled Funds:** Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short-term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

11.54 **Real estate investment trusts (REITs):** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

11.55 **Other Investments:** This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

11.56 **Operational bank accounts:** The Authority may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept to the lowest practical levels per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

11.57 **Risk Assessment and Credit Ratings:** Credit ratings are obtained and monitored by the Authority's treasury advisers, 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 the recall or sale of all other existing investments with the affected counterparty.

11.58 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

11.59 **Other Information on the Security of Investments:** The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential Government support, reports in the quality financial press and analysis and advice from the Authority's treasury management advisor. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

11.60 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This may cause investment returns to fall but will protect the principal sum invested.

11.61 **Investment Limits:** The Authority's revenue reserves available to cover investment losses are forecast to be £147m on 31 March 2023. In order that no more than 5% of available reserves will be put at risk in the case of a single default, the maximum that will be lent unsecured to any one organisation (other than the UK Government) will be £6m. Secured investments will have a higher limit of £12m per organisation. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Additional Investment Limits

Type of Counterparty	Cash Limit
Any group of pooled funds under the same management	£25m per manager
Negotiable instruments held in a broker's nominee account	£25m per broker
Foreign countries	£12m per country

11.62 **Liquidity management:** The Authority maintains a cash flow forecasting model to determine the maximum period for which funds may prudently be committed. Limits on long-term investments are set by reference to the Authority's medium-term financial plan and cash flow forecast.

6. Treasury Management Indicators

11.63 The Authority measures and manages its exposures to treasury management risks using the following indicators.

11.64 **Interest Rate Exposures:** This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest Rate Risk Indicator	Limit
Upper limit on one-year revenue impact of a 1% **rise** in interest rates	£740,000
Upper limit on one-year revenue impact of a 1% **fall** in interest rates	£0

11.65 The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates. The Council is expected to remain a net borrower in 2023/24 so a fall in rates would lead to savings rather than incurring additional cost.

11.66 **Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper	Lower
Under 12 months	75%	0%
12 months and within 24 months	75%	0%
24 months and within 5 years	75%	0%
5 years and within 10 years	75%	0%
10 years and within 20 years	100%	0%
20 years and above	100%	0%

11.67 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 limit for loans maturing in the shorter periods is relatively high as there is no shortage of liquidity in the market and short-term funding remains cheaper than alternatives. This will enable the Council to finance temporary cashflow shortfalls at year-end more economically. This will be kept under review as it does increase the risk of higher financing costs in the future.

11.68 **Long-Term Treasury Management Investments:** The purpose of this indicator is to control the Authority's 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:

Price Risk Indicator	2023/24	2024/25	2025/26	No Fixed Date
Limit on principal invested beyond year-end	£25m	£15m	£10m	£30m

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

11.70 The Authority has not adopted the voluntary measures disclosures on security of investments or liquidity.

11.71 Security of investments can be measured by the credit rating assigned to the counterparty but for many of our investments (principally other Local Authorities and strategic high yielding funds) there are no assigned credit ratings. Also, the credit rating assigned to Money Market Funds is typically AAA, but the underlying investments are considerably lower. Any measure adopted would therefore add little value.

11.72 Liquidity is a self-imposed measure generally on the minimum value of funds which the Council must keep as being immediately available in order to meet unexpected payments. Alternatively, a measure linked to borrowing may be considered. In practice the Council's cash varies throughout the year meaning that at certain times the focus of liquidity is on investments and at other times on borrowing. Setting a minimum amount to hold for liquidity purposes may mean that the Council has to borrow unnecessarily to cover short periods. For example, if a liquidity limit of £10m is set and cash is predicted to fall to say £4m for a few days we would have to borrow the additional £6m usually at a slightly higher cost than we receive for investment due to commissions payable. In the unlikely event that an unexpected payment would result in a need to borrow then availability of funds from inter LA markets is high, and borrowing would be limited to need. Cash flow forecasting is carried out daily thereby allowing any borrowing to be planned and limited to need.

7. Other Items

11.73 The CIPFA code requires the Authority to include the following in its treasury management strategy.

11.74 **Policy on Use of Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (for example, interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (such as LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (meaning those that are not embedded into a loan or investment).

11.75 The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, 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 treasury risk management strategy.

11.76 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

11.77 In line with the CIPFA code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

11.78 **External Funds:** The Authority acts as the accountable body for Cheshire & Warrington Local Enterprise Partnership (CW LEP) and for the Cheshire & Warrington Development Ltd Partnership (Evergreen Fund). The Council holds significant cash balances on their behalf prior to expenditure which is either invested short-term or has reduced the need for external borrowing. For CW LEP, the Authority shares the interest benefit based on an agreed method for each fund which is either the average rate achieved on the Councils in-house (non-strategic) investments or an agreed market indicator rate. Surplus Evergreen Fund balances are required to be invested by the fund so the Council acts as a borrower with an agreed variable interest rate based on the average rate achieved on the Councils in-house (non-strategic) investments.

11.79 **Markets in Financial Instruments Directive:** The Authority has opted up to professional client status with its providers of financial services including advisers, banks, brokers and fund managers, allowing it to access a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority’s treasury management activities, this seems to be the most appropriate status.

Annex A: Economic and Interest Rate Forecast

Underlying assumptions:

- UK interest rate expectations have eased following the mini-budget, with a growing expectation that UK fiscal policy will now be tightened to restore investor confidence, adding to the pressure on household finances. The peak for UK interest rates will therefore be lower, although the path for interest rates and gilt yields remain highly uncertain.

- Globally economic growth is slowing as inflation and tighter monetary policy depress activity. Inflation, however, continues to run hot, raising expectations that policymakers, particularly in the US, will err on the side of caution, continue to increase rates and tighten economies into recession.

- The new chancellor dismantled the mini-budget, calming bond markets and broadly removing the premium evident since the first Tory leadership election. Support for retail energy bills will be less generous, causing a lower but more prolonged peak in inflation. This will have ramifications for both growth and inflation expectations.

- The UK economy is already experiencing recessionary conditions, with business activity and household spending falling. Tighter monetary and fiscal policy, alongside high inflation will bear down on household disposable income. The short- to medium-term outlook for the UK economy is bleak, with the BoE projecting a protracted recession.

- Demand for labour remains strong, although there are some signs of easing. The decline in the active workforce has fed through into higher wage growth, which could prolong higher inflation. The development of the UK labour market will be a key influence on MPC decisions. It is difficult to see labour market strength remaining given the current economic outlook.

- Global bond yields have steadied somewhat as attention turns towards a possible turning point in US monetary policy. Stubborn US inflation and strong labour markets mean that the Federal Reserve remains hawkish, creating inflationary risks for other central banks breaking ranks.

- However, in a departure from Fed and ECB policy, in November the BoE attempted to explicitly talk down interest rate expectations, underlining the damage current market expectations will do to the UK economy, and the probable resulting inflation undershoot in the medium term. This did not stop the Governor affirming that there will be further rises in Bank Rate

Forecast:

- The MPC remains concerned about inflation but sees the path for Bank Rate to be below that priced into markets.

- Following exceptional 75bp rise in November, Arlingclose believes the MPC will slow the rate of increase at the next few meetings. Arlingclose now expects Bank Rate to peak at 4.25%, with a further 50bp rise in December and smaller rises in 2023.

- The UK likely entered into recession in Q3, which will continue for some time. Once inflation has fallen from the peak, the MPC will cut Bank Rate.

- Arlingclose expects gilt yields to remain broadly steady despite the MPC's attempt to push down on interest rate expectations. Without a weakening in the inflation outlook, investors will price in higher inflation expectations given signs of a softer monetary policy stance.

- Gilt face pressures to both sides from hawkish US/EZ central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales will maintain yields at a higher level than would otherwise be the case.

Treasury Advisor, Arlingclose Ltd, 3 Year Interest Rate Forecast

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.50	3.50	3.50
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.90	4.40	4.40	4.40	4.35	4.30	4.25	4.00	3.75	3.75	3.75	3.75
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
5yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.36	3.65	3.90	3.90	3.90	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
10yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.46	3.70	3.75	3.75	3.75	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
20yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.88	4.00	4.00	4.00	4.00	4.00	3.90	3.90	3.90	3.90	3.90	3.90	3.90
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
50yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.24	3.40	3.40	3.40	3.40	3.40	3.30	3.30	3.30	3.30	3.30	3.30	3.30
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

PWLB certainty rate = relevant gilt yield + 0.80%

Annex B: Existing Investment and Debt Portfolio Position

	28/11/2022 Actual Portfolio £m	28/11/2022 Average Rate £m
External Borrowing:		
Local Authorities	123	1.25%
PWLB - Fixed Rate	60	4.53%
LOBO Loans	17	4.63%
Other	5	2.08%
Total External Borrowing	**205**	**2.61%**
Other Long-Term Liabilities:		
PFI	20	-
Total Gross External Debt	**225**	**-**
Treasury Investments:		
Managed in-house		
Short-term investments		
Instant Access	54	2.92%
Fixed Term Deposits	13	2.74%
Managed externally		
Property Fund	8	4.31%
Multi Asset Fund	5	6.35%
Equity Fund	2	7.66%
Global Income Fund	4	5.85%
Corporate Bond Fund	1	2.90%
Total Investments	**87**	**3.46%**
Net Debt	**138**	**-**

Appendix 6 – Investment Strategy

1. Purpose

12.1 The purpose of the Investment Strategy is to:

- set out the Council's approach to managing investments
- establish financial limits for various classifications of investment
- recognise the role and responsibilities of the Finance Sub-Committee and its position as the main conduit through which investment opportunities should be considered

12.2 The definition of an **investment** covers all the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios. This may therefore include investments that are not managed as part of normal treasury management processes or under treasury management delegations.

