


Agenda Item No:	9	
Committee:	Council	
Date:	24 February 2025	
Report Title:	General Fund Budget Estimates 2025/26 and Medium Term Financial Strategy (MTFS) 2025/26 to 2029/30; Capital Programme 2025/26 to 2027/28	

## Cover sheet:

### 1 Purpose / Summary

To consider the Cabinet recommendations in relation to:

- the General Fund Budget Estimates 2025/26 and the Medium Term Financial Strategy 2025/26 to 2029/30;
- the Council Tax levels for 2025/26;
- the Capital Programme 2025/26-2027/28;
- the Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement, Capital Strategy and Annual Treasury Investment Strategy for 2025/26.

### 2 Key issues

- The Final Local Government Finance Settlement was announced on 3 February 2025. This provided £328,907 less resources (excluding business rates income) compared with what was included in the draft budget report in December 2024.
- Other announcements outside the Finance Settlement have provided £1,410,440 of additional resources, including £958,000 as the Council's allocation from the Extended Producer Responsibility scheme.
- As a result of the de-coupling of the Business Rates multiplier and the decision to freeze the Small Business Rates multiplier while increasing the Standard Business Rates multiplier by inflation, the Business Rates Baseline and Tariff Payments have been amended in 2025/26 (see Table 1).
- The proposal in this report is to freeze Council Tax levels in 2025/26 and this has been extended across the MTFS.
- Council Tax Referendum limits for 2025/26 have been set at an increase of 3% or £5 whichever is the higher.
- Latest projections for 2024/25 are showing a shortfall of £350k (Section 8 of the report).
- Current forecasts for 2025/26 show a shortfall of £1.432m based on the assumptions detailed in Appendix C. It is proposed that a contribution of £1.432 from the Budget Equalisation Reserve be made to achieve a balanced budget. The MTFS projects shortfall increases year on year, reaching £3.396m in 2027/28 and £4.554m in 2029/30. Projected shortfalls in the MTFS are usual, both in FDC and in Local Government generally. They represent the challenge to be faced in future years in reaching a balanced budget position each year. As a result of the additional financing costs relating to the inclusion of £30m additional capital contingency over the next three years, the projected shortfalls are significantly higher than previous

years forecasts and represent significant challenges for the Council. Any decision this year to not increase the level of Council Tax and fund shortfalls from reserves, necessarily increases the scale of that challenge.

- Although there are currently many uncertainties regarding the budget for 2025/26 and the MTFS, there remains a significant structural deficit which the Council will need to address. The ongoing Transformation 2 programme (of re-basing the establishment and underlying operation environments of the Council) will be crucial in helping to address that long-standing structural deficit.
- An updated Capital Programme for 2024/25 and for the medium term 2025/26 - 2027/28 is proposed.

### **3 Recommendations**

- **It is recommended by Cabinet that:**
  - (i) the General Fund revenue budget for 2025/26 as set out in Section 9 and Appendix A be approved;
  - (ii) the Medium Term Financial Strategy as outlined in this report and Appendix B be adopted;
  - (iii) the Capital Programme and funding statement as set out in Appendix D be approved;
  - (iv) the adoption of the additional Business Rates Relief measures as detailed in Section 7 using Discretionary Relief Powers be approved;
  - (v) the expenses detailed in Section 12 be approved to be treated as general expenses for 2025/26;
  - (vi) the Port Health levy for 2025/26 be set as shown in Section 13;
  - (vii) the current working age Council Tax Support Scheme be adopted with effect from 1 April 2025 as set out in Section 15, with appropriate changes to the prescribed pensioner scheme as determined by regulations;
  - (viii) the Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement (including amending the MRP calculation to be based on the 'Annuity method' from 2024/25 onwards), Treasury Investment Strategy, Prudential and Treasury Indicators for 2025/26 and Capital Strategy 2025/26 as set out in Section 16 and Appendix E be approved;
  - (ix) the Band D Council Tax level for Fenland District Council Services for 2025/26 be set at £254.79, no change on the current year.

<b>Wards Affected</b>	All
<b>Portfolio Holder(s)</b>	Cllr Chris Boden, Leader and Portfolio Holder, Finance
<b>Report Originator(s)</b>	Peter Catchpole, Corporate Director and Chief Finance Officer (S.151 Officer) Mark Saunders, Chief Accountant
<b>Contact Officer(s)</b>	Paul Medd, Chief Executive Peter Catchpole, Corporate Director and Chief Finance Officer (S.151 Officer) Mark Saunders, Chief Accountant
<b>Background Paper(s)</b>	Final Finance settlement – Ministry of Housing, Communities and Local Government (MHCLG). Autumn Statement and Budget 2024 (HM Treasury) Medium Term Financial Strategy working papers. Government announcements since February 2024.

This report contains the following Appendices:

## Appendices

- A. (i) General Fund Revenue Estimates - Summary  
(ii) General Fund Revenue Estimates – Individual Services
- B. Medium Term Financial Strategy (MTFS)
- C. Assumptions built into Budget and Medium Term Strategy
- D. Capital Programme
- E. Treasury Management Strategy Statement, Minimum Revenue Provision Strategy, Annual Treasury Investment Strategy and Prudential Indicators
- E. Annex A Capital Strategy
- F. Parish Precepts
- G. Earmarked Reserves

## Report:

### 1 INTRODUCTION

- 1.1 This report sets out the financial implications of the council's priorities described in the Business Plan 2025/26. The Revenue budget estimates and the Capital Programme are final at this stage for approval. The draft Business Plan 2025/26 and draft Budget Estimates 2025/26 considered by Cabinet on 16th December 2027 together were subject to a public and stakeholder consultation from 2<sup>nd</sup> January to 4<sup>th</sup> February 2025, prior to final budget and council tax setting for 2025/26 on 24th February 2025. The results from the consultation are published on the Council's website. There were a small number of comments in favour of increasing Council Tax.
- 1.2 Much of the financial information is necessarily based on a number of assumptions which are wholly or partly influenced by external factors. However, where final actual costs and revenue is known then they are included, for example the Final Local Government Finance Settlement for 2025/26 was announced on 3 February 2025. In addition, the Business Rates income estimates have been finalised following completion of the 2025/26 NNDR1 return at the end of January 2025. Equally, some additional costs and income discussed later in this report have been updated since the Draft Budget Estimates were prepared.

### 2 LOCAL GOVERNMENT FINANCE SETTLEMENT 2025/26

- 2.1 The Final Finance Settlement for 2025/26 was announced on 3 February 2025. This confirmed an overall increase in Core Spending Power (CSP) for 2025/26 for local government of 6.8%. FDC's overall increase in CSP (as defined by the government) is 2.4%.
- 2.2 As detailed in the Overview & Scrutiny Panel report on 20 January 2025, the main implications of the finance settlement on FDC as compared with the draft budget report, are as follows:
  - **Core Spending Power (CSP)** for local government as whole has increased by 6.8%. Shire Districts have once again received the lowest average increases in CSP. Our increase in CSP is 2.4%. CSP is a measure of the revenue funding available for local authority services. This includes council tax; business rates; Revenue Support Grant; New Homes Bonus; Recovery Grant, adult social care grants and other grants (including the Funding Guarantee Grant).

These government forecasts assume that every local authority will raise their council tax by the maximum permitted without a referendum.

Assumed Council Tax increases make up 55% of the increase in CSP and Council Tax is now around 56% of the total CSP. The increased reliance on increasing council tax has been a feature of the finance settlements and CSP over the past few years.
  - **Council Tax Referendum limits** have been confirmed as 2.99% or £5 (on a Band D property), whichever is higher, for shire districts, but no additional flexibility. Social care authorities will be able to levy an additional 2% adult social care precept. Police & Crime Commissioners can increase their Band D by up to £14. Fire and Rescue authorities can increase their Band D by up to £5. There will be no referendum principles for Mayoral Combined Authorities or Town and Parish Councils.
  - **Business Rates** adjustments are more complicated. In technical terms, the continuing impact of de-coupling the multiplier makes the settlement more difficult to understand.

**Business Rates Baseline Funding Levels (BFL)** will be uplifted to account for the increase in the standard multiplier. The small business multiplier will be frozen and

the standard multiplier will increase by September's CPI (1.67%). There will also be continuing reliefs available in 2025/26 for eligible retail, hospitality, and leisure properties. Local authorities will be compensated for the under-indexing of the small business multiplier (the cap compensation) and for the new reliefs by S31 grant.

Following the completion of the NNDR1 return for 2025/26, it is now estimated that this Council could receive around **£22,679 less income** than detailed in the draft budget report.

- **Revenue Support Grant (RSG)** allocations have increased by September's CPI (1.67%) and the rolling in of two small 'New Burdens' grants relating to the Transparency Code and Electoral Integrity. The overall impact of this is **£15,684 higher** grant than included in the draft budget report.
- **New Homes Bonus (NHB)** payment for 2025/26 will be £592,628 for this Council, exactly the same as included in the draft budget report. The government have said yet again that 2025/26 will be the final year of the NHB although the design of a replacement is no clearer than it was when the government issued its' consultation over three years ago. Consequently, the future of the NHB and its' replacement is a considerable risk to the Medium Term Strategy from 2026/27 onwards.
- The **Services Grant** has been abolished in 2025/26 and the **Minimum Funding Guarantee Grant** (now known as the **Funding Floor**) allocations have been amended to ensure that no authority has a CSP of less than 0% in 2025/26 (2024/25 minimum increase was 4%). As our CSP is 2.4%, we have received no Funding Floor grant resulting in **£814,404 less** grant than included in the draft budget report.
- However, the **new Recovery Grant** (£600m nationally), allocated on the basis of 'Need' as determined by deprivation and population and 'Resource' as determined by the council tax base, has resulted in a grant allocation of **£435,149 higher** than included in the draft budget.
- There is one other allocation within the Provisional Settlement relating to **Domestic Abuse Safe Accommodation Grant**, resulting in an allocation of **£34,664 higher** than included in the draft budget.
- In summary and based on the analysis above, **the allocations within the provisional settlement** has provided **£351,586 less** resources compared with what was included in the draft budget report.
- In addition to the allocations within the Finance Settlement, there have been other announcements which fall outside the settlement as follows:
  - **Homelessness and Rough Sleeping Grant** – an **additional £328,628** has been allocated to FDC.
  - **Extended Producer Responsibility payments (pEPR)** – the Council has been notified that its pEPR payment for 2025/26 is **£958,000**. The payment for 2025/26 is guaranteed but future years payments will be more volatile as they will be based on actual figures rather than calculated estimates.
  - **Employers National Insurance Contributions** – the government will be providing £502m of funding to local authorities to off-set the changes to these contributions in 2025/26. FDC's allocation is **£123,812**. This is considerably less than the £280,000 additional cost to FDC of these changes.
- Taking into account the announcements both inside and outside the Finance Settlement, results in an estimated **£1,058,854 of additional funding** compared with the draft budget. Without the pEPR payment of £958,000, there would only be an increase in funding of £100,854.

- 2.3 Consequently, the Council's Settlement Funding Assessment for 2025/26 is detailed in Table 1 below:

**Table 1 – Settlement Funding Assessment (Core Funding within Settlement)**

	<b>Actual 2024/25 £000</b>	<b>Actual 2025/26 £000</b>	<b>2025/26 % Increase</b>
<b>Settlement Funding Assessment</b>			
<b>Revenue Support Grant (RSG)</b>	<b>184</b>	<b>204</b>	<b>8.3%</b>
<b>Business Rates income</b>	<b>11,559</b>	<b>11,581</b>	
<b>Tariff Payment to government</b>	<b>-7,554</b>	<b>-7,637</b>	
<b>Business Rates Baseline Funding</b>	<b>4,005</b>	<b>3,944</b>	<b>-1.5%</b>
<b>Minimum Guarantee/Services Grant and Recovery Grant</b>	<b>814</b>	<b>435</b>	<b>-46.6%</b>

- 2.4 **Internal Drainage Board (IDB)** grant funding of £3m nationally was provided in 2024/25 to the 15 councils most affected by increases in IDB levies. FDC's allocation was £213,000. The national total has been increased to £5m for 2025/26 although no allocations have yet been made. An estimate of £313,000 has been included in the final budget figures detailed in this report. Although this is an estimated £100,000 additional grant, the total budget for the IDB levies has increased by £104,690 when compared with the draft budget following indications of at least a 10% increase in the levies for 2025/26. The total budget for IDB levies for 2025/26 is £217,230 higher than the actuals for 2024/25.
- 2.5 Although the settlement was for 2025/26 only, the Medium Term forecasts detailed in Appendix B have assumed a continuation of the current policy of increasing business rates baselines by inflation based on current Treasury forecasts over the medium term. In addition, the forecasts assume a continuation of the funding currently allocated as Recovery Grant.

### **3 LOCAL GOVERNMENT FUNDING REFORM**

- 3.1 The Autumn Budget 2024 and the Finance Settlement 2025/26 confirmed that the government is planning to implement funding reforms, commencing in 2025/26. There is very much a focus on directing funding towards authorities with higher needs and also taking local revenues (business rates and council tax) into account. A broader redistribution of funding through a multi-year settlement will take place from 2026/27 onwards. This will include a re-set of the Business Rates Retention system which could have significant implications for this Council.
- 3.2 The government is also looking to simplify the wider local funding landscape, reducing the number of grants and consolidating them into the Local Government Finance Settlement, as well as moving towards a multi-year settlement so local authorities can plan more effectively.

## **4 LOCAL GOVERNMENT REORGANISATION**

- 4.1 This government is broadly continuing the previous government's policy around devolution, with a focus on increasing the powers and funding available to combined authorities. The Budget 2024 and Finance Settlement 2025/26 confirmed that the first integrated finance settlements for Greater Manchester and the West Midlands will be in place in 2025/26 and for other combined authorities from 2026/27.
- 4.2 Members will be aware of the Government's white paper on English Devolution (published in December 2024) and their proposals for local government reorganisation and the creation of unitary authorities in two-tier areas ('to move to simpler structures that make sense for their local areas, with efficiency savings from council reorganisation helping to meet the needs of local people').
- 4.3 It is envisaged that new unitary authorities will come into force by 1<sup>st</sup> April 2028 which means that Fenland District Council will cease to exist by 31<sup>st</sup> March 2028. Members will receive separate reports and updates as this process develops over the coming months and years.
- 4.4 Taken together with the funding reforms above, this is a huge agenda which will have profound implications for local government funding, both in terms of how funding is distributed and how the system operates.