12.3 The Council has a Capital Strategy (prepared in line with the requirements of the Prudential Code); and a Treasury Management Strategy (prepared in line with the requirements of the Treasury Management Code) – relevant disclosures are made within each document.

12.4 Consequently, this Investment Strategy is part of a suite of related documents and focuses predominantly on matters not covered by the Capital Strategy and Treasury Management Strategy.

Statutory Background

12.5 On 2 February 2018 the Department for Levelling Up, Housing and Communities (DLUHC) (formerly MHCLG) published updated statutory guidance on capital finance, in respect of Local Government investments and the minimum revenue provision. The guidance may be found at:
https://assets.publishing.service.gov.uk/

12.6 The guidance was issued to reflect concerns raised by government over patterns of local authority behaviour particularly with respect to the exponential increase in borrowing to invest in commercial properties and other investments where a return was a primary aim. There was concern that local authorities were being exposed to high levels of financial risk through borrowing and investment decisions and that could have a detrimental impact on services if investments did not perform as expected. The requirement to produce this annual Investment Strategy, to be approved by Full Council, was an attempt to recognise this and ensure that Members have sufficient expertise to understand the complex transactions that they have ultimate responsibility for approving.

12.7 In the November 2020 Autumn Statement the Chancellor of the Exchequer went further and effectively prohibited the future purchase of commercial assets primarily for generating yield. Where there are any plans to acquire assets primarily for yield, irrespective of the source of financing for that particular asset, then the Public Works Loan Board (PWLB) would not advance any lending to the Authority. It is clear therefore that yield should be an incidental, rather than the principal factor, in any future decision to acquire an investment asset.

12.8 2021 saw regulators continue this direction of travel to strengthen and codify the rules around commercial assets and borrowing for yield. In December 2021 CIPFA issued a revised Prudential Code which placed further limitations on the ability of Local Authorities to borrow and invest.

12.9 The new Code incorporated updated and revised content in respect of Authorities not borrowing more than or in advance of their needs purely to profit from the investment of the extra sums borrowed. It strengthened previous guidance that authorities "must not borrow to invest primarily for financial return". This included any form of borrowing whether it be public or private sector. In addition, it included proportionality as an objective in the Prudential Code; and further provisions were included so that an Authority considered an assessment of risk to levels of resources.

12.10 The code is clear to make the distinction between the normal activities that a Council should undertake and those which will expose it to greater risk and uncertainty. Three investment categories have been recognised and they are reflected in this Authority's definition and presentation of investment information.

12.11 It has been the need to diversify and grow revenue income sources to meet growing service pressures and the availability of cheap borrowings that has fuelled the growth in local authority investments. The last year has seen the investment decisions of several local authorities come under scrutiny along with some high-profile failures. These have vindicated the regulators cautionary approach and reinforced to stakeholders that investments come with risk and real consequences when they go wrong.

12.12 More than ever Members need to ensure that they are fully informed and capable of making decisions on investments particularly in areas that are far removed from normal Council activities and area of expertise.

Introduction

12.13 The Authority invests its money for three broad purposes, and these are reflected in the revised Prudential Code:

1. because it has surplus cash as a result of its day-to-day activities, for example when income is received

in advance of expenditure (known as **treasury management investments**),
2. to support local public services by lending to or buying shares in other organisations (**service investments**), and
3. to earn investment income (known as **commercial investments** where this is the main purpose).

12.14 Often there may be a crossover of purposes for investments within the Authority. Whilst a return may be a by-product of an investment this is rarely the overriding reason for making or retaining an investment. It will normally be linked to other long term strategic or regeneration factors.

12.15 This Investment Strategy meets the requirements of the statutory guidance issued by DLUHC in February 2018 and focuses on the second and third of the above categories.

2. Investment Indicators

12.16 The Authority has set the following quantitative indicators to allow elected Members and the public to assess the Authority's total risk exposure arising from its investment decisions.

12.17 **Total risk exposure:** The first indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third party loans.

Table 1: Total investment exposure in £'000

Total investment exposure	31/03/22 Actual	31/03/23 Forecast	31/03/24 Forecast
Treasury management investments	54,300	40,000	40,000
Service investments: Loans	6,733	6,760	6,740
Service investments: Shares	2,610	2,610	2,610
Commercial investments: Property	28,588	28,588	28,588
Commercial Investments: Loans	8,271	3,776	3,776
TOTAL INVESTMENTS	**100,502**	**81,734**	**81,714**
Commitments to lend	2,418	6,097	6,097
TOTAL EXPOSURE	**102,920**	**87,831**	**87,811**

12.18 The Council has total investments exposure estimated at £87.8m by March 2023 (£47.8m excluding treasury management), of which £28.5m relates to property investment backed by physical assets with an income stream and alternative use. Other investments are loans for economic development purposes; and due to their nature, they are not a material element of our budgeting for interest income within the MTFS.

12.19 **How investments are funded:** Currently the Authority's investments are largely funded by usable reserves and income received in advance of expenditure. Prudential borrowing is being used in limited circumstances and performance is closely monitored.

Table 2: Investments funded by borrowing in £'000

Investments funded by borrowing	31/03/22 Actual	31/03/23 Forecast	31/03/24 Forecast
Treasury management investments	0	0	0
Service investments: Loans	0	0	0
Service investments: Shares	0	0	0
Commercial investments: Property	21,517	20,810	20,088
Commercial Investments: Loans	8,000	3,776	3,776
TOTAL FUNDED BY BORROWING	**29,517**	**24,586**	**23,864**

12.20 **Rate of return received:** In part this indicator shows, for Treasury Management and Commercial Property investments, the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the nature of the local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 3: Investment rate of return (net of all costs)

Investments net rate of return	2021/22 Actual	2022/23 Forecast	2023/24 Forecast
Treasury management investments	2.13%	2.70%	2.20%
Service investments: Loans	-3.00%	-7.51%	0.25%
Service investments: Shares	NIL*	NIL*	NIL*
Commercial investments: Property	2.95%	3.15%	3.20%
Commercial Investments: Loans	3.20%	3.16%	3.13%

12.21 The return for Service Investments: Loans is not a true return but is instead based largely on the % fluctuation in the underlying value of the new assets within the Life Science Fund. As such they do not reflect actual cashflows. If Life Science was excluded the 2022/23 forecast figure was 5.32% - after excluding a non-interest bearing loan.

12.22 Historically we have shown the % movement in the carrying value of our shareholding in Alderley Park Holdings Limited as a return within the category Service Investments: Shares. However, this is not a real return or cashflow. Typically, a return on a share would be based upon the dividend yield and there have been no dividends paid. Therefore, this has now been shown as Nil. There has been a downward revaluation of property assets at Alderley Park which has impacted the underlying asset value. We will continue to monitor for signs of recovery, but the asset value remains more than the Authority paid for the shares.

12.23 The major assets included within Commercial Investments: Properties, representing over 90% of the value in that classification, are two commercial retail properties in Crewe. Whilst we will see fluctuations year-on-year given the pressures on ‘bricks and mortar retail’, the Council will only experience an impact on its Revenue Account if a site becomes vacant for a prolonged period or is subject to a (lower) rent review.

12.24 From the perspective of the Council one of the tenants affected is a home improvements retailer and the second is a national supermarket retailer. Both have thus far weathered the local economic effects of the past three years though we might expect further reductions in asset value in this financial year.

12.25 Much of the investment returns for Commercial Investments relates to rent on these two assets. Rental income on both has held up during the year. Overall returns are affected by the fact that returns for one of the sites is reduced by the costs required to repay borrowing. Additionally, across other properties occupancy and rents received appear to be recovering from the falls seen during Covid-19 though associated costs have risen. These are under review.

12.26 The Commercial investments: Loans are at the expected level of return given the rates in place when they were established.

3. Treasury Management Investments

12.27 The Authority typically receives its income, such as taxes and grants, before it pays for expenditure such as through payroll and invoices. It also holds reserves for future expenditure and collects local taxes on behalf of Central Government. These activities, plus the timing of borrowing decisions, can lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy.

12.28 The Constitution of the Authority delegates the power to manage and make Treasury Management Investments to the Section 151 Officer via the Treasury Management Strategy.

12.29 **Contribution:** The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

12.30 **Further details:** Full details of the Authority’s policies and plans for 2023/24 for treasury management investments are covered in the separate Treasury Management Strategy (**Appendix 5**).

4. Service Investments: Loans

12.31 **Contribution:** The Council lends money to other organisations to support local public services and stimulate economic growth. These are shown below in **Table 4**. No new loans were issued in the year though there were movements on existing loans.