## **5 NEW HOMES BONUS**

- 5.1 The Finance Settlement detailed in paragraph 2.2 above confirmed that there would be one more year of NHB in 2025/26 but would be abolished from 2026/27.
- 5.2 Actual NHB received in 2024/25 was £442k and will be £593k for 2025/26 (calculation based on the increase in dwelling numbers between October 2023 – October 2024).
- 5.3 The New Homes Bonus will be abolished from 2026/27. The current national total of £291m per annum allocated by way of NHB is likely to be repurposed in future spending reviews. The impact on this Council's funding could be significant. We have included £593k of funding in the MTFS from 2026/27 onwards although any new allocation methodology could result in a lower allocation. The government will be consulting on proposals for 2026/27 onwards in the first half of 2025.
- 5.4 **The lack of clarity around the future allocations of the NHB total funding is a significant risk to the MTFS.**

## **6 BUSINESS RATES**

- 6.1 Members will be aware that the Business Rates Retention system was introduced in April 2013. Under this system, authorities would benefit if their actual Business Rates income collected in a year was higher than the baseline funding determined by government.
- 6.2 There has been real business rates growth in Fenland over the last six years, however how this impacts on the resources available to this Council is complex, due to the rules and the operation of the current 50% Business Rates Retention system. The complexity of the system has been exacerbated by the number of business rates relief schemes and multiplier caps and freezes implemented by the government over the last few years.

### **Business Rates Pooling Arrangement – 2024/25 and 2025/26**

- 6.3 The Council joined with the County Council, Peterborough City Council, Fire Authority, East Cambridgeshire and South Cambridgeshire to become part of a pooling arrangement for business rates from 2020/21 up to and including 2023/24. Unlike the Business Rates Pilot schemes, this is not a bidding process against other pools but is part of the existing system whereby authorities can choose to apply to become a pool with the agreement of the constituent authorities.

- 6.4 The benefit of being in a pool is that authorities will not be liable to levy payments on their business rates growth, which is then shared amongst the pooled authorities by a mutually agreed method. This will be based on where the growth has originated from with an appropriate share allocated to the County Council and Fire Authority.
- 6.1 As a result of further detailed analysis of forecast business rates income, the pool members decided that the most financially beneficial arrangement for 2024/25 would be a pool without Fenland. As recompense for not being in the pool, agreement was reached with the other pool members that Fenland would be no worse off as a result of the revised pooling arrangement for 2024/25.
- 6.2 Consequently, an amount of £350k per annum has been included for the projected outturn for 2024/25. Following completion of the NNDR1 forms for 2025/26, £350k has again been included as a 'pooling' benefit.
- 6.3 There will be no further major changes to the rates retention system until 2026/27 at least. Consequently, assuming the proposed pooling and 'no detriment' arrangements to this Council continue, an amount of £350k per annum has been included in the MTFS as a pooling benefit to this Council.

### **Business Rates Reform – 2026/27 onwards**

- 6.4 As stated earlier, no major changes will take place until 2026/27 at least. At that time, the government is proposing (as part of their Local Government Funding Reforms) that the Baseline Funding Level of all Councils will be reset with all 'growth' income being taken into account nationally and redistributed in the new system. In the estimate for 2025/26 and the medium term forecasts, around £1.4m of business rates above the Council's Baseline Funding Level is being retained. Under a baseline reset, this would mean that initially the additional £1.4m business rates income would be removed and redistributed. What remains unclear, is how much of this £1.4m will be returned to the Council as part of its recalculated Baseline Funding Level.
- 6.5 In theory therefore, the Council could lose all of this additional £1.4m in the absolute worst case scenario. However, this is unlikely and would create significant volatility within future funding allocations nationally, which the government does not wish to see. There will also undoubtedly be some kind of transitional arrangements which would also limit the extent of any gains and losses in funding arising from the new system.
- 6.6 Although it is extremely difficult to exemplify the impact of this redistribution, in broad terms, if the Council were to lose 50% of its growth income then this would add a further £700k per annum from 2026/27 to the current forecast MTFS shortfalls. A 20% loss of growth income would add a further £280k per annum to the current shortfalls.
- 6.7 In addition, the current system of retaining 100% of business rates from businesses generating Renewable Energy (estimated £1.578m in 2025/26) and the benefits from current pooling arrangements (estimated £350k in 2025/26) could also be reviewed and amended.
- 6.8 **At the time of writing, local government funding reforms, the implementation of Business Rates Reform and the changes to the New Homes Bonus are all major risk areas for this Council over the medium term.**

## **7 ADDITIONAL BUSINESS RATES RELIEF MEASURES 2025/26**

### **2025/26 Retail, Hospitality and Leisure Relief Scheme**

- 7.1 At the Autumn Statement on 30 October 2024, the Chancellor announced that the Retail, Hospitality and Leisure (RHL) Business Rates Relief scheme will be extended for a fifth year into 2025/26 to continue to provide eligible, occupied, retail, hospitality and leisure properties (but reducing the level of relief) with a 40% relief, up to a cash limit of £110,000 per business.



- 7.2 Guidance about the operation and delivery of this relief has been provided by government. Billing authorities and major precepting authorities will be fully reimbursed for their loss of income under the rates retention scheme as a result of awarding relief in accordance with the guidance, using a S31 grant.
- 7.3 The reliefs will be granted using discretionary relief powers under Section 47 of the Local Government Finance Act 1988 and is available to reduce chargeable amounts in respect of rates due in 2025/26.

## **8 FORECAST OUTTURN 2024/25**

- 8.1 The approved budget set by Council in February 2024, showed a balanced budget without any funding required from either the Budget Equalisation Reserve or the General Fund Balance.
- 8.2 An updated projection for 2024/25, taking into account the latest estimate of spending and income pressures, was included in the draft budget report presented to Cabinet on 16 December 2024. At that time, a shortfall of £536k was being projected for 2024/25. The reasons for the increase in the projected shortfall were detailed in the draft budget report.
- 8.3 The latest projected outturn for 2024/25 is set out at Appendix A and show the likelihood of a shortfall in the region of £350k by the end of this financial year.
- 8.4 The main reasons for the changes since the draft budget report are a reduction in Employee Costs (-£45k), reduced Premises costs (-£54k), additional investment income (-£50k), additional RTB/VAT sharing income (-£40k), additional income from Freedom Leisure Management Contract (-£90k), reduced interest payable and MRP charge from reprofiling of capital programme (-£35k), allocation from the national business rates levy account surplus (-£31k) and additional Rough Sleeping grant (-£34k).
- 8.5 To off-set these additional income variances, there have been a number of additional cost pressures, mainly additional recycling gate fees (£97k) and lower Planning Fees (£92k).
- 8.6 There are still many uncertainties around the potential shortfall for 2024/25 and there is no requirement at this time to formally approve an amount to be funded from reserves. At the present time, Corporate Management Team, Senior Managers and the Accountancy Team are managing and monitoring the position carefully and will continue to review spending levels to ensure where possible, the amount to be funded from reserves at the year-end is minimised.
- 8.7 Use of reserves to fund any potential shortfall in 2024/25 will have a consequential impact on the Council's ability to fund any shortfall in 2025/26 from reserves. Details of the Council's reserves are at Section 17 and Appendix G.

## **9 BUDGET ESTIMATES 2025/26 AND MTFS**

- 9.1 The Council's MTFS has to ensure that the commitments made in the Business Plan are funded not only in the year for which formal approval of the budget is required (2025/26) but for forecast years as well, within a reasonable level of tolerance.
- 9.2 The impact of the Final Local Government Finance Settlement has been incorporated into the figures in this report.
- 9.3 Although current government policy regarding Local Government reorganisation would result in this Council being abolished on 31 March 2028, the MTFS has exemplified the financial position over the 5-year period to March 2030.
- 9.4 The Council's medium term forecasts are shown at Appendix B and summarised in Table 2 below. The table includes for a 0% increase in the Band D Council Tax from 2025/26 onwards.

**Table 2 - MTFS – 0% Council Tax increases from 2025/26 onwards**

	Estimate	Forecast	Forecast	Forecast	Forecast
	2025/26	2026/27	2027/28	2028/29	2029/30
	£000	£000	£000	£000	£000
<b>Expenditure</b>					
Net Service Expenditure	17,653	16,981	17,265	17,590	18,039
Corporate Items	1,311	2,099	3,245	3,998	4,141
Contribution to/from(-) Earmarked Reserves	-1,035	-26	-26	-26	-26
<b>Net Expenditure (before use of balances)</b>	<b>17,929</b>	<b>19,054</b>	<b>20,484</b>	<b>21,562</b>	<b>22,154</b>
<b>Funding</b>					
Revenue Support Grant	-204	-209	-214	-220	-225
Business Rates Funding ( <i>detailed in Appendix B</i> )	-8,127	-8,288	-8,404	-8,516	-8,638
Business Rates Collection Fund Deficit (+)	45	0	0	0	0
Council Tax Collection Fund Surplus(-)	-18	-20	-20	-20	-20
Council Tax ( <i>0% increase from 25/26 onwards</i> )	-8,193	-8,320	-8,450	-8,582	-8,717
<b>Total Funding</b>	<b>-16,497</b>	<b>-16,837</b>	<b>-17,088</b>	<b>-17,338</b>	<b>-17,600</b>
<b>Surplus(-)/Shortfall(+) before use of balances</b>	<b>+1,432</b>	<b>+2,217</b>	<b>+3,396</b>	<b>+4,224</b>	<b>+4,554</b>
Contribution from Budget Equalisation Reserve	-1,432	0	0	0	0
<b>Shortfall(+) after use of balances</b>	<b>0</b>	<b>+2,217</b>	<b>+3,396</b>	<b>+4,224</b>	<b>+4,554</b>

- 9.5 Government support for 2025/26 was confirmed as part of the final finance settlement as detailed earlier in this report. The projections for 2026/27 onwards are based on the best estimates and information available. However, subject to further clarity on the detailed implementation of the Local Government Funding Reforms, there remains significant uncertainty in these projections.
- 9.6 The net budget requirement for 2025/26 is currently estimated at **£17.929m** after all identified savings, contingencies and reserve transfers are included. This includes the assumptions detailed at Appendix C. With the final funding assumptions and a 0% increase in the Band D Council Tax level, **a shortfall of £1.432m** is currently forecast for 2025/26.
- 9.7 **It is proposed that a contribution of £1.432m from the Budget Equalisation Reserve be made at this time to achieve a balanced budget for 2025/26.**
- 9.8 The estimates for 2024/25 benefited from a significant estimated surplus on the Business Rates Collection Fund account at the end of 2023/24. This surplus of £1.292m was a result of a significant decrease in the appeals provision required in 2023/24. There will always be an estimated surplus or deficit relating to the Business Rates Collection Fund in a particular year which is then included in the following years estimates. A deficit of £45k has been included in the estimates for 2025/26, a significant change from the surplus in 2024/25.
- 9.9 The development of the Commercial and Investment Strategy has the potential to generate additional significant returns over the MTFS. Currently, recharges to Fenland Future Ltd (FFL) for officer time and loan interest receipts have been included in the forecasts at Appendix A and B. These are based on the current business plan of FFL over the next three years. Additional returns may also be realised depending on the type and timing of investment opportunities. These are however limited at the current time due to high interest rates and the current policy of the PWLB not to lend for purely investment for yield projects. Consequently, no allowance for these further potential returns (over

and above the recharges and loan interest to FFL) have been included in the MTFS at the current time.

- 9.10 Officers are currently progressing a number of initiatives to increase the amount of Housing Benefit subsidy reclaimed and together with the anticipated reduction in temporary accommodation costs (partly resulting from the additional houses purchased with assistance from the Local Authority Housing Fund), **a significant increase in subsidy reclaimed and lower temporary accommodation costs of £600k has been included in the estimates for 2025/26.** As the timings of these initiatives are uncertain, this reduction remains a significant risk in the 2025/26 estimates.
- 9.11 Members will be aware that the Transformation Agenda 2 (TA2) programme is now underway and together with the forthcoming Service Review programme, is critical in achieving the necessary savings over the course of the MTFS. An amount of £550k has currently been included in the 2025/26 estimates as savings from the TA2 and Service Review programme, increasing to £616k per annum by 2029/30. **Significant savings over and above these will be required from this programme over the MTFS period.**

#### **Extended Producer Responsibility**

- 9.12 This Council received its provisional notice of assessment of the pEPR payment due in 2025/26 on 28 November 2024. This amounted to £958,000. Whilst this payment resulting from the collection of producer fees may still change, to provide certainty to authorities, the government is guaranteeing that in 2025/26 we will receive at least this amount. For 2026/27 onwards, this amount will be adjusted to reflect actual figures.
- 9.13 Officers are still assessing any costs associated with our obligations to maximise the collection and recycling of packaging material and any other conditions attached to the above payment.
- 9.14 Taking into account the proposals in Table 2 above, the estimated net budget requirement in 2025/26 is detailed in Appendix A. The level of forecast resources available to the Council and the estimated levels of expenditure over the medium term are set out in detail in Appendix B. **These show a funding gap of £2.217m in 2026/27 rising to £3.396m by the end of 2027/28 and £4.554m by the end of 2029/30.**
- 9.15 There is still considerable uncertainty around the estimates for 2025/26 and the forecasts for the medium term. Currently there are a number of 'unknowns' which could both positively and negatively impact on the forecasts including:

#### **Risks associated with the MTFS forecasts:**

- The ongoing impact of the Finance Settlements on 2025/26 and the medium term;
- Impact of potential changes to the New Home Bonus national total distribution and allocations from April 2026;
- Impact of the longer-term changes to the Business Rates Retention system from April 2026;
- Impact of pay awards higher or lower than currently allowed for in the MTFS (2% increase included for 2025/26 onwards);
- Impact of potential additional costs and income in 2025/26 from the Extended Producer Responsibility scheme for managing packaging waste;
- Impact of potential net costs of the governments' Food Waste strategy;
- Impact on income streams being greater than anticipated due to external factors such as Port Income;
- Impact of the current review of Port operations and the future liability of the quay at Wisbech Port;

- Continuing impact of homelessness temporary accommodation costs in 2025/26 and the medium term and the impact on recovery of housing benefit subsidy;
- Impact of increases in Fees and Charges (where feasible) on the 2025/26 estimates and MTFS;
- Impact of service developments eg. Car Parking Enforcement (CPE);
- Revenue impact of funding new capital schemes not currently included in the capital programme. There are currently a number of significant unfunded capital schemes which will need to be considered over the MTFS;
- Potential impact of the Council's future transformation programme with associated savings. Further detailed work is required to quantify the extent of these savings;
- Review of the recharge of staff time to the LATCO (Fenland Future Ltd) to quantify potential revenue savings. Currently recharges of £125k in 2025/26 onwards have been assumed in the MTFS;
- Potential net benefits from FFL of loan interest and dividends from future developments over and above already included in the MTFS generating revenue income;
- Commercial and Investment Strategy and future potential positive returns to the Council;
- Review of the General Fund Balance and Earmarked Reserves to ensure they align with the future requirements of the Council.

9.16 **Whatever impact the above issues may have however, there will remain a significant structural deficit for the Council to address over the medium term.**

9.17 The forecasts for the years 2026/27 – 2029/30 are provisional at this stage and should be considered with extreme caution. Future announcements and consultation outcomes will also determine government policy and therefore the funding in the future years. In addition, the forecasts are dependent on permanently maintaining the savings identified through the My Fenland transformation initiative, the current TA2 programme and future Service Review programme.

9.18 As detailed earlier in this report, Business Rates Retention Reform, Local Government Funding reform and changes to the New Homes Bonus could have a significant impact on the Council's forecast resources over the term of the MTFS. Further to the risks associated with these externally determined funding streams the Council should also ensure that income budgets are achieved and new income streams considered and implemented for medium to long term sustainability in combination with any operational and transformational benefits that the Council realises. The use of general reserves to support revenue expenditure adds to the overall risks to the Council as such reserves can only be used once but the cumulative impact of such use will continue to be felt into the future.

### **Other Risks**

#### **Capital Programme – Future Funding**

- 9.19 The Council is increasingly relying on borrowing (Internal and Prudential) to fund its future programme as the amount of capital receipts and the level of reserves available to fund the capital programme are reducing considerably over the next two years. Consequently, any new capital schemes (which do not generate a return to repay borrowing costs) will have to be funded through borrowing which will result in revenue costs and therefore will impact on the MTFS and future shortfalls.
- 9.20 For example, a £1m scheme with a 20 year life, funded by prudential borrowing, would result in around an additional £100,000 per annum in interest (5%) and repayment costs.

- 9.21 Consequently, a review of the current capital programme together with potential new schemes (as detailed in Section 18) and the ongoing revenue cost impact will be undertaken to ensure the programme is sustainable within the context of the Council's Medium Term Financial Strategy.
- 9.22 To exemplify the effect on the MTFS of potential additional costs arising from the above risks, Table 3 below details a scenario whereby the Council loses 50% of its business rates growth income following potential reforms in 2026/27, NHB reduces from 2026/27 and the impact of an additional £1m per year borrowing associated with new capital schemes.

**Table 3: MTFS Potential Impact of Major Risks – for illustrative purposes only**

	Estimate	Forecast	Forecast	Forecast	Forecast
	2025/26	2026/27	2027/28	2028/29	2029/30
	£000	£000	£000	£000	£000
<b>MTFS Shortfall - Appendix B</b>	<b>1,432</b>	<b>2,217</b>	<b>3,396</b>	<b>4,224</b>	<b>4,554</b>
<i>(0% Council Tax increases from 25/26 onwards and before use of reserves)</i>					
50% loss of NNDR growth income		700	700	700	700
50% loss of NHB funding		296	296	296	296
Additional £1m per year borrowing	25	125	225	325	425
<b>Revised Shortfall</b>	<b>1,457</b>	<b>3,338</b>	<b>4,617</b>	<b>5,545</b>	<b>5,975</b>

- 9.23 As stated earlier, it is important to note that the figures detailed in the above table are purely illustrative as no decisions have yet been made regarding changes to these funding streams or new capital schemes and the potential impact on this Council.

## **10 PARISH PRECEPTS**

- 10.1 The levels of parish precepts set throughout Fenland are provided for information at Appendix F. These will be reported to Council as part of the Council Tax setting process.

## **11 FEES AND CHARGES**

- 11.1 The Overview and Scrutiny Panel reviewed fees and charges for 2025/26 at its meeting on 20 January 2025 and these were subsequently considered by Cabinet on 27 January 2025. All of the recommendations from these meetings have been included in the financial forecasts.

## **12 SPECIAL AND GENERAL EXPENSES**

- 12.1 For the purposes of Section 35 of the Local Government Finance Act 1992, the Council needs to pass appropriate resolutions for each financial year to determine how expenses which could legally be regarded as special should be treated.
- 12.2 If expenses are treated as special expenses, then they must be charged against the parts of the Council's area to which they relate.
- 12.3 Parish precepts are special expenses and cannot be treated as general expenses.
- 12.4 Drainage Board and Port Health levies which affect only part of the Council's area are treated as general expenses unless the Council resolves otherwise. These are currently treated as general expenses and it is recommended that this position continues for 2025/26.
- 12.5 Expenses incurred by the Council in performing, in part of its area, a function performed elsewhere by a parish council are special expenses unless the Council determines otherwise. Currently, these are treated as general expenses. To maintain this position, it

is recommended that the Council determines that such expenses should not be treated as special expenses for the financial year 2025/26.

### 13 PORT HEALTH

- 13.1 The Port Health levy for 2025/26, based on expected expenditure, is recommended as shown in Table 4 below for Council to approve.

**Table 4: Port Health Levy 2025/26**

Description	£
a) Port Health anticipated expenditure	19,052
b) Port Levy	
Fenland District Council	16,861
South Holland District Council	1,334
King's Lynn and West Norfolk Borough Council	857
Total	19,052

### 14 COUNCIL TAX 2025/26

- 14.1 The government has set the referendum limit for 2025/26 at 3% or £5, whichever is higher for District Councils (the same as 2024/25). A 3% increase on the Band D Council Tax equates to £7.56 per annum.
- 14.2 Social care authorities, such as Cambridgeshire County Council can also increase their element of council tax by a further 2% (5% in total).
- 14.3 Council at its meeting on 17 July 2023, agreed to re-position the MTFs by keeping the cash level of Council Tax raised at the current level rather than the previously adopted 0% increase, while recognising that the Council continues to face significant financial challenges and uncertainties that may not allow this ambition to be met.
- 14.4 Members of the Council need to act responsibly each year when setting the precept to balance the ambition of keeping Council Tax income at its' current level with the legal need to balance the budget. It was agreed that raising Council Tax in any of the next four years will be a last resort in order to minimise the financial effects of Council Tax on all of Fenland's households.
- 14.5 The proposal in this report is to keep the headline Band D Council Tax for 2025/26 at the same level as 2024/25, ie. a 0% increase.
- 14.6 For information, an additional 1% increase in Council Tax in 2025/26 would generate in the region of £81,000 of revenue per annum to the Council. Even with this additional revenue included, the estimates for future years show a significant shortfall (see Table 5 below).

#### **Council Taxbase**

- 14.7 The amount of Council Tax income recognised in the estimates is determined by the Council Taxbase (Band D equivalents) and the level of Band D Council Tax. For 2025/26, the Council Taxbase has been calculated using the number of dwellings (as notified by the Valuation Office Agency), the impact of exemptions and discounts (eg. Single Person discount) and the amount of Council Tax Support awarded.
- 14.8 In addition, an allowance for growth and for non-collection is included to produce the estimated taxbase. For 2025/26, the taxbase has been calculated as 32,154 (Band D equivalents), an increase of 583 (1.85%) on 2024/25.
- 14.9 After the estimates of expenditure and income have been prepared, and the Final Settlement has been received, the next step is to set the council tax for 2025/26 for Fenland District Council.

- 14.10 Council Tax income for 2025/26 has been set at a 0% increase in the Band D level and over the period of the MTFS.
- 14.11 At this level of Council Tax, there will be a significant deficit to fund in 2025/26 and over the period of the MTFS. Consequently, the Council will need to continually consider its strategy to meet the estimated shortfalls shown at Table 2 and in Appendix B, particularly if there are additional impacts from the funding reforms from 2026/27 onwards together with the impact of new capital schemes.
- 14.12 The implications of not increasing Council Tax over the remainder of the MTFS is that the Council will be reducing its financial base permanently as it would not be able to recover potential revenue foregone due to the cumulative year on year impact. The consequences of continually setting 0% Council Tax levels and not achieving the necessary savings/additional income have been clearly demonstrated by the events at other Councils. The ability to achieve significant year on year savings (without increasing existing and/or introducing new revenue streams together with transformational change) to balance the budget becomes progressively difficult without significant use of reserves and eventually impacting on front-line services and delivery.
- 14.13 Council can of course agree to a higher increase (up to the referendum limit of 3%) and a 1% increase in Council Tax raises around £81k revenue per annum. Table 5 shows the implications of increasing the Council Tax in 2025/26 by 3% per annum and thereafter compared to freezing the Council Tax in 2025/26 and throughout the MTFS period.

**Table 5: MTFS Net Position at Differing Council Tax increases in 2025/26 onwards**

Deficits based on different levels of Council Tax	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000
<b>Deficits at CT at 0% increases (as shown in Table 2/Appendix B)</b>	<b>+1,432</b>	<b>+2,217</b>	<b>+3,396</b>	<b>+4,224</b>	<b>+4,554</b>
Additional CT with 3% increase p.a. from 2025/26	-243	-503	-776	-1,067	-1,376
<b>Deficits at 3% increase</b>	<b>+1,189</b>	<b>+1,714</b>	<b>+2,620</b>	<b>+3,157</b>	<b>+3,178</b>

- 14.14 Table 6 shows the Band D Council Tax for spending at the level proposed, together with Council Tax levels from the major preceptors and Parishes.

**Table 6: Band D Council Tax Levels 2025/26**

COUNCIL TAX BASE	2025/26 32,154		2024/25 31,571	
	£	Band D £	£	Band D £
Fenland District Council Precept (Appendix A)	<u>8,192,513</u>		<u>8,043,971</u>	
<b>Fenland District Band D Council Tax</b>	<b>0.00%</b>	<b>254.79</b>	<b>-0.18%</b>	<b>254.79</b>
MAJOR PRECEPTORS				
County Council	(4.99%)	1,700.64	(4.99%)	1,619.82
Police & Crime Commissioner	(4.89%)	299.43	(4.76%)	285.48
Fire Authority	(6.02%)	87.21	(2.93%)	82.26
Combined Authority	(0.00%)	36.00	(200.00%)	36.00
Sub Total BAND D TAX		2,378.07		2,278.35
Parish Councils-average Band D (Appendix F)	(3.77%)	54.74	(3.09%)	52.75

<b>Total average Band D Tax</b>	<b>2,432.81</b>	<b>2,331.10</b>
<b>Total average Band D increase over 2024/25</b>	<b>£101.71 (4.36%)</b>	

14.15 The County Council increase for 2025/26 includes 2% for the Adult Social Care precept and 2.99% on the general council tax, giving a total increase of 4.99% (£80.82). For 2025/26, the Police and Crime Commissioner is allowed to increase council tax by up to £14.00 on a Band D property. The actual increase is £13.95 (4.89%). The Fire Authority is allowed to increase council tax by up to £5 on a Band D property. The actual increase is £4.95 (6.02%). Cambridgeshire and Peterborough Combined Authority has agreed a Band D council tax of £36.00 for 2025/26, the same level as 2024/25.

## **15 COUNCIL TAX SUPPORT SCHEME 2025/26**

- 15.1 Each year, the Council is required to review and approve its Council Tax Support Scheme (CTSS). The only changes relate to the prescribed pensioner scheme for 2025/26 which are determined by the usual annual regulations and which the Council has no discretion over.
- 15.2 The Council can only determine the working age CTSS and there are no proposals to change the current scheme for 2025/26. The current scheme is set out in the following link: [Fenland CTRS Scheme 2024-25](#)
- 15.3 Consequently, it is proposed that the current working age CTSS scheme be continued with effect from 1 April 2025 with the prescribed pensioner scheme being updated by the relevant regulations.

## **16 TREASURY MANAGEMENT STATEMENT, ANNUAL TREASURY INVESTMENT STRATEGY AND CAPITAL STRATEGY 2025/26**

- 16.1 Full details of the proposed Treasury Management, Annual Investment Strategy and Capital Strategy for 2025/26 are contained in Appendix E.
- 16.2 The key issues relating to the strategies and their impact on the MTFs are as follows:
- The prudential and treasury indicators detailed in paragraphs 2-13 of Appendix E, include for the impact of the additional contingency sum of £30m for capital spend on new projects over the next three years. This sum is being funded by external borrowing and consequently has a significant impact on the indicators and on the Council's budget for 2025/26 and over the MTFs. Consideration must be given as to the ongoing affordability of the significant additional financing costs associated with this level of external borrowings within the Council's MTFs.
  - The MRP policy sets out how the Council will make prudent provision for the repayment of borrowing needs over the medium-term forecast. It is proposed that the MRP calculation, currently based on the 'Equal Instalment Method' over the Asset Life, be amended from 2024/25 onwards to the 'Annuity Method' over the Asset Life (see 16.3 below).
  - The Treasury Management Strategy has been organised so that the Council will have sufficient cash resources to meet capital expenditure plans and operational cash flows.
  - Total external interest payments are projected to be £515,000 and £1,170,000 for 2024/25 and 2025/26 respectively
  - MUFG Corporate Markets Treasury Limited forecast a pattern of Bank Rate cuts quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (May, August and November).



- The current Medium Term Financial Strategy assumes that significant external borrowing will be required over the four-year period to 31 March 2028. Overall, better value can currently be obtained at the shorter end of the borrowing curve.
- The Council will need to consider the budget implications if the statutory override for accounting for investment instruments (pooled property funds) is not extended beyond 31.3.2025. We are still awaiting governments' decision on this.
- The aim of the Council's annual investment strategy is to provide security of investments whilst managing risk appropriately; investment returns are commensurate with the Council's historic low risk appetite although we are in the process of transition as a Council from a low-risk policy to an appropriate managed risk policy. The Council achieves these objectives through differentiating between "specified" and "non-specified" investments and through the application of a creditworthiness policy.
- The council holds £4m in Property Funds which are long term investments. Although the returns from these investments can be higher than short term investments there is an increased risk that capital values will rise and fall.
- Total investment income from temporary investments is estimated at £678,000 for 2024/25 and £530,000 for 2025/2026. Income from pooled property funds is estimated at £130,000 in both years.

16.3 The main change from previous years' Strategy is the proposal to amend the Minimum Revenue Provision (MRP) calculation. As currently stated in the Strategy at Appendix E (Section 6, MRP Policy Statement), it is the Council's principal responsibility to ensure that it can demonstrate that whatever MRP approach is adopted across their asset base is prudent. Previously, the 'Equal Instalment method' over the asset life has been adopted but from 2024/25 onwards, it is proposed that this be changed to the 'Annuity method'. The reason for the change is to ensure prudent appropriate charging of MRP to relevant accounting periods, taking into account the changing value of money over the years and bearing in mind the Council's residual Capital Financing Requirement (CFR) is scheduled to be transferred to a new Unitary Authority in April 2028 under the Governments proposals for Local Government Review.

16.4 For the years prior to 2024/25, any recalculation of CFR's and associated MRP's resulting from the proposed MRP calculation change will be assessed at the 2024/25 Outturn position and presented to Members later this year.

## **17 REVIEW OF GENERAL FUND BALANCE AND EARMARKED RESERVES**

17.1 An important part of any budget strategy is the review and consideration of reserves. Earmarked Reserves are typically held and used in a planned way to deal with issues where it is foreseen that resources need to be set aside to meet a specific need but the exact amount and timing is not known. General Reserves are held to cushion the impact of an event or events that cannot be foreseen whilst maintaining these resources at a consistent and reasonable level over the medium term.