12.32 Interest bearing loans have been provided to Everybody Health & Leisure Trust (Everybody) for the purpose of investing in new equipment, with the aim of increasing the usage of leisure facilities and improving the health of residents. These are included within the Local Charities category.

12.33 In March 2013, Astra Zeneca announced it was relocating its R&D function from Alderley Park to Cambridge. To retain the expertise in the region and to stimulate local economic growth the Council has invested in Alderley Park Holdings Ltd by way of equity investment and interest free loan. The loan was an integral component of the 10% equity stake and therefore needs to be viewed in conjunction with the equity investment.

12.34 In addition, the Council has committed to investing £5m (and has lent £4.9m as at December 2022) in the Greater Manchester & Cheshire Life Science Fund, a venture capital fund investing in a range of life science businesses. Partners in the Fund include the Greater Manchester Combined Authority, Cheshire & Warrington Local Enterprise Partnership and Alderley Park Holdings Ltd. The Fund has a regional focus and seeks to target companies looking to re-locate a material part of their business within the Greater Manchester and Cheshire & Warrington areas, which includes Alderley Park where the Fund is based.

12.35 The nature of the loans is that they do not attract an interest rate and returns are dependent upon the success of individual investments made by the Fund. The GM Life Science Fund is “revalued” on an annual basis based upon the net asset valuation of the Fund and this can lead to short term fluctuations in the notional returns of this loan category. It should be noted that whilst the investment in the Life Science Fund is high risk it is also long-term in nature, so year-by-year fluctuations are to be expected but gains or losses will only crystallize when funds are extracted. The Authority has decided against committing new funds to a follow up fund for the time being.

12.36 Only the Everybody loans are interest bearing and are reflected in the “Local Charities” category. These are accrued at a rate of Bank of England base rate plus 4%.

12.37 The Council may consider making further Service Investment Loans in 2023/24, subject to business cases and where the balance of security, liquidity and yield have been considered as part of robust risk assessment.

12.38 **Security:** The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as per **Table 4**.

Table 4: Loans for service purposes in £'000

Category of borrower	31/03/22 Actual £000	31/03/23 Forecast £000	31/03/23 Forecast £000	31/03/23 Forecast £000	2023/24 £000
		Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries	0	0	0	0	2,000
Suppliers	23	24	1	23	500
Local businesses	6,043	6,447	70	6,377	30,000
Local charities	515	289	42	247	2,500
TOTAL	**6,581**	**6,760**	**113**	**6,647**	**35,000**

12.39 Accounting standards require the Authority to set aside loss allowances for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's Statement of Accounts are shown net of this loss allowance. The loss allowance figure does not necessarily reflect our anticipation or expectation that loans will need to be written down. Rather, the allowance represents a prudent accounting treatment required by CIPFA guidance. The Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

12.40 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding service loans. Each application for a loan requires completion of a business case. This is followed by a process of due diligence taking into account creditworthiness and financial standing and the Council's corporate objectives. External advisors are used where appropriate, dependent on materiality and scope of the loan arrangement. Each application is considered on a case by case basis.

12.41 As Accountable Body for the Cheshire & Warrington Local Enterprise Partnership, the Council is also contracting party to loans provided to organisations from the Growing Places Fund. This £12m Fund was established with Government grants and is "owned" by the Local Enterprise Partnership; consequently, these investments are not made using Cheshire East's resources and are not reflected in the table above, as regards investments made, or affecting upper limits of lending.

5. Service Investments: Shares

12.42 **Contribution:** The Council invests in the shares of its subsidiaries and local businesses to support local public services and stimulate local economic growth.

12.43 As noted above, the Authority has invested in Alderley Park Holdings Limited to maintain and stimulate this key strategic industry of life sciences within the

Borough. Cheshire East is a 10% shareholder in Alderley Park and has invested in the development of the site along with Bruntwood (51% shareholder) and Manchester Science Partnerships (39% shareholder).

12.44 This should be seen as a long-term strategic investment. There have been no dividend returns and any changes in % returns have been based upon the change in value of our share of the underlying assets which will fluctuate as the site continues its transition from a single user to a multiuser campus. In line with the commercial property sector, the internal valuation of our stake has fallen (i.e., reduction in net asset value) in the last three years, due in large part to the general fall in value of property-based companies. However, the following observations should be noted:

12.45 The valuation (see **Table 5**) is still greater than the purchase price and the underlying assets at Alderley Park remain strong, with a pipeline of future investments in place. We expect valuations to improve in the future.

12.46 The reduction in value largely arises from accounting transactions/ re-valuations. A gain or loss to the Council's Revenue and Capital Receipts accounts would only crystallise in the event of divesting our equity stake. This is not currently under consideration. As it is a long-term strategic asset there is ample time for the sector to recover.

12.47 The Council also has shares in its subsidiary, wholly owned companies. However, they are of nominal value, and the share values are not considered material in the context of this Investment Strategy.

12.48 As reflected in this strategy a key objective of future investments will be to generate a return to benefit the Council's Revenue Account. However, the Council may consider acquiring shares in companies if there is a compelling business case demonstrating strong potential for growth in capital value.

12.49 **Security:** One of the risks of investing in shares is that they fall in value, meaning that the initial outlay may not be recovered. To limit this risk, upper limits on the sum invested in each category of shares have been set.

Table 5: Shares held for service purposes in £'000

Category of company	31/03/22 actual £000	31/03/23 forecast £000	31/03/23 forecast £000	31/03/23 forecast £000	2023/24 £000
	Value in accounts	Amounts invested	Total Gains/ (Losses)	Value in accounts	Approved Limit (at cost)
Local businesses	2,610	1,070	1,540	2,610	10,000
TOTAL	**2,610**	**1,070**	**1,540**	**2,610**	**10,000**

12.50 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding shares by:

assessing the proposition, taking into consideration the market (the nature and level of competition, how the market/ customer needs will evolve over time, barriers to entry and exit and any ongoing investment requirements); using external advisors, where specialist knowledge/ intelligence is required in each case; and being part of the entities' governance arrangements, having a seat on the Board, and receiving and analysing information on financial and operational performance against plan, and updated business plans, on a regular basis.

12.51 **Liquidity:** With regard to the existing equity stake in Alderley Park, it was deemed to be a long-term investment, supporting a business and site development plan through to at least 2025. As described above, regular monitoring and receipt of updated business plans will help to inform considerations with regards to the selling of shares; and it is important to note, as a minority shareholder in Alderley Park, that shares must first be offered to other shareholders in those private enterprises (and consequently the prospects for disposing of shares should be seen as good, as evidenced by the sale of shares in Manchester Science Partnerships in 2019).

12.52 In the event of considering whether to make further Service Investments via shares, the Council will consider maximum investment periods on a case-by-case basis, taking into consideration the prospects for funds being accessible when required (e.g. to repay borrowing; or for other capital financing purposes) by making an assessment of liquidity, given the nature of the proposed investment (e.g. the type of organisation; the market in which it operates).

12.53 **Non-specified Investments:** Shares are the only investment type that the Authority has identified that meets the definition of a non-specified investment in the Government guidance. The limits above on share investments are therefore also the Authority's upper limits on non-specified investments. The Authority has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

6. Commercial Investments: Property

12.54 For the purpose of this Strategy, it should be noted that DLUHC defines property to be an investment if it is held primarily or partially to generate a profit. To comply with accounting classifications, the Authority includes several assets in Table 6 that might otherwise be excluded as they are not being held to primarily generate a yield or return.

12.55 Central government continues to express concern over the level of commercial investments held by local authorities and the risk that this presents if an authority becomes over exposed. Real world examples are now emerging where this eventuality has come to pass. Changes to the Prudential Code have reinforced opposition to investment in commercial property.

12.56 The government has effectively regulated against the purchase of commercial assets primarily for generating yield. Consequently, there have been no new commercial properties acquired in the year and any future investments will be aligned to normal Council service provision. Whilst this limits the Authority's ability to invest in commercial property for investment purposes, it is recognised that regeneration is a necessary factor which could result in legitimate purchases of such property. Careful attention will need to ensure that yield is an incidental factor in any future decision to invest in a commercial property investment.

12.57 **Contribution:** The Council invests in local commercial property and land, for a number of reasons. The intention of making a profit that will be spent on local public services is largely a by-product and is not the primary reason.

12.58 Historically, the most significant commercial investment acquired by the Authority is land and buildings on the North and East side of Weston Road in Crewe, purchased in April 2019. This accounts for 80% of the net book value in the accounts in this particular asset classification.

12.59 We have revisited the historic purchase costs of the assets included in the categories below. For those that were inherited by Cheshire East Council we have used the valuation at 2009/10. This is to allow for a simple calculation of yield.

12.60 The value of properties is updated annually. The most recent valuation is from March 2022 and reflect the second year of COVID-19. In the year to March 2021, we noted that the value of retail property held up whilst that of industrial units and enterprise centres was valued downwards. The year to March 2022 saw retail values continue to grow and the other categories have made modest gains. All categories are still valued at more than purchase cost. There has been a reclassification in the year and an office property has been added to the listing as it was deemed appropriate to classify it as an investment asset. This resulted in £533,000 being added to the valuation. * Note that no gain has been deemed to have arisen in the last two years with the gain on the purchase cost occurring in prior years.

Table 6: Property held for investment purposes in £'000

Property	Actual	31/03/22 actual		31/03/23 expected	
	Purchase cost	Gains or (losses) in-year	Value in accounts (includes gains/ (losses) to date	Gains or (losses)	Value in accounts
Industrial Units	1,492	11	1,740	0	1.740
Enterprise Centres	245	20	340	0	340
Retail	23,300	371	25,975	0	25,975
Office	240	*-	533		533
Total	**25,277**	**402**	**28,588**	**0**	**28,588**

12.61 **Security:** In accordance with Government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

12.62 **Where value in accounts is at or above purchase cost:** A fair value assessment of the Authority's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2022/23 year end accounts preparation and audit process value these properties below their purchase cost, then an updated Investment Strategy will be presented to Full Council detailing the impact of the loss on the security of investments and any revenue consequences arising there from.

12.63 **Where value in accounts is below purchase cost:** The fair value of the Authority's investment property portfolio is no longer sufficient to provide security against loss, and the Authority is therefore taking mitigating actions to protect the capital invested. These actions include annually reviewing the Commercial Properties portfolio; and where the fair value is below the original purchase price alternative actions are considered (e.g., changing the use of the asset to earn additional investment income; refurbishing the asset to make it more attractive to the market; or re-purposing the asset for use by the Council as an operational property where services to the public will be provided from). If no alternative service uses are considered viable it will be classed as surplus to requirements and steps will be taken to market the asset for sale to realise a capital receipt.

12.64 **Risk assessment:** The Authority assesses the risk of loss before acquiring and whilst holding property investments by:

- Before entering into any commercial property investment, the Authority assesses the local market conditions, by establishing the supply and demand of the need for a certain type of commercial property investment, what competition currently exists locally, nationally and globally dependent on the type of activity that will take place in the asset (for example retail units, industrial units or residential properties).

These decisions are made alongside the expertise, knowledge and market evidence collected from our Economic Development Service.

- The Authority also ensures that when setting rental income on the assets a cost of use and sensitivity analysis is completed, to future proof the running and maintenance costs of the assets so that rents are set at a level where they are competitive in the local market but will also ensure that the income will provide that additional financial security.
- Whilst holding the commercial properties we continually review market prices, look out for changes in the market, and assess the competition.
- The Authority constantly monitors any changes in the political environments, locally, nationally and globally to assess any potential impact on the local rental markets.

12.65 Future investments would be considered in the first instance by the Section 151 Officer supported by other officers. Any final decision would be made by the Finance Sub-Committee. Should any investments be identified then the Section 151 Officer can initiate steps to move funds into the main Capital Programme.

12.66 This Investment Strategy acknowledges that with the introduction of the committee system the role of the Finance Sub-Committee is the body that has the role to consider future investments and make recommendations to Council for ultimate approval of individual investments.

12.67 No new investments are currently anticipated. However, given that significant commercial retail property has been purchased more emphasis will need to be given towards the category of any future investment to ensure that the portfolio is diversified and not overly reliant upon a single sector.

12.68 **Liquidity:** Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Authority constantly monitors the use of all assets and where there is a market for a particular asset or asset type will look into realising the capital receipt on those assets if it outweighs the long-term benefits of holding the asset for a potential rental stream.

7. Commercial Investments: Loans

12.69 **Contribution:** The Authority has worked alongside Cheshire West and Chester Council and Warrington Borough Council to each provide the Cheshire & Warrington Local Enterprise Partnership (LEP) with a £10m loan facility to be used to invest in economic development schemes across the Enterprise Zones in the sub-region. The existing Strategic Capital Projects budget has been utilised for this purpose.

12.70 The first loans totalling £8m in respect of Alderley Park Glasshouse and Blocks 22-24 were made in December 2020. The purpose is to stimulate economic development, and payback of the loans will be achieved from business rates retained by the LEP under Enterprise Zone regulations. The loan in respect of Blocks 22-24 was repaid in July 2022. Whilst the facility is still available there are no imminent plans to draw down further amounts.

Table 7: Loans for Commercial Purposes in £'000

Category of borrower	31/03/22 Actual	As at 31/03/23 Forecast			2023/24
		Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Partner Organisations	7,903	3,776	174	3,602	20,000
TOTAL	**7,903**	**3,776**	**174**	**3,602**	**20,000**

12.71 When considering making commercial investment loans, there will always be a Council policy-related objective (e.g., regeneration or economic development) in addition to the objective of financial benefit (yield) to the Council's Revenue Account (i.e., interest received) being greater than the costs to the Revenue Account (e.g. debt financing).

12.72 In considering commercial loan investment opportunities, the Council will adopt a prudent approach, with two underlying objectives:

- **Security** – protecting the capital sum invested from loss
- **Liquidity** – ensuring the funds invested are available when needed

12.73 **Risk assessment:** The Authority assesses the risk of loss before entering into commercial loans with a thorough due diligence process by: assessing the proposition, taking into consideration the market (the nature and level of competition, how the market/ customer needs will evolve over time, barriers to entry and exit and any ongoing investment requirements); using external advisors, where specialist knowledge/ intelligence is required in each case; and receiving and analysing information on financial and operational performance against plan, and updated business plans, on a regular basis.

12.74 Each application for a loan will require completion of a business case. Each loan application is considered on a case by case basis. For commercial loans, the intent is that they will be approved in line with those rules being developed in accordance with Section 10 below. Currently, the approval route will be based upon the source of the funding identified for the Loan.

8. Loan Commitments and Financial Guarantees

12.75 As Accountable Body for the Cheshire & Warrington Local Enterprise Partnership, the Council is acting as Entrusted Entity to a £20m European Regional Development Fund (ERDF)-supported 'Evergreen' Development Fund, which has commenced and is in the process of making distributions from its first £10m drawdown of funding. The Council, as contracting party, provides guarantees in respect of the amounts provided through ERDF.

12.76 The Fund is designed to provide loan finance to specific projects across Cheshire and will not generate a return for the Authority. As such the balances are not included in the investment tables above. The workings of the fund are subject to detailed scrutiny and are managed by a firm of experienced fund managers with a strong track record of providing loans that minimise the risk of default. The Council, as contracting party, will provide guarantees in respect of the amounts provided through ERDF though this will be offset by the professional indemnity insurance held by the fund manager.

9. Proportionality

12.77 A major concern for external governing bodies is the extent to which Authorities are dependent upon investment income to fund services. Proportionality forms a key component of the Prudential Code.

12.78 The Authority is not materially dependent on return-generating investment activity to achieve a balanced revenue budget, in respect of Place Services. Within the Authority the proportion is consistently below 2.5% and is deemed immaterial. Such is the low proportion that it represents, should it fail to achieve the expected net return, the Authority's contingency plans for continuing to provide these services include effective budget management and tight cost control.

10. Borrowing in Advance of Need

12.79 Government guidance is that local authorities must not borrow more than, or in advance of their needs purely to profit from the investment of the extra sums borrowed. The Authority follows this guidance. Investments are made to meet the strategic needs of the Authority, its residents and local businesses.

11. Capacity, Skills and Culture

12.80 **Elected Members and Statutory Officers:** Adequate steps are taken to ensure that those elected Members and statutory officers involved in the investment decision making process have appropriate capacity, skills and information to enable them to: 1. take informed decisions as to whether to enter into a specific investment; 2. to consider individual assessments in the context of the strategic objectives and risk profile of the local authority; and 3. to enable them to understand how the quantum of these decisions have changed the overall risk exposure of the local authority.

12.81 The Finance Sub-Committee comprised of Members, supported by officers and where necessary, external advisors, provides oversight of the Investment Strategy and acts on recommendations from officers that consider opportunities to enhance the Revenue and Capital Budgets of the Council through strategic investments, whether that involves using capital/cash resources or borrowing and lending powers.

12.82 The Authority continues to identify best practice from across the sector and will incorporate this into the evolving Investment Strategy.

12.83 It is recognised that in order to support decision making there will be a need to engage external advisors from time to time. The Authority has appointed Arlingclose Ltd as treasury management advisors and receives specific advice on investment, debt and capital finance issues. Other consultants, such as property consultants, are engaged as required.

12.84 **Commercial deals:** Steps have been taken to ensure that those negotiating and reporting commercial deals are aware of the core principles of the prudential framework and of the regulatory regime within which local authorities operate. A team of officers from Place, Finance, Legal, and Procurement are responsible for ensuring that the framework is followed. Where appropriate staff are provided with additional training and up to date skills via CIPFA and other providers.

12.85 **Corporate governance:** Corporate governance arrangements have been put in place to ensure accountability, responsibility and authority for decision making on investment activities within the context of the Council's corporate values and Constitution.

12.86 The DLUHC requirement to produce an Investment Strategy, approved annually by Full Council is a key component of the corporate governance framework.