17.2 Sufficient levels of reserves are necessary to provide for various contingent and unplanned items that could include:-

- significant increased costs of providing statutory services
- significant increased contractual costs
- an unexpected and/or significant event or disaster, e.g. civil emergency
- an unexpected major liability in law
- the need to make significant payments in relation to prior year adjustments under the direction of the external auditor

- 17.3 The Council's current uncommitted General Fund Balance is £2m. It is good practice to keep the balance on this reserve under review alongside ensuring that the purposes for which other earmarked reserves were allocated remain consistent with and relevant to the Council's Medium Term Financial Strategy.
- 17.4 Consequently, a review of the level of the General Fund Balance and the number and purpose of the earmarked reserves (Appendix G) will be undertaken and any amendments will be presented to a future meeting of Cabinet and Council.
- 17.5 The Budget Equalisation Reserve was established in 2019/20 to provide a smoothing mechanism between financial years which could provide resources to help achieve balanced budgets in future years whilst not increasing Council tax each year. The current balance on this reserve is £1.654m and is available to meet potential budget shortfalls for 2024/25 and 2025/26.
- 17.6 In previous reports, the Leader has stated that one of the main purposes of the Budget Equalisation Reserve was to facilitate a form of feedback loop to counter what he described as the Council's systemic historic outturn surpluses. However, the deficit incurred in 2023/24 of £212k was the first for several years and demonstrated the challenging financial environment all Councils are currently experiencing. Table 5 below, details the historic surpluses prior to 2023/24 and the significant shift to a deficit position from 2023/24. This deficit position is projected to worsen in 2024/25 and increase significantly in 2025/26 and over the MTFS. It is, ultimately, a matter of political interpretation whether the pattern of historic repeated outturn surpluses was evidence of taxing residents more than we need to each year, or if it bears a different interpretation. That is entirely a political matter for Cabinet and Full Council to consider. It is though quite clear that the pattern of historic surpluses will not be repeated and there will be significant deficits over the MTFS for the Council to address.
- 17.7 At a time of much personal financial pressure for households across Fenland, the Leader proposed, and Full Council approved at their budget meeting in February 2023, a one-off 2% reduction in Council tax in 2023/24. Subsequently, Council at its meeting on 17 July 2023, agreed to re-position the MTFS by keeping the cash level of Council Tax raised at the current level rather than the previously adopted 0% increase, while recognising that the Council continues to face significant financial challenges and uncertainties that may not allow this ambition to be met. The decisions by Council in February and July 2023 was considered a more effective and appropriate way to eliminate the Council's pattern of outturn surpluses, and that the fact that the Budget Equalisation Reserve now stands at £1.654m (before any potential use to fund any shortfall in 2024/25) provides a limited facility to smooth any short term revenue account budget pressures in any year(s) over the term of the MTFS. The scale of the forecast deficits in the current year, 2025/26 and over the MTFS are significantly higher than what will be available to fund from the Budget Equalisation Reserve and further significant cost savings and/or income generation (eg. Council Tax increases) will be required to set a legally balanced budget.
- 17.1 Alternatively, the Council could decide to fund future MTFS deficits to the extent that other earmarked reserves are not ringfenced. Consequently, a review of the level of the General Fund Balance and the number and purpose of the earmarked reserves (Appendix G) will be undertaken to determine which of these reserves could be re-purposed for future funding of the MTFS. Any proposals will be presented to a future meeting of Cabinet and Council.

**Table 7: Net Deficit/Surplus(-) transferred from/(to) Budget Equalisation Reserve**

	Budget	Outturn		Outturn Transferred to(+)/from(-)	
	£000	£000		Budget	Reserve
				Equalisation	Balance
2024/25	-3	350 (projected)		-350	1,304
2023/24	-4	212		-212	1,654
2022/23	203	-800		800	1,866
2021/22	842	-584		584	1,066
2020/21	0	-167		167	482
2019/20	151	-115		115	315
2018/19	73	-200		200	

- 17.2 The analysis of reserves at Appendix G details the projected General Fund and earmarked reserves position at 31 March 2025 and 31 March 2026 taking into account the proposals detailed in this report. The proposal to maintain the current level of Band D Council Tax for 2025/26 has no effect on the projected value of the General Fund Balance in 2025/26.

## **18 CAPITAL PROGRAMME**

- 18.1 Capital Expenditure and Income plans have been prepared through the Council's service and financial planning cycle. The Council's capital resources are dependent on government funding, external grants or through the ongoing disposal of assets.
- 18.2 Since February 2024, Members have continued to receive regular updates on several high-profile schemes including Wisbech High Street. In addition, Cabinet at their meetings of 30 September 2024 and 15 November 2024, have approved the purchase of additional properties to help support the Council's housing duties and these are included in Appendix D(i).
- 18.3 An updated Capital Programme for 2024-28 is presented at Appendix D(i) for approval. The programme has been updated to ensure it adequately reflects the cost and anticipated timing of schemes previously approved.
- 18.4 As a result of the proposed timescale for Local Government reorganisation and the expectation that this Council will be abolished on 31 March 2028, Members are currently considering a number of capital projects to be implemented and funded over the next 3 years 2025/26 – 2027/28, in addition to the current approved programme. These projects are at a very early stage of consideration and no detailed costings have yet been produced.
- 18.5 Consequently, a contingency sum of £30m (£5m in 2025/26, £10m in 2026/27 and £15m in 2027/28) has been included in the programme detailed at Appendix D(i) for these prospective new projects. Further reports will be presented to future Cabinet and Council meetings as and when the individual projects require the necessary approval.
- 18.6 The estimated financing costs (MRP and Loan interest) associated with both the current approved programme and the additional prospective projects have been included in the estimates for 2025/26, detailed at Appendix A(i) and over the MTFS as detailed in Appendix B. Including the costs associated with the prospective new projects has significantly increased the shortfall over the MTFS.

- 18.7 In addition, no allowance has yet been made for the following developments which will also significantly impact the Council's capital programme.

### **Structural Works – Wisbech Port**

- 18.8 Major structural concrete repair works were carried out during 2023/24 to address the deteriorating condition of the suspended quay at Wisbech Port. Extensive further work will be required over the next few years to ensure the quay at the port of Wisbech remains safe and operational. Full details of this work was presented to Cabinet at their meeting on 16 March 2023. A detailed option appraisal regarding the future of Wisbech Port will be required before any further investment in the quay is considered. Ultimately, the long-term replacement of the suspended quay could cost in the region of £50m. Further reports will be brought to Cabinet for consideration of the future of Wisbech Port.

### **Leisure Centres**

- 18.9 At a separate agenda item, the outcome of the Leisure Centre Facility Strategy details the required refurbishment and improvement projects at the Councils Leisure Centres together with high level costings. Depending on the strategy adopted regarding the timing and costs of implementing individual projects, there may be additional capital funding (borrowing) required over and above the £30m contingency detailed in 18.5 above. This will have consequential effects on future financing costs funded from the revenue account.
- 18.10 Should resources from external funding and/or capital receipts not generate the level of receipts forecast, or there is a delay in disposal of assets, then the capital programme will need re-visiting to ensure funding is sufficient to meet proposed expenditure including through borrowing. Reviews of the programme and resources available are carried out regularly during the year.
- 18.11 The Council's Borrowing Strategy which is incorporated into the Council's Treasury Management Strategy Statement, recognises that some prudential borrowing will be required over the life of the capital programme. The projected additional annual revenue costs for the programme detailed at Appendix D(i) are reflected in the medium term forecasts at Appendix B.

## **19 RISK ASSESSMENT**

- 19.1 There is an element of risk inherent in any process that looks into the future to make forecasts, particularly in the current economic climate and other national and international events now or in the future that may impact on the Council either directly or indirectly. The Council has a strong track record in good financial management as recognised in the recent Annual Audit Letter. This risk is further minimised by adopting the following methodology when preparing the estimates:-
- Service managers and the Accountancy Team working together to define likely service income/expenditure patterns matched with service delivery plans;
  - Maintaining "earmarked" reserves for expenditure that it is known will occur but the exact amount and timing of the expenditure is not known;
  - Maintaining an adequate level of general reserves to meet sudden and or unforeseen expenditure;
  - Adopting clear guidelines and control systems (robust revenue and capital budget management and monitoring procedures, Financial Regulations and Contract Procedure Rules etc.) to alert service managers, and members before variances reach tolerance levels;
  - Using professional and expert advice and economic forecasts where these are available, e.g. treasury management, interest rates;

- Maintaining a rolling review of forecast estimates beyond the current year.

19.2 These assumptions are made with all available information but are necessarily calculated based on broad assumptions. In the current economic climate, some of these assumptions are particularly volatile. The MTFS will be prepared annually on a rolling basis so that as information becomes more certain the figures will be updated and early consideration can be given to any action or changes in direction that may be required.

## **20 REPORT OF THE CHIEF FINANCE (SECTION 151) OFFICER UNDER SECTION 25 OF THE LOCAL GOVERNMENT FINANCE ACT 2003.**

20.1 Under Section 25 of the Local Government Act 2003 and CIPFA Code of Practice, the Council's Chief Finance Officer (Section 151 Officer) is required to report on the robustness of the estimates made for the purpose of the budget calculations and the adequacy of the proposed reserves.

**Cabinet and Council are required under the 2003 Act to consider and give due regard to the Chief Finance Officer's report as part of the budget approval and council tax setting process.**

20.2 The proposed budget is set against the context of significant economic uncertainty, the current cost of living crisis, together with considerable uncertainty regarding government funding over the MTFS. The Government intends to make fundamental changes to the funding system for Local Government through the introduction of a new needs based fairer funding formula and the introduction of business rates. In addition, the New Homes Bonus is being abolished in 2026/27 and there is still uncertainty around the net impact of the introduction of EPR, Food Waste and the Simpler Recycling reforms. The cumulative impact of these changes and lack of visibility on any transition or damping arrangements means that financial planning for 2026/27 and the medium term is very uncertain.

### **20.3 The Corporate Director and Chief Finance Officer (Section 151 Officer) makes the following statement:**

The robustness of the 2025/26 Budget estimates and the adequacy of the reserves are largely dependent on the levels of risk and uncertainty. There is an element of judgement as budget estimates of spending and income are made at a point in time and may change as circumstances change, particularly given the uncertainty relating to Local Government reform and Local Government reorganisation.

This statement on the robustness of estimates cannot give a 100% guarantee about the budget but should give the Council reasonable assurance that the budget has been based on the best information and assumptions available at the time.

The estimates that support this budget have used all the data and supporting information that the Council has at its disposal at this point in time. The principal financial assumptions made in the Budget are noted in this report and attached at Appendix C. Budget monitoring throughout the year will be an important tool in identifying, at an early stage, potential issues so appropriate action can be taken.

20.4 Although there are still many uncertainties around the estimates for 2025/26 and over the medium term to 2029/30 detailed in this report, there are undoubtedly significant challenges facing the Council over the next few years. The report also highlights several major areas of risk which could also adversely affect the estimates over the MTFS. Of particular concern is the additional revenue impact of the new prospective capital schemes.

- 20.5 As detailed in the report, Council Tax over each year of the MTFS has been included at 0% increase. At this level, there are currently estimated shortfalls of £1.432m in 2025/26 (before use of reserves), rising to £3.396m in 2027/28 and £4.554m in 2029/30.
- 20.6 The cumulative shortfalls over the next three years to 2027/28 amount to around £7.045m. These currently exceed the forecast balances on the Council's non-ringfenced earmarked reserves (£6.5m) at 31 March 2026. Of the cumulative shortfall of £7.045m, around £2.367m relates to additional financing costs attributable to the £30m contingency included in the capital programme over the next three years.
- 20.7 These represent a significant challenge for the Council and it is therefore, imperative that a robust savings and use of reserves strategy is in place to meet these challenges. As detailed in the report, significant savings (£550k) are expected from the Transformation Agenda 2 (TA2) and Service Review programme.
- 20.8 Even with these, the scale of the forecast deficits means that significant funding from earmarked reserves is inevitable if the current Council Tax strategy of 0% increases per annum is maintained in future years. Table 5 in Section 14 of this report exemplifies the impact of increasing Council Tax by up to 3% (the current referendum limit) on the shortfalls over the MTFS detailed in Appendix B.
- 20.9 **The continuing use of earmarked reserves to fund future deficits is a high-risk strategy for the Council. Although current government policy would see this Council abolished on 31 March 2028, this cannot be guaranteed and if this did not proceed as expected, the Council would be left in a significantly reduced funding position. Consideration must be given to the longer-term financial sustainability of the Council and the assumption that the Council has no longevity beyond March 2028 is still subjective. Borrowing to deliver the Fenland Inspire projects must be carried out prudently and in line with the Treasury Management Strategy agreed by Full Council. As stated previously the continued use of reserves is not sustainable and an adequate level of reserves must be maintained.**
- 20.10 Given the uncertainties detailed in this report, it is imperative that the Council maintains sufficient resources to cover any in-year unforeseen expenditure. A risk-based approach to the consideration of the level of reserves is a component of the Council's overall risk management framework. Operational risks should be managed within Services' bottom line budgets and thus will not normally result in any further call on the Council's General Balances, as detailed in Section 19 above.
- 20.11 My assessment of the process that has been undertaken is that the calculations used in the preparation of the estimates for the Budget for 2025/26 are fair and robust and that reserves are adequate to reflect known circumstances and to be able to manage the stated uncertainties and risks that could realistically be anticipated at this point. All earmarked reserves are held for the purpose for which they are set up and are considered to be adequate to meet the requirements of those purposes when called upon based on the best information available as at the time of writing.
- 20.12 As stated above careful consideration needs to be given to future years when forecasted deficits are likely to outstrip available reserves.

## FENLAND DISTRICT COUNCIL

## Summary of Revenue Estimates

	<b>Council 26.02.24 Original Estimate 2024/25</b>	<b>Cabinet 16.12.24 Revised Estimate 2024/25</b>	<b>Projected Outturn 2024/25</b>	<b>Estimate 2025/26</b>
	<b>£</b>	<b>£</b>		<b>£</b>
<b>Service Summary</b>				
Growth & Infrastructure	1,454,340	1,330,666	1,039,571	1,459,230
Communities, Environment, Leisure & Planning	5,402,610	6,315,700	6,421,833	6,611,090
Resources & Customer Services	10,304,470	10,628,973	10,610,753	10,495,204
ERS NI Contributions - Government Grant	0	0	0	-123,812
Vacancy Factor (1.5%)	-230,000	0	0	-239,000
Transformation & Service Review Programme savings	-225,000	-115,585	-115,585	-550,000
<b>NET COST OF GENERAL FUND SERVICES</b>	<b>16,706,420</b>	<b>18,159,754</b>	<b>17,956,572</b>	<b>17,652,712</b>
<b>Corporate Items</b>				
Internal Drainage Board Levies	2,098,570	2,251,010	2,251,010	2,468,240
Internal Drainage Board Levies Grant	-177,280	-213,000	-213,000	-313,000
Contributions to/ (from) Earmarked Reserves	-652,874	-878,913	-693,183	-1,034,595
RTB/VAT Sharing Income	-20,000	-110,000	-150,000	-20,000
Financing Charges - <i>Interest on External Borrowings</i>	906,325	556,325	514,325	1,169,467
Financing Charges - <i>MRP current Capital Programme</i>	587,700	451,166	451,166	652,000
Investment Income and Property Funds Income	-795,000	-765,000	-808,000	-660,000
New Homes Bonus	-442,392	-442,392	-442,392	-592,628
Services Grant	-25,846	-25,846	-25,846	0
Core Spending Power Guarantee Grant	-788,558	-788,558	-788,558	0
Recovery Grant	0	0	0	-435,149
Extended Producer Responsibility Payment -pEPR	0	0	0	-958,000
<b>Corporate Items</b>	<b>690,645</b>	<b>34,792</b>	<b>95,522</b>	<b>276,335</b>
<b>Net Expenditure</b>	<b>17,397,065</b>	<b>18,194,546</b>	<b>18,052,094</b>	<b>17,929,047</b>
Contribution to/from(-) Budget Equalisation Reserve	<b>2,515</b>	<b>0</b>	<b>0</b>	<b>-1,432,283</b>
<b>NET EXPENDITURE after use of balances</b>	<b>17,399,580</b>	<b>18,194,546</b>	<b>18,052,094</b>	<b>16,496,764</b>
<b>Core Funding</b>				
Revenue Support Grant	<b>-184,901</b>	<b>-184,901</b>	<b>-184,901</b>	<b>-203,673</b>
<b>Business Rates - Income due in Year</b>				
Business Rates Funding	-11,177,561	-11,177,561	-11,177,561	-11,580,863
Tariff Payment to Government	7,554,448	7,554,448	7,554,448	7,636,697
Renewable Energy Rates Retained	-1,476,267	-1,593,684	-1,593,684	-1,578,437
Business Rates Pool - FDC Share of Benefit	-300,000	-350,000	-350,000	-350,000
Business Rates S31 Grants due in year	-3,166,574	-3,066,658	-3,097,731	-2,999,641
Business Rates Levy due in year	744,929	553,388	572,446	775,691
Business Rates Levy Account Surplus allocation	0	0	-31,046	-31,046
	<b>-7,821,025</b>	<b>-8,080,067</b>	<b>-8,123,128</b>	<b>-8,127,599</b>
<b>Business Rates Collection Fund Deficit(+)/Surplus(-)</b>	<b>-1,291,784</b>	<b>-1,291,784</b>	<b>-1,291,784</b>	<b>45,154</b>
<b>Council Tax Collection Fund Deficit(+)/Surplus(-)</b>	<b>-57,899</b>	<b>-57,899</b>	<b>-57,899</b>	<b>-18,133</b>
<b>Council Tax</b>	<b>-8,043,971</b>	<b>-8,043,971</b>	<b>-8,043,971</b>	<b>-8,192,513</b>
<b>Business Rates and Council Tax Funding</b>	<b>-17,399,580</b>	<b>-17,658,622</b>	<b>-17,701,683</b>	<b>-16,496,764</b>
<b>Surplus(-)/Shortfall(+)</b>	<b>0</b>	<b>535,924</b>	<b>350,411</b>	<b>0</b>

APPENDIX A(ii)

<b>GROWTH AND INFRASTRUCTURE</b>			
<b>Service</b>	<b>2024/25 Current Approved Estimate £</b>	<b>2024/25 Projected Outturn £</b>	<b>2025/26 Original Estimate £</b>
<b>Direct Services</b>			
Transport Development	161,490	156,390	227,720
Miscellaneous (Clocks, Monuments)	2,300	2,300	2,300
Drainage (District)	3,500	3,500	3,500
Highways (District)	201,280	212,240	200,820
Car Parks	223,200	222,000	228,100
Marine Services	450,026	351,061	289,400
Economic Estates	-334,300	-329,700	-354,600
Sewage Treatment Works	79,240	81,360	82,470
Parish Council Concurrent Functions	55,840	55,840	55,840
Economic Development	199,850	196,910	187,070
Regeneration	-34,110	-231,880	141,410
HLF- High St Wisbech	0	0	0
<b>Total Direct Services</b>	<b>1,008,316</b>	<b>720,021</b>	<b>1,064,030</b>
<b>Support Services</b>			
Asset & Project Services	392,350	389,550	465,200
<b>Net Cost of Services</b>	<b>1,400,666</b>	<b>1,109,571</b>	<b>1,529,230</b>
<b>Less Support Services Recharges to Capital Schemes</b>	<b>-70,000</b>	<b>-70,000</b>	<b>-70,000</b>
<b>TOTAL GROWTH AND INFRASTRUCTURE</b>	<b>1,330,666</b>	<b>1,039,571</b>	<b>1,459,230</b>

General Notes for Appendix A(ii):

1. Within all the Service Estimates detailed in Appendix A(ii), Support Services costs have not been reallocated with the exception of recharges to Capital Schemes.
2. Similarly, Capital Charges have not been reallocated as these 'costs' are reversed out within the Corporate Items section of the estimates, thereby having no impact on the Budget Requirement and Council Tax.
3. Estimates for 2025/26 include the assumptions on pay, expenditure and income detailed at Appendix C. In addition, staff cost allocations to services have been reviewed for 2024/25 and have resulted in costs being re-allocated to better reflect time spent on providing those services.



<b>COMMUNITIES, ENVIRONMENT, LEISURE &amp; PLANNING</b>			
<b>Service</b>	<b>2024/25 Current Approved Estimate £</b>	<b>2024/25 Projected Outturn £</b>	<b>2025/26 Original Estimate £</b>
<b>Direct Services</b>			
Housing Strategy	138,570	142,490	145,850
Private Sector Renewals	91,640	90,250	102,960
Housing Standards	104,230	102,390	123,550
Care & Repair	32,760	32,590	34,190
CCTV	74,000	69,990	65,920
Safer Fenland	114,430	114,450	119,330
Licensing	-8,930	-10,960	-2,290
Housing Options	393,180	409,563	163,220
Housing Needs and Advice	85,060	85,410	124,700
LAHF Properties	-287,710	-313,240	-342,120
Community Development	142,320	128,760	137,740
Travellers Services	-72,560	-84,810	-75,490
Pollution Reduction	164,180	165,520	168,030
Public Health	273,410	260,380	221,370
Food Safety	143,910	130,130	146,730
Health and Safety	74,890	70,840	78,890
Refuse Collection - Domestic	1,996,020	2,177,450	2,433,840
Garden Waste	-136,970	-123,560	-200,610
Refuse Collection - Trade Waste	-224,690	-224,860	-265,010
Street Cleansing	1,146,700	1,165,390	1,190,170
Streetscene	248,020	244,620	262,790
Public Conveniences	19,320	19,310	22,400
Arts Development & Culture	78,640	79,650	40,940
Planning Policy	384,030	378,610	956,630
Development Management	266,490	355,530	65,000
Building Control	54,110	54,110	54,110
Conservation	39,720	38,090	40,080
Planning Compliance	218,120	209,860	128,500
Technical Support	279,000	281,610	309,240
Leisure Centres	-452,970	-520,010	-376,580
Sports Development	189,640	188,130	77,620
Parks and Open Spaces	661,960	635,940	608,030
Cemeteries	-11,520	-14,820	-46,200
Markets and Fairs	-5,430	-9,620	-1,510
Community Events	102,130	92,650	99,070
Vehicle Workshop	0	0	0
<b>TOTAL COMMUNITIES, ENVIRONMENT, LEISURE &amp; PLANNING</b>	<b>6,315,700</b>	<b>6,421,833</b>	<b>6,611,090</b>

General Notes for Appendix A(ii):

1. Within all the Service Estimates detailed in Appendix A(ii), Support Services costs have not been reallocated with the exception of recharges to Capital Schemes.
2. Similarly, Capital Charges have not been reallocated as these 'costs' are reversed out within the Corporate Items section of the estimates, thereby having no impact on the Budget Requirement and Council Tax.
3. Estimates for 2025/26 include the assumptions on pay, expenditure and income detailed at Appendix C. In addition, staff cost allocations to services have been reviewed for 2024/25 and have resulted in costs being re-allocated to better reflect time spent on providing those services.

<b>RESOURCES AND CUSTOMER SERVICES</b>			
<b>Service</b>	<b>2024/25 Current Approved Estimate £</b>	<b>2024/25 Projected Outturn £</b>	<b>2025/26 Original Estimate £</b>
<b>Direct Services</b>			
Miscellaneous Central Services	132,950	132,950	137,500
Unfunded Pension Costs/Apprenticeship Levy	997,890	998,600	961,680
Corporate Management	1,104,410	1,078,680	969,040
Council Tax Cost of Collection	538,950	546,550	658,190
Business Rates Cost of Collection	-19,450	-19,320	13,140
Housing Benefits	1,416,860	1,392,490	971,240
ICT Direct Service Costs	865,370	864,820	860,940
Policy & Comms	340,630	339,250	358,160
Land Charges	-16,650	-11,750	-22,550
Elections & Electoral Registration	225,550	231,450	252,650
Democratic Services	635,640	626,770	692,430
Emergency Planning	17,980	17,850	16,000
<b>Total Direct Services</b>	<b>6,240,130</b>	<b>6,198,340</b>	<b>5,868,420</b>
<b>Support Services</b>			
Accountancy	806,933	807,493	784,150
Information & Communication Technology	684,860	686,920	665,500
Customer Services/My Fenland	1,099,600	1,103,600	1,184,800
Transformation	275,100	278,600	299,000
Post & Reprographics	121,480	121,840	124,064
Internal Audit	214,330	213,660	167,840
Legal Services	169,300	176,840	302,680
Corporate Health & Safety	11,080	16,380	50,190
Human Resources	373,210	373,930	390,010
Fenland Hall	452,600	454,800	472,900
The Base	180,350	178,350	185,650
<b>Total Support Services</b>	<b>4,388,843</b>	<b>4,412,413</b>	<b>4,626,784</b>
<b>TOTAL RESOURCES AND CUSTOMER SERVICES</b>	<b>10,628,973</b>	<b>10,610,753</b>	<b>10,495,204</b>

General Notes for Appendix A(ii):

1. Within all the Service Estimates detailed in Appendix A(ii), Support Services costs have not been reallocated with the exception of recharges to Capital Schemes.
2. Similarly, Capital Charges have not been reallocated as these 'costs' are reversed out within the Corporate Items section of the estimates, thereby having no impact on the Budget Requirement and Council Tax.
3. Estimates for 2025/26 include the assumptions on pay, expenditure and income detailed at Appendix C. In addition, staff cost allocations to services have been reviewed for 2024/25 and have resulted in costs being re-allocated to better reflect time spent on providing those services.

**APPENDIX B**  
(0% Council Tax increase 2025/26 onwards)

Medium Term Financial Strategy	Projected 2024/25 £000	Estimate 2025/26 £000	Forecast 2026/27 £000	Forecast 2027/28 £000	Forecast 2028/29 £000	Forecast 2029/30 £000
<b><u>Expenditure</u></b>						
<b>Service Expenditure/Income</b>						
Gross Service Expenditure	31,082	30,834	30,373	30,873	31,386	32,026
Gross Service Income	-13,008	-12,268	-12,440	-12,617	-12,798	-12,983
ERS NI Contributions - Government Grant	0	-124	-124	-124	-124	-124
Vacancy Factor (1.5%)	0	-239	-245	-251	-258	-264
Transformation & Service Review Programme savings	-116	-550	-583	-616	-616	-616
<b>Total Net Service Expenditure</b>	<b>17,958</b>	<b>17,653</b>	<b>16,981</b>	<b>17,265</b>	<b>17,590</b>	<b>18,039</b>
<b>Corporate Items</b>						
<b>Corporate Expenditure/Savings</b>						
Internal Drainage Board Levies	2,251	2,468	2,592	2,721	2,857	3,000
Internal Drainage Board Levies Grant	-213	-313	-313	-313	-313	-313
Financing Charges - Interest on External Borrowing	515	1,170	1,910	2,250	2,675	2,675
Financing Charges - MRP Current Capital Programme	451	652	946	1,223	1,735	1,735
	<b>3,004</b>	<b>3,977</b>	<b>5,135</b>	<b>5,881</b>	<b>6,954</b>	<b>7,097</b>
<b>Corporate Income Items</b>						
Contribution to/(+)/from(-) Earmarked Reserves	-693	-1,035	-26	-26	-26	-26
RTB/VAT Sharing Income	-150	-20	-20	-20	-20	-20
Investment and Property Fund Income	-808	-660	-1,030	-630	-950	-950
New Homes Bonus	-442	-593	-593	-593	-593	-593
CSP Guarantee Grant/Recovery Grant	-789	-435	-435	-435	-435	-435
Services Grant	-26	0	0	0	0	0
Extended Producer Responsibility Payment - pEPR	0	-958	-958	-958	-958	-958
Contribution to/from(-) Budget Equalisation Reserve	0	-1,432	0	0	0	0
	<b>-2,908</b>	<b>-5,133</b>	<b>-3,062</b>	<b>-2,662</b>	<b>-2,982</b>	<b>-2,982</b>
<b>Total Corporate Items</b>	<b>96</b>	<b>-1,156</b>	<b>2,073</b>	<b>3,219</b>	<b>3,972</b>	<b>4,115</b>
<b>Gross Service/Corporate Expenditure</b>	<b>33,970</b>	<b>34,022</b>	<b>34,680</b>	<b>35,887</b>	<b>37,466</b>	<b>38,243</b>
<b>Gross Service/Corporate Income</b>	<b>-15,916</b>	<b>-17,525</b>	<b>-15,626</b>	<b>-15,403</b>	<b>-15,904</b>	<b>-16,089</b>
<b>Net Budget Requirement</b>	<b>18,054</b>	<b>16,497</b>	<b>19,054</b>	<b>20,484</b>	<b>21,562</b>	<b>22,154</b>
<b><u>Funding - RSG, Business Rates &amp; Council Tax</u></b>						
<b>Revenue Support Grant</b>	<b>-185</b>	<b>-204</b>	<b>-209</b>	<b>-214</b>	<b>-220</b>	<b>-225</b>
<b>Business Rates</b>						
Business Rates Baseline Funding	-11,178	-11,581	-12,176	-12,377	-12,582	-12,791
Tariff Payment to Government	7,554	7,637	7,805	7,961	8,120	8,282
Renewable Energy Rates Retained	-1,594	-1,578	-1,584	-1,618	-1,645	-1,681
Business Rates Pool - FDC Share of Benefit	-350	-350	-350	-350	-350	-350
Business Rates S31 Grants due in year	-3,098	-3,000	-2,730	-2,748	-2,768	-2,787
Business Rates Levy due in year	572	776	747	728	709	689
Business Rates Collection Fund Deficit/Surplus(-)	-1,292	45	0	0	0	0
Business Rates Levy Account Surplus Allocation	-31	-31	0	0	0	0
<b>Total Business Rates Funding</b>	<b>-9,417</b>	<b>-8,082</b>	<b>-8,288</b>	<b>-8,404</b>	<b>-8,516</b>	<b>-8,638</b>
<b>Council Tax</b>						
Council Tax Collection Fund Surplus(-)/Deficit	-58	-18	-20	-20	-20	-20
Council Tax (0% increase 2025/26 onwards)	-8,044	-8,193	-8,320	-8,450	-8,582	-8,717
<b>Total Council Tax Funding</b>	<b>-8,102</b>	<b>-8,211</b>	<b>-8,340</b>	<b>-8,470</b>	<b>-8,602</b>	<b>-8,737</b>
<b>Total Funding - RSG/Business Rates/Council Tax</b>	<b>-17,704</b>	<b>-16,497</b>	<b>-16,837</b>	<b>-17,088</b>	<b>-17,338</b>	<b>-17,600</b>
<b>Surplus(-)/Shortfall(+)</b>	<b>+350</b>	<b>0</b>	<b>+2,217</b>	<b>+3,396</b>	<b>+4,224</b>	<b>+4,554</b>

## Assumptions built into Budget and Medium Term Financial Strategy (MTFS)

Within the forecasts are a number of assumptions which are necessary to produce the overall budget strategy. However, there is an element of risk associated with this process although the aim is to mitigate these risks as detailed in section 19 of the main report.