12. Glossary of Terms

Investment covers all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios. This may therefore include investments that are not managed as part of normal treasury management processes or under treasury management delegations. For the avoidance of doubt, the definition of an investment also covers loans made by a local authority to one of its wholly owned companies or associates, to a joint venture, or to a third party. The term does not include *pension funds* or *trust fund investments,* which are subject to separate regulatory regimes and therefore are not covered by this guidance.
A **credit rating agency** is one of the following three companies: Standard and Poor's, Moody's Investors Service Ltd and Fitch Ratings Ltd.
A **loan** is a written or oral agreement where a local authority temporarily transfers cash to a third party, joint venture, subsidiary or associate who promises to return it according to the terms of the agreement, normally with interest. This definition does not include a loan to another local authority, which is classified as a specified investment.
Specified Investments An investment is a specified investment if all of the following apply: • The investment is denominated in sterling and any payments or repayments in the respect of the investment are payable only in sterling • The investment is not a long-term investment (the local authority has contractual right to repayment within 12 months, either because that is the expiry term of the investment or through a non-conditional option) • The making of the investment is not defined as capital expenditure by virtue of Regulation 25(1)(d) of the *Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [as amended]* • The investment is made with a body or in an investment scheme described as high quality; or with one of the following bodies: – i. The United Kingdom Government; – ii. A local authority in England or Wales (as defined in section 23 of *the 2003 Act*) or a similar body in Scotland or Northern Ireland; or – iii. A parish council or community council • should define high credit quality (definition incorporates ratings provided by credit rating agencies)
The **Treasury Management Code** means the statutory code of practice issued by CIPFA: *"Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes, 2017 Edition".*
The **Prudential Code** means the statutory code of practice, issued by CIPFA: *"The Prudential Code for Capital Finance in Local Authorities, 2021 Edition".*
The **Capital Strategy** is the strategy required by the updates to the Prudential Code and Treasury Management Code.

Appendix 7 – Reserves Strategy

Executive Summary

13.1 Cheshire East Council is maintaining adequate reserves for two main purposes:

1. To protect against risk, and;
2. To support investment

13.2 This strategy reflects how these two purposes are intrinsically linked as financial risks will reduce through appropriate investment in schemes that will generate sustainable returns. At present the risks associated with overall changes in Local Government funding, unprecedented inflationary pressures, and the need to invest now to realise returns in the medium-term, increases the importance of holding reserves in the short-term.

13.3 The Reserves Strategy presents information about the requirements to maintain financial reserves and provides statements on the types of reserves and current and predicted balances.

13.4 The Strategy is revised annually, in line with the process to determine the Council's Budget and sets out a clear purpose for the holding of reserves, using risk assessments and setting out principles for the management of balances in the medium-term.

13.5 Cheshire East Council's Reserve Strategy was last approved at Council on 24 February 2022.

13.6 The financial review process informs the Council's thinking on reserves and an updated Reserves Strategy for 2023-27 is being reported to Council in February 2023.

13.7 This strategy represents the latest position, following a review of the balances previously held, to ensure they meet the needs of Cheshire East Council.

13.8 Reserves levels forecast within this strategy are low, reflecting the ongoing impact of inflation and demand. The Council should therefore aim to assign beneficial financial performance or additional income to reserves in the first instance over the medium term. This approach aligns to the Corporate Plan and can protect long term service provision at a locally determined level.

Alex Thompson

Alex Thompson FCPFA, IRRV(Hons)

Director of Finance and Customer Services

(Section 151 Officer)

1. Introduction

Types of Reserves

13.9 When reviewing medium-term financial plans and preparing annual budgets the Council considers the management of reserves. Two types of Revenue Reserves will be held:

General Reserves

13.10 This represents the non-ring-fenced balance of funds. There are two main purposes of general reserves: to operate as a working balance to manage the impact of uneven cash flows and avoid unnecessary temporary borrowing; and to provide a contingency against emerging events or emergencies. The target level of reserves is risk based. General Reserves must be adequate and will increase and decrease as follows:

13.11 Increasing General Reserves

- Planned repayment as set out in the Medium-Term Financial Strategy, usually to recover to an adequate level in relation to a detailed risk assessment, or to prepare in advance for future risks or investment.
- Allocation of an operating surplus at the close of the financial year, or movement from Earmarked Reserves based on priorities.

13.12 Decreasing General Reserves

- Planned draw-down of reserves to create investment, and to counteract the possibility of over-taxing in any financial year.
- Allocation of an operating deficit at the close of the financial year, or movement to Earmarked Reserves based on priorities.

Earmarked Reserves

13.13 These provide a means of building up funds, for use in a later financial year, to meet known or predicted policy initiatives. Discipline is required around setting up and maintaining earmarked reserves and this Strategy sets out the Council's approach to this. Earmarked reserves will increase through decisions of the Council and will decrease as they are spent on specific intended purposes.

Assessing the Adequacy of Reserves

13.14 To assess the adequacy of general reserves, the Section 151 Officer will take account of the strategic, operational and financial risks facing the Authority. The Council therefore adopts formal risk management processes. The Audit Commission Codes of Audit Practice make it clear that it is the responsibility of the audited body to identify and address its operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. The financial risks are assessed against the Authority's overall approach to risk management.

13.15 There is a requirement for local authorities to include an Annual Statement of Governance with the Statement of Accounts. The Section 151 Officer ensures that the Authority has put in place effective arrangements for internal audit of the control environment and systems of internal control, as required by professional standards.

13.16 Setting the level of general reserves is just one of several related decisions in the formulation of the Medium-Term Financial Strategy and the budget for a particular year. Account will also be taken of the key financial assumptions underpinning the budget alongside a consideration of the Authority's financial management arrangements.

13.17 **Table 1** sets out the significant budget assumptions that are relevant when considering the adequacy of reserves, in addition to the issue of cashflow.

13.18 These factors can only be assessed properly at a local level. A considerable degree of professional judgement is required. The Section 151 Officer can express advice on the level of balances in cash and / or as a percentage of budget, so long as that advice is tailored to the circumstances of the Authority for that particular year.

13.19 Advice will be set in the context of the Authority's process to manage medium-term financial stability and not focus on short-term considerations, although balancing the annual budget by drawing on general reserves may be a legitimate short-term option. However, where reserves are to be deployed to finance recurrent expenditure this should be made explicit and will occur only to pump prime investment and not to regularly support such costs. Advice will be given on the adequacy of reserves over the lifetime of the Medium-Term Financial Strategy.

Table 1: Holding adequate reserves will depend on key Budget Assumptions
• The treatment of inflation and interest rates • Estimates of the level and timing of capital receipts • The treatment of demand led pressures • The treatment of planned efficiency savings / productivity gains • The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments • The availability of other funds to deal with major contingencies and the adequacy of provisions
Financial Standing and management
• The overall financial standing of the Authority (including: level of borrowing, debt outstanding and Council Tax collection rates) • The Authority's track record in budget and financial management including the robustness of the medium-term plans • The Authority's capacity to manage in-year budget pressures • The strength of the financial information and reporting arrangements • The Authority's virement and end of year procedures in relation to budget under / overspends at authority and service level • The adequacy of the Authority's insurance arrangements to cover major unforeseen risks

Source: CIPFA – LAAP Bulletin 55, 2003

13.20 The current guidance requires the purpose, usage and the basis of transactions of earmarked reserves to be identified clearly. A review of the levels of earmarked reserves is undertaken as part of annual budget preparation.

2. General Fund Reserves (Revenue)

Purposes

13.21 The purpose of general reserves is to manage the possible financial impacts to the Authority from:

- Emergencies.
- In-year emerging financial issues.
- Reacting to investment opportunities.

13.22 The Finance Procedure Rules set the parameters for the use of general reserves.

13.23 The in-year use of general reserves requires approval in accordance with the Constitution parameters set by Council. Any use of General Reserves must consider the medium-term impact of the decision and how this will align to the robustness of the MTFS, and to the Reserves Strategy.

13.24 In all cases the use of reserves should be approved by the Section 151 Officer.

Opening Balances

13.25 The Council held general reserves as at 1 April 2022 of £12.6m. This included the underspend of £1.1m for the 2021/22 financial year.

13.26 In February 2022 the forecast overspend for 2021/22 was £2.3m and this was to be funded from the MTFS earmarked reserve. The positive improvements in the final quarter of the year meant this transaction was no longer required and it was instead transferred to the General Reserves. This was approved by full Council on 20 July 2022 as recommended by Finance Sub-Committee on 6 July as part of the Outturn 2021/22 report. This took the balance in the General Reserves to a forecast £14.9m.

13.27 However, the in-year forecast overspend for 2022/23 is £7.7m, of which, £5.2m if planned to be funded from the MTFS reserve, and the remaining £2.5m will be drawn from General Reserves.

13.28 Following a review of the risk assessed minimum level requirement general reserves will increase to £12.4m compared to the February 2022 forecast of £11.5m.

13.29 At 1 April 2023, it is anticipated that the Council will hold general reserves of £12.4m, as calculated in **Table 2**.

Table 2	Estimated Balance 1 April 2023 £m
Amount of General Fund Balance available for new expenditure	**14.9**
The impact of performance against the 2022/23 Revenue Budget	**2.5**
	12.4

Estimated Movement in Reserves

13.30 **Table 3** estimates no movement in general reserves from 2023 to 2027. This does not align to the Corporate Plan target of £20m by 2025. For this reason the Council should consider allocation of beneficial financial performance or additional income to reserves in the first instance over the medium term as an approach to complying with the Plan.