The main assumptions are as follows:

- 0% Council Tax increases have been included over the period of the MTFS. With the estimated increases in the Council Tax base in 2025/26 and thereafter, this equates to actual Council Tax income in 2025/26 of £8.193m rising to £8.450m in 2027/28 and £8.717m in 2029/30.
- 1.85% increase in Council Tax base in 2025/26 (Tax-base 32,154) and thereafter (increase of 500 Band D equivalent properties in 2026/27 rising to 530 in 2029/30).
- Inflation increases in Retained Business Rates income from 2026/27 onwards. Future net benefits or reduced retained income from Business Rates will be dependent upon the impact of the system re-set and other changes from April 2026 onwards.
- Inclusion of this Council's share (£350k) of the potential benefit arising from the continuation of the Cambridgeshire Business Rates Pool in 2025/26 onwards. Although Fenland will not formally be part of the Pool for 2025/26, the Pool members have agreed for Fenland to be no worse off as a result of the new Pool arrangements. Potential benefit from the Pool in future years will be dependent on any changes to the Business Rates Retention System from April 2026.
- Recovery Grant included at £435k in 2025/26 and over the medium term. Although the national total of this grant will remain in the Local Government sector in future years, it may be allocated differently as a result of changes to the Local Government funding system from April 2026, which could negatively affect our funding from this source.
- The New Homes Bonus (£593k allocated in 2025/26) has been included at £593k per annum from 2026/27. NHB will be abolished in 2026/27 and the total amount of funding allocated by a revised methodology. An allowance of £593k per annum has been included from 2026/27 onwards but this will be dependent on how the new funding methodology is redistributed and allocated.
- 2% pay award in 2025/26 (£304k cost) and thereafter together with an allowance for pay increments of around 0.5% p.a. (£76k cost).
- Employer's Pension Contributions – following the triennial valuation as at 31.03.2022, the contribution rate for 2023/24 – 2025/26 increased slightly to 17.6% of salary (17.4% in 2022/23) with an additional past deficit lump sum payment of £922k for 2023/24, £884k for 2024/25 and £845k for 2025/26 representing an overall increase of 1% p.a. in total contributions.
- Inclusion of a vacancy factor for 2025/26 onwards, equivalent to a reduction in staff costs of 1.5% (£239k in 2025/26).
- Specific allowance for inflation where required eg: employee costs (as detailed above), business rates, external contracts, energy and water, fuel costs etc. Otherwise, no allowance for inflation has been included.
- Estimated 10% increase in Internal Drainage Board Levies in 2025/26 and 5% increase per annum thereafter. The actual levies are not set by the Drainage Boards until after we have set our budget and Council Tax levels. To help off-set these

increases, the government is allocating £5m nationally (£3m in 2024/25) to the worst affected authorities. In 2024/25 we were allocated £213k of IDB grant and to reflect the increase in the national total, an amount of £313k has been included for 2025/26 onwards. Allocations for 2025/26 will be announced in the coming months (after we have set our budget) so the actual amount of grant received may be different to this.

- Investment interest rates are forecast to remain at current levels until Q2, 2025 before subsequently decreasing back to 3.5% in Q4, 2026 (£300k estimated income from temporary investments in 2025/26).
- Investment income includes the £4m investment in property funds in March 2022 (£130k p.a. income net of costs in 2025/26).
- Forecast income levels from fees and charges in 2025/26 include the agreed fee increases (Cabinet 27 January 2025) together with a review of activity levels.
- For 2025/26 onwards, provision has been included for a reduction in costs/increase in housing benefit subsidy reclaimed of £600k relating to temporary accommodation. This is a result of various initiatives currently progressing, in conjunction with current providers and from the impact of the additional houses purchased with support from the Local Authority Housing Fund and the current capital programme.
- Recharges to Fenland Future Limited to reflect the use of FDC officer time on the company's behalf has been included (£125k in 2022/23 and future years). This amount could vary depending on the amount of time and types of activities being carried out for the company.
- Potential net benefits from Fenland Future Ltd of loan interest and dividends from future developments have been included. These amounts could vary depending on the timing and profitability of developments being carried out by the company.
- No allowance has been made in the medium term forecasts for the potential impact of the government's waste strategy particularly relating to Food Waste. Depending on the level of government support provided, this could have a significant impact on the MTFS from 2026/27 onwards.
- £550k of in-year savings have been included in 2025/26 for potential savings from the Transformation Agenda 2 and Service Review programme, rising to £616k savings from 2027/28 onwards.
- Estimated financing costs (Interest and MRP) of the current capital programme as detailed in Appendix D(i) are included in the MTFS. These include the costs associated with the £30m contingency for Prospective New Projects included in the capital programme over the period 2025/26 – 2027/28.

## APPENDIX D

### CAPITAL PROGRAMME AND FUNDING 2024 - 2028

	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000
<b>CURRENT FORECAST EXPENDITURE</b>	<b>13,745</b>	<b>17,121</b>	<b>18,794</b>	<b>16,794</b>
<b>FORECAST RESOURCES AVAILABLE</b>				
Capital Grants	6,910	3,678	1,194	1,194
Usable Capital Receipts - In Year	250	250	250	250
Reserves used in year to fund Capital	5	200	0	0
Section 106s and Other Contributions	120	0	0	0
Borrowing (Internal and Prudential) - Capital Programme	3,635	3,118	350	350
Borrowing (Prudential) - Prospective New Projects	0	5,000	10,000	15,000
Borrowing (Prudential) - CIS/Housing	2,425	1,875	0	0
Borrowing (Prudential) - CIS/FFL	400	3,000	7,000	0
<b>TOTAL FORECAST RESOURCES</b>	<b>13,745</b>	<b>17,121</b>	<b>18,794</b>	<b>16,794</b>

CAPITAL PROGRAMME SUMMARY 2024/25 - 2027/28											APPENDIX D
			Revised 2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	Total Cost £000	FDC Funding £000	External Funding £000	External Funders and FDC Reserves/S106	
Leisure Centres											
1	Condition Survey Improvements	455	1,655				2,110	2,110	0		
2	Energy Efficiency Works - Solar PV; Manor CHP; Manor Pool AHU	443					443	366	77	£77k CPCA Growing Fenland	
3	Manor Basketball/Tennis/Netball Improvements including site investment appraisal	60					60	0	60	£35k CPCA Growing Fenland; £25k FCC Communities Grant	
4	Leisure Centres - Facility Strategy	89	25				114	114	0		
Regeneration Programmes											
5	Heritage Lottery Fund - Non-FDC Properties	98					98	0	98	£98k HLF Grant.	
6	Heritage Lottery Fund - 24 High Street, Wisbech	1,903					1,903	1,665	238	£220k CPCA Grant; £238k HLF	
7	11 -12 High Street	60	0				60	60	0		
8	Future High Street Fund, March	4,639	500				5,139	0	5,139	£2,000k CPCA, £3,139k DLUHC Future High Streets,	
9	Nene Waterfront Infrastructure Improvements	305					305	65	240	£181k Brownfield Land Release Fund £59 FFL	
10	Whittlesey Market Place Improvements	20					20	0	20	£20k CPCA Growing Fenland Grant	
11	Whittlesey Southern Relief Road - SOBC	174					174	0	174	£174k CPCA Growing Fenland Grant	
Parks and Open Spaces											
12	Wisbech Park - Play Area Refurbishment	45					45	0	45	£20k DLUHC Levelling Up Parks Fund, £25k S106	
13	National Trust Peckover House	40					40	0	40	£40K DLUHC Changing Places Grant	
14	The construction of a sports pavilion on open space in Manea	40					40	0	40	S106 Funding	
15	Manea PC - Purchase Land	15					15	0	15	S106 Funding	
16	West End Park, March	10					10	0	10	S106 Funding	
17	Manea PC - Play Park Improvements	10					10	0	10	S106 Funding	
Cemeteries											
18	Cemetery Chapels Condition Survey Works	28	100				128	128	0		
19	Remedial Works in Closed Cemeteries	29	300				329	329	0		
20	Whittlesey St Andrew Church - Wall Maintenance	0	100				100	100	0		
Highways											
21	Category 2 Street Lights - FDC Lights	41	100				141	141	0		
22	Growing Fenland - Civil Parking Enforcement	0	322				322	0	322	£322k CPCA Grant	
							0	0	0		
Environment											
23	Replacement and Additional Litter Bins	0	27				27	27	0		
Sub Total			8,504	3,129	0	0	11,633	5,105	6,528		

[illegible]



## Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2025/26

### 1 Introduction

#### CIPFA Treasury Management Code and Prudential Code (Revised 2021)

- 1.1 CIPFA published the revised codes on 20 December 2021 and has stated that revisions need to be included in the reporting framework from the 2023/24 financial year. This Council has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.
- 1.2 The revised codes will have the following implications:
  - a requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;
  - clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment;
  - address Environmental, Social and Governance (ESG) issues within the Capital Strategy;
  - require implementation of a policy to review commercial property, with a view to divest where appropriate;
  - create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices);
  - ensure that any long term treasury investment is supported by a business model;
  - a requirement to effectively manage liquidity and longer term cash flow requirements;
  - amendment to Treasury Management Practice 1 to address ESG policy within the treasury management risk framework;
  - amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council;
  - a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

- 1.3 In addition, all investments and investment income must be attributed to one of the following three purposes: -

#### **Treasury management**

Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity

which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments. The Council's investment in property funds falls into this category.

### **Service delivery**

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

### **Commercial return**

Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return. This does not preclude the Council from taking forward investments as part of its Commercial and Investment Strategy so long as financial return is not the primary reason for taking forward the scheme. This particularly applies in the case of projects relating to housing where service delivery objectives can be achieved as well as a financial return.

- 1.4 As this Treasury Management Strategy Statement and Annual Investment Strategy deals solely with treasury management investments, the categories of service delivery and commercial investments will be dealt with as part of the Capital Strategy report
- 1.5 These changes are now fully adopted within the 2025/26 TMSS report.

## **2 Background**

- 2.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's assessment of its risk appetite, providing adequate liquidity initially before considering investment return.
- 2.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans or using longer term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 2.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

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

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

### **3 The Capital Strategy Reporting Requirements**

- 3.1 The CIPFA revised 2021 Prudential and Treasury Management Codes require all local authorities to prepare an additional document, a Capital Strategy which will provide the following:
- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
  - an overview of how the associated risk is managed; and
  - the implications for future financial sustainability.
- 3.2 The aim of the Capital Strategy is to ensure that all elected members on full Council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

### **4 Treasury Strategy Reporting Requirements**

- 4.1 The Council is required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by the Audit and Risk Management Committee and Cabinet before being recommended to the Council. Due to the timings of the Audit and Risk Management Committee in February 2025, this report has been recommended for approval directly to Cabinet.
- 4.2 **Prudential and Treasury Indicators and Treasury Strategy** (this report), the first and most important report is forward looking and covers:
- the capital plans (including prudential indicators);
  - a Minimum Revenue Provision policy (how residual capital expenditure is charged to revenue over time);
  - the Treasury Management Strategy (how investments and borrowings are to be organised) including treasury indicators; and
  - an Investment Strategy (the parameters on how investments are to be managed).

**A Mid-Year Treasury Management Report** - This will update Members with the progress of the capital position, amending prudential indicators as necessary and whether any policies require revision.

**An Annual Treasury Report** - This is a backward looking review document and provides details of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

- 4.3 The Strategy covers two main areas:

#### **Capital issues**

- the capital expenditure plans and associated prudential indicators;
- the MRP policy.

#### **Treasury management issues**

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;

- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

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

**4.4 IFRS16 - Leases** The CIPFA Local Authority Accounting Code Board deferred implementation of IFRS16 until 1 April 2024, the 2024/25 financial year. IFRS 16 defines a lease as a contract or part of a contract, which conveys the right to use an asset (the underlying asset) for a period of time in exchange for a consideration. Under the new standard the distinction between finance leases and operating leases under the previous leasing standard is removed and all leases are treated in the way the finance leases currently are. A 'right of use' asset is shown on the balance sheet with a corresponding liability of the discounted value of the future lease payments. There are exceptions for short, dated leases (under a year, or with less than a year remaining at transition) and low value leases (low value to be determined by the council using its approach to determining de minimus items). This means that all leases that do not meet the exceptions will be treated as capital expenditure from 2024/25 and form part of the Capital Financing Requirement. Although legally the Council doesn't own the asset during the lease duration, International Accounting Standards require that the Council capitalise the asset and liability on its balance sheet, much like a loan. Whilst this increases the CFR, the nature of the finance lease agreement doesn't require the Council to separately borrow to fund the asset.

**4.5 Training** - The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

The training needs of treasury management officers and members are periodically reviewed.

## **5 Capital Prudential Indicators 2025/26 to 2027/28**

**5.1** The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans are prudent, affordable and sustainable.

**5.2** The capital expenditure prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously and those forming part of this budget cycle. Commercial activities/non-financial investments relate to areas such as capital expenditure on investment properties, loans to third parties etc.

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

<b>Capital Programme</b>	<b>2024/25 Revised Estimate £000</b>	<b>2025/26 Estimate £000</b>	<b>2026/27 Estimate £000</b>	<b>2027/28 Estimate £000</b>
<b>Forecast Capital Expenditure</b>	<b>10,515</b>	<b>12,246</b>	<b>11,794</b>	<b>16,794</b>
<b>Commercial and Investment Strategy Schemes</b>	<b>3,230</b>	<b>4,875</b>	<b>7,000</b>	<b>0</b>
<b>TOTAL</b>	<b>13,745</b>	<b>17,121</b>	<b>18,794</b>	<b>16,794</b>
Financed by:				
Capital Grants	6,910	3,678	1,194	1,194
Capital Receipts	250	250	250	250
Reserves used in year to fund Capital	5	200	0	0
Section 106 and Other Contributions	120	0	0	0
<b>Total Financing</b>	<b>7,285</b>	<b>4,128</b>	<b>1,444</b>	<b>1,444</b>
<b>Net Financing Need for The Year (Borrowing)</b>	<b>6,460</b>	<b>12,993</b>	<b>17,350</b>	<b>15,350</b>

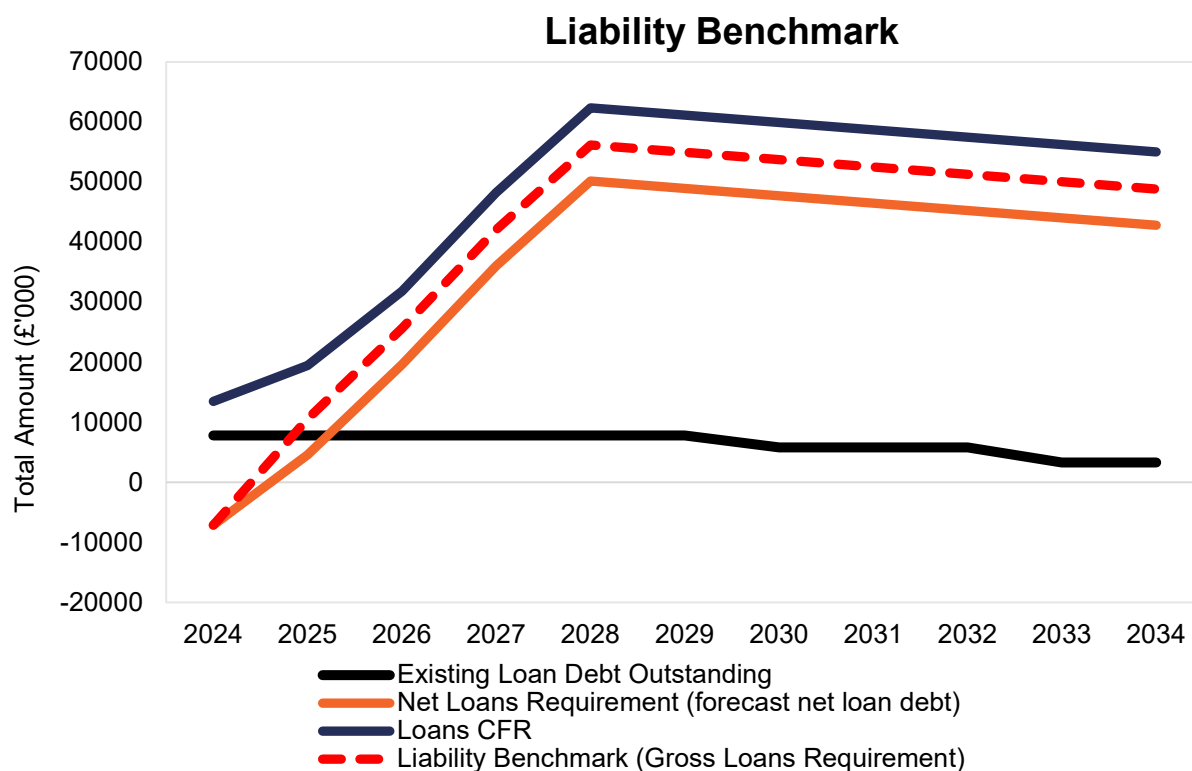
- 5.4 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness, its underlying borrowing need. Any capital expenditure shown above, which has not immediately been paid for will increase the CFR.
- 5.5 The CFR does not increase indefinitely, as each year the Council is required to pay off an element of the capital spend (including finance leases) through a statutory revenue charge (MRP). In the case of schemes taken forward as part of the Council's capital programme this has the effect of reducing the Council's (CFR) broadly over the asset's life.
- 5.6 In the case of capital expenditure incurred in accordance with the Council's Commercial and Investment Strategy the MRP charge cannot be determined until such time that the Investment Board approves a scheme. Where the projected Capital Financing Requirement is disclosed in this report the figures used reflect the impact of borrowing to fund the full allocation of the remaining budget over the next 4 years but no assumptions have been made regarding how MRP might reduce the CFR attributable to these schemes. This approach is considered reasonable until such time that any new schemes are formally approved by the Investment Board. In accordance with the current Minimum Revenue Policy, a provision for MRP in relation to the investment and residential property acquired in previous financial years is incorporated into the information in this report and the Council's Medium Term Financial Strategy.
- 5.7 In this context, it is also important to note that, as well as the statutory MRP charge, the Council is permitted to make additional voluntary payments to reduce the CFR. These voluntary payments will typically reduce the statutory charge that would have been due in future years. Voluntary payments can be funded from capital resources. This is particularly significant in the context of the Council's Commercial and Investment Strategy. As a result of investments undertaken, the Council may receive significant capital receipts and/or repayments of amounts due under the terms of loan agreements with third parties, including the Local Authority Trading Company. These amounts may be received before the maturity date of the external borrowing used to undertake the initial

investment. Any assumptions regarding the anticipated use of capital resources to reduce the CFR will be reported as part of future treasury management reporting.

- 5.8 The CFR includes any other long term liabilities (finance leases).

<b>Capital Financing Requirement (CFR)</b>	<b>2024/25 Revised Estimate £000</b>	<b>2025/26 Estimate £000</b>	<b>2026/27 Estimate £000</b>	<b>2027/28 Estimate £000</b>
<b>CFR – as at 31 March</b>				
<b>Opening CFR</b>	<b>13,471</b>	<b>19,480</b>	<b>31,821</b>	<b>48,225</b>
<b>Movement in CFR</b>	<b>6,009</b>	<b>12,341</b>	<b>16,404</b>	<b>14,127</b>
<b>Closing CFR</b>	<b>19,480</b>	<b>31,821</b>	<b>48,225</b>	<b>62,352</b>
<b>Movement in CFR represented by</b>				
Net financing need for the year	6,460	12,993	17,350	15,350
Less MRP and other Financing Movements	(451)	(652)	(946)	(1,223)
<b>Movement in CFR</b>	<b>6,009</b>	<b>12,341</b>	<b>16,404</b>	<b>14,127</b>

- 5.9 The third prudential indicator is the Liability Benchmark (LB). The liability benchmark is a measure of how well the existing loans portfolio matches the authority's planned borrowing needs.
- 5.10 The purpose of this prudential indicator is to compare the authority's existing loans outstanding (the black line) against its future need for loan debt, or liability benchmark (the red line).
- 5.11 The liability benchmark below indicates a future borrowing requirement over the life of this strategy.
- 5.12 The timing of actual borrowing arranged may differ from the liability benchmark depending on actual cash balances, the rate at which the capital programme is delivered and actual use of reserves and working capital.



## 6 Minimum Revenue Provision (MRP) Policy Statement

- 6.1 The Council is required to pay off an element of the accumulated general fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision).
- 6.2 MHCLG regulations have been issued which require the Council to approve an MRP statement in advance each year. A variety of options are provided to Councils within the guidance. Councils are permitted under the guidance to establish their own approach to setting MRP, and different approaches can be applied for different types of assets. The Council's principal responsibility is to ensure that it can demonstrate that whatever approach they adopt across their asset base it is prudent. Given the Council's decision to adopt a Commercial and Investment Strategy it was necessary to revise the MRP policy in 2020/21 to take account of investments which might feasibly be taken forward in accordance with the Commercial and Investment Strategy. The policy applicable for the current financial year onwards is as follows:

- (1) For unsupported borrowing (including finance leases) undertaken to fund the Council's capital programme, excluding any capital expenditure approved by the Council's Investment Board for Investment Properties, MRP will be based on the estimated useful life of the assets to be purchased or acquired. Specifically, from 2024/25 onwards this will be based on the 'Annuity Method' rather than the previously used 'Equal Instalment Method'. Repayments made under the terms of finance leases shall be applied as MRP.
- (2) For Investment Properties purchased or constructed (following a decision taken by the Council's Investment Board) the MRP charge shall be based on the difference between the value of the asset and the value of any outstanding unsupported borrowing secured to fund the original purchase of the asset. A calculation shall be undertaken at the end of each financial year to identify the difference between the value of the asset and the amount borrowed. Where a difference exists MRP shall be charged over a period commensurate with the

period the Council expects to hold the asset as set out in reports presented to the Investment Board.

- (3) For any loans made to third parties, including those made to the Local Authority Trading Company, no MRP shall be charged where the loan requirement requires the third party to make repayments on at least an annual basis over the life of the loan. In the unlikely event of the Council providing a maturity loan to a third party, MRP shall be charged in equal amounts over the life of the loan.
- (4) Should the Council acquire an equity stake in any third party, the MRP charge will be for the lower of twenty years or the scheduled completion date of any projects funded by the third party using the proceeds from selling an equity stake to the Council.
- (5) For investment in Property Funds which the Council, following consultation with its Treasury Advisors, assesses as meeting the definition of capital expenditure MRP shall be charged over the period the Council expects to hold the investment. The period over which MRP can be charged for this type of investment shall not be permitted to exceed 20 years. The property funds referred to elsewhere in this document do not meet the definition of capital expenditure.

6.3 MHCLG have now published the revised Capital Finance: guidance on minimum revenue provision (5<sup>th</sup> Edition) which applies to the accounting periods starting on or after 1<sup>st</sup> April 2025. The two additions to the guidance are as follows:

- Capital receipts may not be used in place of the revenue charge. The intent is to prevent authorities avoiding, in whole or part, a prudent charge to revenue. It is not the intention to prevent authorities using capital receipts to reduce their overall debt position, which may have the effect of reducing the MRP made with respect to the remaining debt balance.
- Prudent MRP must be determined with respect to the authority's total capital financing requirement. The intent is to stop the intentional exclusion of debt from the MRP determination because it relates to an investment asset or capital loan. Authorities should still be able to charge MRP over the period in which their capital expenditure provides benefits, and begin charging MRP in the year following capital expenditure, in accordance with proper accounting practices set out in the government's statutory guidance on Minimum Revenue Provision.

## 7 The Use of Council's Resources and the Investment Position

The application of resources (capital receipts, reserves etc) and temporary use of 'surplus cash balances' to both finance capital expenditure and other budget decisions to support the revenue budget reduces cash investment balances held (see below). Unless resources are supplemented with new sources (asset sales, capital grants, etc) then new borrowing will be required to fulfil the objectives as set in the Council's Business Plan. Detailed below are estimates of the year end balances for each resource.

Year End Resources	2024/25 Revised Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Fund balances / reserves	14,130	11,400	11,200	11,000
Expected investments	9,900	7,800	8,600	9,600



## 8 Affordability Prudential Indicators

- 8.1 The previous sections cover the overall capital and control of borrowing prudential indicators; also within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators.
- 8.2 This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs) against the net revenue stream.

<b>Financing Costs to Net Revenue Stream</b>	<b>2024/25 Revised Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>	<b>2027/8 Estimate</b>
<b>General Fund</b>	<b>5.11%</b>	<b>10.39%</b>	<b>15.99%</b>	<b>19.17%</b>
<b>Net Revenue Stream</b>	<b>£18.915m</b>	<b>£17.525m</b>	<b>£17.865m</b>	<b>£18.116m</b>

- 8.3 Net Income from Commercial and Service Investments as % of net revenue stream. This indicator identifies the authority's reliance on income from Commercial and Service Investments such as rents from the Council's long-standing portfolio of non-operational assets managed to secure rental income and income from fees and charges earned from providing facilities for conferences and meetings (economic estates) and one commercial investment property.

<b>Ratio of Income from Commercial and Service Investments to net revenue stream</b>	<b>2024/25 Revised Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>	<b>2027/28 Estimate</b>
<b>General Fund</b>	<b>6.33%</b>	<b>6.92%</b>	<b>6.78%</b>	<b>6.69%</b>
<b>Net Revenue Stream</b>	<b>£18.915m</b>	<b>£17.525m</b>	<b>£17.865m</b>	<b>£18.116m</b>

## 9 Treasury Management Strategy

- 9.2 The capital expenditure plans set out in section 5 provide a summary of future level of spend. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet service activity and the Council's capital strategy. This will involve both the organisation of cash flow and where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.
- 9.3 The Council's treasury portfolio as at 31 March 2024 for borrowing and investments was £7.8m and £14.251m respectively. As of 31 January 2025, investments are £11.099m (see Appendix A attached) and borrowing £7.8m.
- 9.4 The Council's forward projections for borrowings are summarised below. The next table shows the actual external debt, against the underlying capital borrowing need (the Capital Financing Requirement - CFR).

	<b>2024/25 Revised Estimate £000</b>	<b>2025/26 Estimate £000</b>	<b>2026/27 Estimate £000</b>	<b>2027/28 Estimate £000</b>
<b>Debt at 1 April</b>	<b>7,800</b>	<b>14,260</b>	<b>27,255</b>	<b>44,605</b>
<b>Expected change in debt to fund capital programme (excluding Commercial and Investment Strategy schemes)</b>	<b>3,635</b>	<b>8,120</b>	<b>10,350</b>	<b>15,350</b>
<b>Borrowing to fund Commercial and Investment Strategy Schemes</b>	<b>2,825</b>	<b>4,875</b>	<b>7,000</b>	<b>0</b>
<b>Actual gross debt at 31 March</b>	<b>14,260</b>	<b>27,255</b>	<b>44,605</b>	<b>59,955</b>
<b>Capital financing requirement (CFR) at 31 March</b>	<b>19,480</b>	<b>31,821</b>	<b>48,225</b>	<b>62,352</b>
<b>Borrowing less CFR – 31 March</b>	<b>(5,220)</b>	<b>(4,566)</b>	<b>(3,620)</b>	<b>(2,397)</b>

- 9.5 At 1 April 2024 the Council's Debt position comprised £7.8m of external borrowing. These loans were taken out at prevailing market rates between 1994 and 2004. The term of these loans is between 25 and 50 years. Following the transfer of the Council's Housing Stock in 2007, which generated a significant capital receipt for the Council, the Council has retained investment balances which exceed the amounts borrowed. However, changes in prevailing interest rates since the loans were taken out mean that a high premium would be payable by the Council if it were to seek to repay the PWLB loans (£4.5m) early. The premiums to be applied are considered to be prohibitively high for early redemption to be regarded as a reasonable treasury management decision. Repaying the Barclays market rate loan of £3.3m may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment. The Council continues to keep this situation under review with the support of its appointed treasury management advisors. However, for the purposes of this strategy, it has been assumed that external borrowing of £7.8m brought forward, as at 1 April 2024, will continue to be carried forward.
- 9.6 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2025/26 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that long term borrowing is not undertaken for revenue or speculative purposes (in the sense of anticipating future upward movements in interest rates), other than where the borrowing fits in with the Council's approved Investment Strategy.
- 9.7 The Council notes that the Prudential Code published by CIPFA prohibits local authorities from borrowing in advance of need. This prohibition has been recently re-affirmed by MHCLG in its Statutory Guidance on Local Authority Investments which states that this prohibition extends to undertaking borrowing to fund the purchase of financial and non-financial investments, including investment properties. This is on the basis that in such circumstances local authorities would be borrowing 'purely in order to profit from investment of the extra sums borrowed'. Section 4 of the Council's Capital Strategy explains how the Council has had regard for this guidance and notes the Council's approach to determining whether the motivation behind any proposed investment is purely to profit from investment of any sums borrowed.