13.31 The level of reserves needed is assessed each year according to the risks facing the Authority (see Risk Assessment overleaf).

13.32 During 2019 CIPFA published a financial management code designed to support the Local Government sector as it faces continued financial challenge, the Code recognises ‘that using the financial reserves to finance a deficit or to avoid difficult decisions around spending cuts provides temporary relief, but is *not sustainable in the long-term*.’

13.33 This guidance from CIPFA follows the National Audit Office (NAO) report on financial sustainability in local authorities. This indicated that there is a heightened risk of more Council’s over the coming years falling into special measures as a result of not reconciling the pressure on budgets.

13.34 The reserves position will continue to be monitored and reviewed during 2023/24 to ensure the risk assessed level of £12.4m remains adequate. General reserves of

£12.4m as a proportion of net revenue expenditure is 3.5%.

Table 3: The level of reserves will be maintained in the medium-term	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Estimated Balance @ 1 April	14.9	12.4	12.4	12.4	12.4
Estimated Impact of Spending	-2.5	0.0	0.0	0.0	0.0
Planned Contribution	0.0	0.0	0.0	0.0	0.0
Forecast General Reserves @ 31 March	**12.4**	**12.4**	**12.4**	**12.4**	**12.4**
Risk Assessed Minimum Level	12.4	12.4	12.4	12.4	12.4

Source: Cheshire East Finance

13.35 The level at which reserves are set for 2023/24, reflects the aim of Cheshire East Council to match the Risk Assessed Minimum Level, ensuring reserves are adequate, and provide sufficient flexibility to manage short-term cashflow.

General Fund Reserves – Risk Assessment

13.36 The risks facing each local area will vary. In the case of Cheshire East, the impact of rising demand for services, the economic climate including very high inflation levels, EU Exit, emerging and delayed Government policies (particularly in relation to business rates), and pressure on public services to reduce overall expenditure are relevant, and these present the potential for significant emerging risk.

13.37 The minimum target level of reserves is quantified by a detailed risk assessment. This approach allows the Council to take account of local circumstances and the impact of economic forecasts.

13.38 Where specific financial liability has not been established, or where outcomes from emerging pressures cannot be detailed, the Council will assume an appropriate level of risk. This reduces the possibility that the Council will be exposed to excessive financial pressure in a single year thereby smoothing the impact on citizens.

13.39 Risks are categorised, and potential values are applied to them. This presents the potential exposure to financial risk. **Table 4** shows the risk areas and the level of reserves Cheshire East Council should retain to mitigate that risk. In each case the value of the risk retained has been calculated as a percentage of the potential impact. The percentage is based on the likelihood of the risk actually achieving that total impact in any year.

13.40 The Risk Assessment for 2023/24 provides for the Minimum Level to be set at £12.4m. This is considered a relatively prudent overall target for reserves at 3.5% of the net budget. This reflects the following potential negative financial issues facing the Council in the medium-term:

- Further changes to future Local Government financial settlements may create funding deficits
- Some savings targets may need to be re-phased or revised following more detailed appraisal or consultation work.
- Maintained schools are predicting significant deficit budget positions in their three-year forecasts as a result of staffing costs and special educational needs costs increasing at a faster rate than funding.

13.41 It is also possible that a number of events could happen in a single year and the Council could be exposed to new unidentified risks. For this reason, the analysis also contains a Strategic Reserve calculated as a percentage of gross expenditure (in this case 0.6%).

13.42 Risks will be included and managed using the following basic principles:

a. The risk may impact within the medium-term.

b. Risks are potential one-off events.

c. The risk will have genuine financial consequences beyond insurance cover.

d. Mitigating actions will be in place to minimise the potential requirement for financial support.

e. If a risk becomes 100% likely it will be allocated to earmarked reserves or included within appropriate Revenue Budget estimates.

f. Emerging risks will be addressed from in-year surplus or virement before any request to allocate general reserves

13.43 As covered in other areas of the Reserves Strategy, financial risk is managed for example by estimating variations, demand led budgets, provisions in the Capital Strategy, limits within the Treasury Management Strategy. Financial and budgetary matters are reported regularly to the Corporate Policy Committee, with the Audit and Governance Committee providing strategic oversight.

Table 4: A robust level of reserves is guided by an assessment of potential risks

Class of Risk	Knock on Effects	Effect on Budget / Mitigating Action	% Risk (a)	Value of Risk Area (b)	Value of risk retained (a x b)	Sub-Total	Risk Assessment
Health & Safety	Major loss of service	Increased cost to reduce further risk of breach / Robust risk assessments	15.0%	£2,000,000	£300,000	**£425,000**	**£400,000**
	Lost reputation / Effect on recruitment	Additional cost of new advertising to regain confidence and recruit staff / Effective Communication Plans and Employment option plans	25.0%	£500,000	£125,000		
Fire / Structural damage	Major loss of service	Premises not operational / Robust disaster recovery plan	10.0%	£2,000,000	£200,000	**£790,000**	**£800,000**
	Severe Weather	Additional staffing, transport and materials costs / robust emergency plans	28.0%	£2,000,000	£560,000		
	Insurance claims create rising premiums or cost to insurance reserves	Budget growth to cover premiums or self insurance costs / Good claims management	5.0%	£594,000	£30,000		
Budget Pressures	Opening Balances vary from current predictions	Impact on opening balances / apply prudent assumptions to opening balances	2.0%	£14,900,000	£298,000	**£4,386,000**	**£4,400,000**
	Savings proposals challenged by changing priorities.	Impact of 2021/22 outturn / robust remedial plans and monitoring of progress	0.4%	£327,700,000	£1,311,000		
	Forecast deficit budgets in maintained schools	In-Year emerging issues / Robust plans and monitoring of progress	10.0%	£8,700,000	£870,000		
	Higher than anticipated inflation arising in year	Increased inflation on contracts and services / contract management and robust remedial plans	0.4%	£400,830,000	£1,603,000		
	Potential decrease in Council Tax and Business Rates collection rate	Lower than forecast income or increased reliefs/ robust assessment criteria and debt recovery procedures	0.1%	£304,000,000	£304,000		
Legal & IT costs	Legal challenges to Council service delivery / charges for services	Court costs and claims for financial settlement / clear processes and good workforce management	50.0%	£750,000	£375,000	**£2,125,000**	**£2,100,000**
			30.0%	£1,000,000	£300,000		
	Data corruption and need to improve security	ICT service days to repair, loss of service / robust security policies and firewalls	10.0%	£500,000	£50,000		
Industrial relations / External organisations	Disruption to service and possible costs of arbitration / tribunal	Loss of income, costs of providing essential services or direct costs of resolution, reduced pay costs / emergency planning	1.0%	£140,000,000	£1,400,000		
Strategic Reserve		Strategic / Emergency risk cover, potential further invest to save options and future pay and structure changes Impact of EUExit on national and local economy	0.6%	£811,581,000	£4,707,000	**£4,707,000**	**£4,700,000**
		OVERALL RISKS				**£12,433,000**	**£12,400,000**
		% of Net Revenue Budget					**3.5%**

13.44 The outcome of this analysis has been to place an estimated total value on the range of risks that may arise, and which are not covered by insurance. This is equivalent in total to £12.4m.

13.45 It should be noted that these risks reflect the net effect of issues relating to sustainable performance against the 2023/24 Revenue Budget. The key factors are:

- The capacity of the organisation to deliver proposed growth or achieve the proposed level of savings entirely.
- Potential underachievement of cost reduction targets following consultation processes.
- Demand for services rising above estimated trends.
- Inflation staying at current high levels or even increasing further
- Changes to Government settlements.

Adequacy of General Reserves

13.46 The Local Government Finance Act 1988 and 1992 and the Local Government Act 2003 emphasises the importance of sound and effective financial management in England and Wales by the statutory duty of the Section 151 Officer to report to the authority, at the time the budget is considered and the Council Tax set, on the robustness of the budget estimates and the adequacy of financial reserves.

13.47 CIPFA and the Local Authority Accounting Panel consider that local authorities should establish reserves including the level of those reserves based on the advice of their Section 151 Officer. There is no statutory or recommended minimum level of reserves as they are established by the Section 151 officer making judgements on such matters taking into account all the relevant known and expected local circumstances. Imposing a statutory minimum would therefore be against the promotion of local autonomy and would conflict with the financial freedoms offered to local authorities.

13.48 The Secretary of State in England has reserve powers to specify in regulations a statutory minimum level of reserves that will be used if authorities fail to remedy deficiencies or run down reserves against the advice of the Section 151 Officer. The Government has undertaken to apply this only to individual authorities in the circumstances where an authority does not act prudently and disregards the advice of its Section 151 Officer.

3. Earmarked Reserves (Revenue)

Purpose

13.49 The purpose of an earmarked reserve is:

- To prevent an uneven impact from policy options, by allowing balances to be set aside for future year expenditure.
- To set aside amounts for projects which extend beyond one year.

13.50 Once Earmarked reserves have been established by Cheshire East Council it is the responsibility of Chief Officers, in consultation with the Section 151 Officer, to ensure balances are spent in line with their purpose.

13.51 **Table 5** identifies the most commonly established earmarked reserves and the rationale behind why such reserves are created and maintained.

13.52 For each earmarked reserve held by Cheshire East Council there will be a clear protocol setting out:

- the purpose of the reserve,
- how and when the reserve can be used,
- procedures for the reserve's management and control,
- a process and timescale for review of the reserve to ensure continuing relevance and adequacy,
- clear indication of payback periods and approach (if applicable).

Table 5: All earmarked reserves should have a clear rationale

Category of Earmarked Reserve	Rationale
Sums set aside for major schemes, such as capital developments or asset purchases, or to fund major reorganisations	Where expenditure is planned in future accounting periods, it is prudent to build up resources in advance.
Insurance reserves	An Insurance Fund has been established to meet the potential costs of insurance excesses arising from claims in respect of fire and consequential loss, public and employer liability, and vehicles relating to both Cheshire East Council and the former Cheshire County Council.
Reserves of trading and business units	Surpluses arising from in-house trading may be retained or may have to be retained by statute to cover potential losses in future years, or to finance capital expenditure.
Reserves retained for service departmental use	Increasingly, authorities have internal protocols that permit year-end surpluses at departmental level to be carried forward.
School Balances	These are unspent balances of budgets delegated to individual schools.

Source: CIPFA – LAAP Bulletin 55, 2

13.53 When establishing reserves, Cheshire East Council will ensure that it complies with the Code of Practice on Local Authority Accounting in the United Kingdom and in particular the need to distinguish between reserves and provisions.

13.54 The protocol for Cheshire East Council earmarked reserves is set out below. The Section 151 Officer will monitor adherence to these protocols. Details of each reserve will be held to demonstrate compliance with the protocols.

13.55 Earmarked Reserves will be:

- Set up by Full Council, on recommendation by the Section 151 Officer,
- Supported by a business case,
- Normally held for a maximum of 3 years, except where the business case justifies a longer retention,
- Be reviewed at least annually.

13.56 Services may also carry forward balances in accordance with Financial Procedure Rules.

13.57 Earmarked reserves have the effect of transferring the tax burden across financial years as current taxpayers' funds are being used to support future years' spending. It is therefore recommended that Cheshire East Council's earmarked reserves are subject to annual review, at least as part of the budget setting process, to ensure that they are still appropriate, relevant and adequate for the intended purpose.

13.58 The 2022/23 position on earmarked reserves is reported in the 2022/23 Financial Review Report, as part of the 1 December, Corporate Policy Committee report.

13.59 All reserves will be subject to revised business cases to ensure that only the required levels are carried over into 2023/24.

13.60 At 1 April 2023, it is anticipated that balances on existing earmarked reserves held by Cheshire East Council will be £44.3m. It is estimated that balances will reduce by £12.9m by the end of 2023/24. **Table 6** (overleaf) shows the position on each earmarked reserve.

13.61 Certain reserves, such as the MTFS and Collection Fund Reserves, are used to assist with balancing the Council's overall net budget. These have been marked in bold with an asterisk in **Table 6 Corporate Policy**. Overall use of such reserves for this purpose is equal to a total drawdown from reserves of £3.8m in the 2023/24 Financial Year, made up of various drawdowns and contributions to the revenue budget from these two reserves. All earmarked reserves are subject to annual review at year end to consider options to move balances to general reserves.

13.62 The opening balances also includes COVID-19 grants in the region of £5.9m, which are expected to be fully utilised in 2022/23.

Table 6 Reserve Summary and Detail by Committee

Committee Reserves Summary	Opening Balance 1st April 2022 £000	Forecast Movement in Reserves 2022/23 £000	Opening Balance 1st April 2023 £000	Forecast Movement in Reserves 2023/24 £000	Forecast Closing Balance 31st March 2024 £000
Adults and Health Committee	**7,646**	(2,276)	**5,370**	(1,201)	**4,169**
Children and Families Committee	**4,032**	(1,073)	**2,959**	(1,912)	**1,047**
Corporate Policy Committee	**63,113**	(29,974)	**33,139**	(8,257)	**24,882**
Economy and Growth Committee	**3,144**	(1,881)	**1,263**	(624)	**639**
Environment and Communities Committee	**1,056**	(501)	**555**	(427)	**128**
Highways and Transport Committee	**1,936**	(905)	**1,031**	(470)	**561**
TOTAL EARMARKED RESERVES MOVEMENT	**80,927**	**(36,610)**	**44,317**	**(12,891)**	**31,426**

**Excluding schools' balances*

Adults and Health Committee

Name of Reserve	Opening Balance 1st April 2022 £000	Forecast Movement in Reserves 2022/23 £000	Opening Balance 1st April 2023 £000	Forecast Movement in Reserves 2023/24 £000	Forecast Closing Balance 31st March 2024 £000	Notes
Adult Social Care Operations						
Adults Directorate	**1,020**	(450)	**570**	(460)	**110**	To support a number of widespread projects within the Adults and Health Directorate. Connected Community Strategy Developments activity has been delayed due to community team focussing on resettlement schemes. Transformation and Improvement of ASC and Care4ce New Model of Care anticipate phasing of appropriation will match the original business case.
DOL's Assessments	**397**	(397)	**0**	0	**0**	Reserve required due to delays in DOLs assessment processing. Anticipated to be fully utilised in 2022/23.
Public Health (LAC funding for 3 years/ Investment in Outcome 5 activities - Adults)	**162**	(162)	**0**	0	**0**	Reserve will be fully utilised by the end of 2022/23, matched off against LAC staff as per the original business case.
Adults Social Care Commissioning						
PFI Equalisation - Extra Care Housing	**2,715**	80	**2,795**	0	**2,795**	Surplus grant set aside to meet future payments on existing PFI contract which commenced in January 2009, and the anticipated gap at the end of the agreement.
NHB Community Grants Staffing	**132**	0	**132**	0	**132**	To support administrative staffing costs in relation to Central Government's New Homes Bonus guidance for community projects.
Public Health						
Public Health Reserve	**3,220**	(1,347)	**1,873**	(741)	**1,132**	Ring-fenced underspend to be invested in areas to improve performance against key targets. Including the creation of an innovation fund to support partners to deliver initiatives that tackle key health issues. Anticipated that the carry forward ringfenced grant will be spent across 2022/23 to 2025/26.
ADULTS AND HEALTH TOTAL	**7,646**	**(2,276)**	**5,370**	**(1,201)**	**4,169**	

Children and Families Committee

Name of Reserve	Opening Balance 1st April 2022 £000	Forecast Movement in Reserves 2022/23 £000	Opening Balance 1st April 2023 £000	Forecast Movement in Reserves 2023/24 £000	Forecast Closing Balance 31st March 2024 £000	Notes
Directorate						
Childrens Directorate - Transformation Funding	**1,079**	(365)	**714**	(714)	**0**	Expectation of £65k for CSC New Beginnings. Potentially reducing this reserve to assist with in year mitigations of £300k plus removal of remaining balance to close the 2023/24 funding gap.
Childrens Directorate - C&F ED	**422**	(68)	**354**	(354)	**0**	Estimated spend in 2022/23 of £35k transport review and £8k catering review. Chess review may happen in 2023/24. Balance of reserve being used to close the 2023/24 funding gap.
Childrens Social Care						
Domestic Abuse Partnership	**112**	(61)	**51**	0	**51**	To sustain preventative services to vulnerable people as a result of partnership funding. This is the current budgeted position, however updates will be provided on future reviews. Service are considering the in year deficit as this would not be sustainable in 2023/24 based on current assumptions.
Education and 14-19 Skills						
Skills and Lifelong Learning	**30**	(30)	**0**	0	**0**	To support adult learning, training and improving skills for the workplace. Need to review likelihood of use in 2022/23.
School Organisation & Capital Service	**16**	(16)	**0**	0	**0**	Springfield lease of £28.5k per annum will be a pressure in 2022/23.
SSIF Nexus Programme	**9**	(9)	**0**	0	**0**	Reserve drawdown has now been actioned and allocated to School Improvement to continue to support schools with high disadvantaged learners.
Strong Start, Family Help and Integration						
Troubled Fams Initiative	**2,215**	(375)	**1,840**	(844)	**996**	Crewe Youth Zone and ACT have been assigned funding from shared outcomes of the Supporting Families Programme.
Emotional Healthy Schools	**71**	(71)	**0**	0	**0**	Funding by partners to deliver service.
Public Sector Transformation – contribution to Early Youth Inclusion Fund	**57**	(57)	**0**	0	**0**	Intention to use reserve for in-year mitigation in 2022/23
Complex Dependencies	**21**	(21)	**0**	0	**0**	Intention to use reserve for in-year mitigation in 2022/23
CHILDREN AND FAMILIES TOTAL	**4,032**	**(1,073)**	**2,959**	**(1,912)**	**1,047**	

Corporate Policy Committee

Name of Reserve	Opening Balance 1st April 2022 £000	Forecast Movement in Reserves 2022/23 £000	Opening Balance 1st April 2023 £000	Forecast Movement in Reserves 2023/24 £000	Forecast Closing Balance 31st March 2024 £000	Notes
Directorate						
Corporate Directorate	**1,868**	(381)	**1,487**	0	**1,487**	To support a number of widespread projects within the Corporate Directorate.
Finance and Customer Services						
Collection Fund Management*	**27,424**	(15,721)	**11,703**	(3,544)	**8,159**	To manage cash flow implications as part of the Business Rates Retention Scheme. Includes liabilities that will not be paid until future years.
Financing Reserve - Capital Financing Budget	**6511**	1,500	**8,011**	(800)	**7,211**	
Financing Reserve - Corporate Capital Projects	**925**	(400)	**525**	(525)	**0**	To provide for financing of capital schemes, other projects and initiatives.
Financing Reserve - People Capital Projects	**573**	(150)	**423**	(100)	**323**	
Financing Reserve - Place Capital Projects	**1520**	(250)	**1,270**	(200)	**1,070**	
MTFS Reserve*	**10,068**	(6,733)	**3,335**	(2,108)	**1,227**	To support the financial strategy and risk management. Reserve balance at end of 2026/27 is forecast at £2.1m.
Section 151 Revenue Grants	**28**	(28)	**0**	0	**0**	Unspent specific use grant carried forward into 2022/23.
Section 151 Revenue Grants - Covid-19	**5,989**	(5,989)	**0**	0	**0**	Covid (Unringfenced) reserve carried forward into 2022/23.
Governance and Compliance						
Insurance Reserve - Cheshire County Fund	**130**	(187)	**(57)**	0	**(57)**	To settle insurance claims and manage excess costs.
Insurance Reserve - Cheshire East Fund	**5,164**	(1,244)	**3,920**	0	**3,920**	To settle insurance claims and manage excess costs.
Elections General	**477**	225	**702**	(702)	**0**	To provide funds for Election costs every 4 years.
Brexit Funding	**13**	0	**13**	0	**13**	
Human Resources						
HR (CARE4CE Review, Culture Change, Pay realignment, Learning Mgt System)	**59**	(59)	**0**	0	**0**	To fund HR expenditure in relation to the Care4CE review, culture change programme, pay realignment and the Learning Management System.
Pay Structure (M Grade Review)	**584**	(278)	**306**	(278)	**28**	To fund ongoing changes to pay structure.
Policy and Change						
Brighter Future Transformation Programme	**1,780**	(279)	**1,501**	0	**1,501**	To fund the Council's four year transformation programme and its five outcomes of Culture; Estates and ICT systems; Customer Experience, Commercial Approach and Governance.
CORPORATE POLICY TOTAL	**63,113**	**(29,974)**	**33,139**	**(8,257)**	**24,882**	

Economy and Growth Committee

Name of Reserve	Opening Balance 1st April 2022 £000	Forecast Movement in Reserves 2022/23 £000	Opening Balance 1st April 2023 £000	Forecast Movement in Reserves 2023/24 £000	Forecast Closing Balance 31st March 2024 £000	Notes
Directorate						
Place Directorate	**1,684**	(1,539)	**145**	(145)	**0**	To support a number of widespread projects within the Place Directorate. A significant number of these projects are expected to be fully utilised in year, with the remaining reserve to be fully used in 2023/24.
Investment (Sustainability)	**680**	(126)	**554**	(554)	**0**	To support investment that can increase longer term financial independence and stability of the Council. Forecasts based on timelines for individual projects making up the reserve.
Growth and Enterprise						
Legal Proceedings	**285**	(50)	**235**	(100)	**135**	To enable legal proceedings on land and property matters, this is the anticipated amount based on current costs.
Investment Portfolio	**155**	174	**329**	175	**504**	Reserve being built up to be used in the future if the site is vacated, current lease extends beyond 2026
Homelessness & Housing Options - Revenue Grants	**130**	(130)	**0**	0	**0**	To cover costs of purchase and refurbishment of properties to be used as temporary accommodation to house vulnerable families.
Tatton Park Trading Reserve	**111**	(111)	**0**	0	**0**	Service anticipating utilising some of the funds for furniture purchased for the Catering Facility at TPE Ltd costing £16k. Full drawdown of the reserve necessary to cover the adverse position for Tatton anticipated at the end of 2022/23
Royal Arcade Crewe	**99**	(99)	**0**	0	**0**	Original purpose was to fund vacant possession related costs for the Royal Arcade until demolition. The balance will now be used to pay for ongoing maintenance costs for Crewe Bus station. FM pressures will mean that the reserve will be fully utilised in 2022/23.
ECONOMY AND GROWTH TOTAL	**3,144**	**(1,881)**	**1,263**	**(624)**	**639**	

Environment and Communities Committee

Name of Reserve	Opening Balance 1st April 2022 £000	Forecast Movement in Reserves 2022/23 £000	Opening Balance 1st April 2023 £000	Forecast Movement in Reserves 2023/24 £000	Forecast Closing Balance 31st March 2024 £000	Notes
Environment and Neighbourhood Services						
Strategic Planning	**568**	(287)	**281**	(281)	**0**	To meet costs associated with the Local Plan - site allocations, minerals and waste DPD.
Trees / Structures Risk Management	**202**	(52)	**150**	(50)	**100**	New reserve to respond to increases in risks relating to the environment, in particular the management of trees, structures and dealing with adverse weather events.
Spatial Planning - revenue grant	**89**	(47)	**42**	(14)	**28**	Funding IT costs over 4 years.
Neighbourhood Planning	**82**	(38)	**44**	(44)	**0**	To match timing of expenditure with the receipt of Government grants.
Air Quality	**36**	0	**36**	(36)	**0**	Air Quality Management - DEFRA Action Plan. Relocating electric vehicle chargepoint in Congleton.
Street Cleansing	**26**	(26)	**0**	0	**0**	Committed expenditure on voluntary litter picking equipment and electric blowers, due to be fully utilised in 2022/23.
Custom Build & Brownfield Register	**19**	(19)	**0**	0	**0**	Due to be fully utilised in 2022/23.
Community Protection	**17**	(17)	**0**	0	**0**	Due to be fully utilised in 2022/23.
Licensing Enforcement	**15**	(15)	**0**	0	**0**	Three year reserve to fund a third party review and update of the Cheshire East Council Taxi Licensing Enforcement Policies.
Flood Water Management (Emergency Planning)	**2**	0	**2**	(2)	**0**	Plans to draw down the reserve in 2023/24 relating to Public Information Works.
ENVIRONMENT AND COMMUNITIES TOTAL	**1,056**	**(501)**	**555**	**(427)**	**128**	

Highways and Transport Committee

Name of Reserve	Opening Balance 1st April 2022 £000	Forecast Movement in Reserves 2022/23 £000	Opening Balance 1st April 2023 £000	Forecast Movement in Reserves 2023/24 £000	Forecast Closing Balance 31st March 2024 £000	Notes
Highways and Infrastructure						
HS2	**985**	(200)	**785**	(275)	**510**	To support the Council's ongoing programme in relation to Government's HS2 investment across the borough and Transport for the North's Northern Powerhouse Rail Business Case. £200k to be released in 2022/23.
Flood Recovery Works	**400**	(400)	**0**	0	**0**	To be released in 2022/23.
Well Managed Highway Infrastructure Delay	**230**	(230)	**0**	0	**0**	To be released in 2022/23.
Parking Pay and Display Machines / Parking Studies	**178**	(28)	**150**	(150)	**0**	To cover contract inflation for P&D machines and for new regulation from DfT on role of parking in decarbonising transport.
Highways Procurement Proj	**104**	(27)	**77**	(26)	**51**	To finance the development of the Highway Service Contract, this reserve specifically covers the revenue element of Depot mobilisation costs, split over 7 years from start of contract in 2018.
LEP-Local Transport Body	**39**	(20)	**19**	(19)	**0**	To fund the business case work for re-opening the Middlewich rail line. £20k is anticipated to be utilised in 2022/23, with the remaining £19k required in 2023/24.
HIGHWAYS AND TRANSPORT TOTAL	**1,936**	**(905)**	**1,031**	**(470)**	**561**	

TOTAL EARMARKED RESERVES MOVEMENT (Excluding Schools' balances)	**80,927**	**(36,610)**	**44,317**	**(12,891)**	**31,426**	

4. Capital Reserves

13.63 Capital receipts received in-year are fully applied to finance the capital programme. A small amount of capital receipts are held in reserve to cover future commitments where receipts are to be used flexibly to fund transformational projects.

13.64 Where revenue contributions are used to finance capital expenditure these will be held in reserve until such time as the expenditure is incurred.

5. Reserves Strategy Conclusion

13.65 Overall Cheshire East Council is establishing reserves that match the minimum risk levels while retaining flexibility to react to investment opportunities. This approach can be supported during the medium-term based on recent performance against budget.

13.66 This recognises local issues and allows the Section 151 Officer to report favourably on the adequacy of reserves.

13.67 The maintenance of protocols around the use of balances improves control and increases openness in financial reporting and management. This approach assists with financial planning and increases understanding of Cheshire East Council's financial position. Reserves positions will continue to be reviewed throughout the financial year.

Background Papers

13.68 General Fund Reserves – Risk Assessment Working Papers 2021.
CIPFA Local Authority Accounting Panel: Bulletin 55, Local Authority Reserves and Balances (2003).

CIPFA Financial Management Code 2019.

Cheshire East Draft Statement of Accounts 2021/22.