- 9.8 Interest repayments associated with the external debt (including finance leases) above are shown below.

<b>YEARS</b>	<b>INTEREST DUE £000</b>
2024/25	515,000
2025/26	1,170,000
2026/27	1,910,000
2027/28	2,250,000

- 9.9 The operational boundary is the limit beyond which external debt is not normally expected to exceed. In most cases this would be a similar figure to the CFR but may be lower or higher depending on the levels of actual debt.

<b>Operational Boundary</b>	<b>2024/25 Revised Estimate £000</b>	<b>2025/26 Estimate £000</b>	<b>2026/27 Estimate £000</b>	<b>2027/28 Estimate £000</b>
<b>Debt</b>	<b>11,435</b>	<b>24,555</b>	<b>34,905</b>	<b>50,255</b>
<b>Other long term liabilities</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>
<b>Commercial Activities / Non-Financial Investments</b>	<b>2,825</b>	<b>7,700</b>	<b>14,700</b>	<b>14,700</b>
<b>Total</b>	<b>15,260</b>	<b>33,255</b>	<b>50,605</b>	<b>65,955</b>

- 9.10 The authorised limit is a key prudential indicator, which represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited and this limit needs to be set or revised by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term but is not sustainable in the longer term.
- 9.11 This is a statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all council's plans, or those of a specific council, although this power has not yet been exercised. The Council is asked to approve the following authorised limit.

<b>Authorised Limit</b>	<b>2024/25 Revised Estimate £000</b>	<b>2025/26 Estimate £000</b>	<b>2026/27 Estimate £000</b>	<b>2027/28 Estimate £000</b>
<b>Debt</b>	<b>16,435</b>	<b>29,555</b>	<b>39,905</b>	<b>55,255</b>
<b>Other long term liabilities</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>
<b>Commercial Activities / Non-Financial Investments</b>	<b>2,825</b>	<b>7,700</b>	<b>14,700</b>	<b>14,700</b>
<b>Total</b>	<b>20,260</b>	<b>38,255</b>	<b>55,605</b>	<b>70,955</b>

## 10 Prospects for Interest Rates

- 10.1 The Council has appointed MUFG Corporate Markets Treasury Limited (formerly Link Group) as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives MUFG Corporate Markets central view.

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
<b>BANK RATE</b>	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

- 10.2 At its meeting ending on 5 February 2025, the MPC voted by a majority of 7–2 to reduce Bank Rate to 4.50%.
- 10.3 MUFG's central view is that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent. They forecast the next reduction in Bank Rate to be made in May and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (May, August and November).
- 10.4 Any movement on Bank Rate will, nonetheless, be very much dependent on inflation data in the second half of 2025.
- 10.5 Gilt Yields and PWLB Rates – Long-term gilt yields have risen to reflect both UK and US economic, monetary and fiscal policy expectations, and increases in bond supply. Volatility is likely to remain elevated as the market digests incoming data.
- 10.6 The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of the forecasts, but the risks to the forecasts are to the upside.
- 10.7 MUFG's target borrowing rates are set two years forward (as they expect rates to fall back).
- 10.8 Borrowing advice: MUFG's long-term (beyond 10 years) forecast for Bank Rate has been increased to 3.25% (from 3%). As all PWLB certainty rates are currently significantly above this level, the borrowing strategy will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should also be considered. Temporary borrowing rates will, generally, fall in line with Bank Rate cuts.
- 10.9 The current forecast shown in paragraph 10.1, includes a forecast for Bank Rate to fall. The Medium Term Financial Strategy (MTFS) reflects expected investment rate income in future years. This is expected to reduce from that observed in 2024/25 as existing cash balances are used to fund capital expenditure and the base rate begins to reduce.
- 10.10 As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

## 11 Borrowing Strategy

- 11.1 As noted above in paragraph 9.7 the Council recognises that statutory guidance indicates that whilst the Council has the necessary powers to borrow in advance of need the government and CIPFA state it should refrain from doing so where such borrowing takes place purely in order to profit from investment of the extra sums borrowed. None of the Council's current borrowing was undertaken in advance of need.
- 11.2 The Council has previously maintained an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow have

been used as an alternative funding measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels, albeit only once prevailing inflation concerns are addressed by restrictive near-term monetary policy. That is, Bank Rate remains relatively elevated in 2025 even if some rate cuts arise.

- 11.3 The current MTFS assumes that external borrowing will be required over the four-year period to 31 March 2028. Assumptions about the level of external interest payable are reflected as part of the prudential indicators included in this document. Responsibility for deciding when to borrow externally, together with details of the amount to borrow and the term and type of any loan, rests with the Chief Finance Officer. The Chief Finance Officer's decision will be informed by advice from the Council's treasury management advisors and information regarding the progress of schemes set out in the capital programme. Any borrowing decisions will be reported to Cabinet through either the mid-year or annual treasury management reports.
- 11.4 When the Council borrows externally it will ordinarily do so using funds borrowed from the Public Works Loan Board, though this does not preclude the Council considering other sources of lending. 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 borrow short-term loans instead. Fixed LA to LA monies should also be considered.
- 11.5 Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large, fixed rate sums falling due for refinancing and are required for upper and lower limits.

<b>Maturity structure of fixed interest rate borrowing 2025/26</b>	<b>Lower %</b>	<b>Upper %</b>
<b>Under 12 months</b>	<b>0</b>	<b>100</b>
<b>12 months to 2 years</b>	<b>0</b>	<b>100</b>
<b>2 years to 5 years</b>	<b>0</b>	<b>100</b>
<b>5 years to 10 years</b>	<b>0</b>	<b>100</b>
<b>10 years and above</b>	<b>0</b>	<b>100</b>

<b>Maturity structure of variable interest rate borrowing 2025/26</b>	<b>Lower %</b>	<b>Upper %</b>
<b>Under 12 months</b>	<b>0</b>	<b>100</b>
<b>12 months to 2 years</b>	<b>0</b>	<b>100</b>
<b>2 years to 5 years</b>	<b>0</b>	<b>100</b>
<b>5 years to 10 years</b>	<b>0</b>	<b>100</b>
<b>10 years and above</b>	<b>0</b>	<b>100</b>

## **12 Debt Rescheduling / Repayment**

- 12.1 Rescheduling of current borrowing in our debt portfolio may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate.
- 12.2 If rescheduling was done, it will be reported to the Cabinet at the earliest meeting following its action.

### 13 Annual Investment Strategy - management of risk

- 13.1 The Ministry of Housing, Communities and Local Government (MHCLG) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).
- 13.2 The Council's investment policy has regard to the following: -
- MHCLG's Guidance on Local Government Investments ("the Guidance");
  - CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code"); and
  - CIPFA Treasury Management Guidance Notes 2021.
- 13.3 The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite
- 13.4 The above guidance from the MHCLG and CIPFA, place a high priority on the management of risk. The Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means.
- 13.5 Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.
- 13.6 Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.
- 13.7 Investment instruments identified for use in the financial year are listed below under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.
- 13.8 **Specified Investments** - These investments are sterling investments (meeting the minimum 'high' quality criteria where applicable) of not more than one year maturity, or those which could be for a longer period but where the Council has the right to repay within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. Investment instruments identified for use in the financial year are as follows:
- term deposits with local authorities;
  - term deposits with high credit criteria deposit takers (banks and building societies);
  - callable deposits with local authorities;
  - callable deposits with high credit criteria deposit takers (banks and building societies);
  - money market funds (CNAV) / (LVNAV) / (VNAV);
  - Debt Management Agency Deposit Facility (DMADF); and
  - UK Government gilts, custodial arrangement required prior to purchase.

**13.9 Non-Specified Investments** - These are any other type of investment (i.e. not defined as specified above). Investment instruments identified in both “specified” and “non-specified” categories are differentiated by maturity date and classed as non-specified when the investment period and right to be repaid exceeds one year. Non-specified investments are more complex instruments which require greater consideration by members and officers before being authorised for use. Investment instruments identified for use in the financial year are as follows:

- term deposits with high credit criteria deposit takers (banks and building societies);
- term deposits with local authorities;
- callable deposits with local authorities;
- callable deposits with high credit criteria deposit takers (banks and building societies);
- Debt Management Agency Deposit Facility (DMADF);
- UK Government gilts, custodial arrangement required prior to purchase; and
- Property funds.

13.10 As a result of the change in accounting standards for 2023/24 under IFRS 9, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23. The override was a temporary measure due to end 31 March 2023, later extended by 2 years following consultation with the sector. The override is currently due to end March 2025.

13.11 At present, fluctuations in the value of the external property funds do not impact on the council's revenue account, because they are held in an unusable reserve via the statutory override arrangements set out in IFRS9.

13.12 The government recognises that there are differing views within the sector, regulators and other stakeholders as to whether the override should continue or be allowed to elapse. Many councils are in favour of the override being made permanent, while others have highlighted the importance of complying with IFRS 9 to improve transparency and encourage robust risk management of investments. It is the government's view that it is important that councils comply with good accounting practice and manage the risks of their investments effectively, and therefore the government is minded to not extend the override beyond March 2025. Councils would then need to comply with the requirements of IFRS 9 from financial year 2025-26. MHCLG issued a consultation as part of the local government finance settlement 2025/26 which ended on 15 January 2025. Any financial impact of discontinuing the statutory override would need to be budgeted for within the 2025/26 financial year when known.

13.13 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. Short term cash flow requirements (up to 12 months) include payments such as, precepts, business rate retention, housing benefits, salaries, suppliers, interest payments on debt etc.

13.14 The current forecast shown in paragraph 10.1, includes a forecast for Bank Rate to fall to a low of 3.5%. As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

13.15 The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Average earnings in each year	Now
2024/25 (residual)	4.60%
2025/26	4.10%
2026/27	3.70%

13.16 Estimated investment income is £678,000 2024/25 and £530,000 in 2025/26. These estimates assume that none of the existing cash balances held by the Authority will be utilised to fund schemes approved by the Investment Board.

13.17 £4m of the Council's investments are held in externally managed pooled property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability.

13.18 As the Council's externally managed funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's medium to long-term investment objectives are regularly reviewed. Although the returns from these investments can be higher than short term investments there is an increased risk that capital values will rise and fall. Estimated income from property funds in 2024/25 and 2025/26 is £130,000 in both years.

13.19 **Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year end.

	2025/26 £000	2026/27 £000	2027/28 £000
<b>Maximum principal sums invested &gt; 365 days</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>

13.20 For its cash flow generated balances, the Council will seek to utilise its call accounts and short dated deposits (overnight to 180 days) in order to benefit from the compounding interest.

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

## 14 Creditworthiness Policy

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

- "watches" and "outlooks" from credit rating agencies;
- Credit Default Swaps spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

14.2 This modelling approach combines credit ratings, Watches and Outlooks in a weighted scoring system, which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness



of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- yellow 5 years;
- dark pink 5 years for ultra-short dated bond funds with a credit score of 1.25;
- light pink 5 years for ultra-short dated bonds funds with a credit score of 1.5;
- purple 2 years;
- orange 1 year;
- red 6 months;
- green 100 days
- no colour not to be used.

- 14.3 The MUFG creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system does not give undue preponderance to just one agency's ratings.
- 14.4 Typically, the minimum credit ratings criteria the Council will use will be short term rating (Fitch or equivalents) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use
- 14.5 The Council's own bank currently meets the creditworthiness policy. However, should they fall below MUFG Corporate Markets Group creditworthiness policy the Council will retain the bank on its counterparty list for transactional purposes, though would restrict cash balances to a minimum.
- 14.6 All credit ratings are monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the MUFG Corporate Markets Group creditworthiness service.
- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
  - In addition to the use of credit ratings the Council will be advised of information in movements in credit default swaps against the iTraxx European Senior Financials benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.
- 14.7 Sole reliance will not be placed on the use of MUFG Corporate Markets Group Creditworthiness policy. In addition, this Council will also use market data and market information, information on any external support for banks to justify its decision making process.
- 14.8 To further mitigate risk the Council has decided that where counterparties form part of a larger group, group limits should be used in addition to single institutional limits. Group limits will be as set through the Council's Treasury Management Practices – schedules.
- 14.9 In relation to financial institutions, the Council currently only invests in UK banks and building societies, which provides sufficient high credit quality counterparties to meet investment objectives. It should be noted that in some cases these banks are subsidiaries of foreign banks, but these are of the highest credit quality.

## **15 External Service Providers**

- 15.1 The Council uses MUFG Corporate Markets Treasury Limited (formerly Link Group) as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the authority at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to available information, including, but not solely, our treasury advisors.
- 15.2 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.
- 15.3 The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The Council will engage specialist advisers for commercial-type investments.

**FENLAND DISTRICT COUNCIL**  
**CAPITAL STRATEGY 2025/26-2027/28**

**1. OVERVIEW AND CONTEXT**

- 1.1 The Council has established statutory and regulatory responsibilities for the management of its financial affairs. These responsibilities encompass revenue and capital expenditure. The specific responsibilities of full Council, the Cabinet, the Investment Board, Corporate Management Team (CMT) and the Council's appointed Section 151 Officer are defined within the Council's constitution.
- 1.2 The Council regularly updates its Medium Term Financial Strategy (MTFS). The MTFS provides a framework for setting the Council's annual revenue budget and updating the Council's three-year capital programme. The MTFS sets out the primary assumptions underpinning the assessment of the resources available to the Council and anticipated service budgets over the coming five financial years.
- 1.3 Whilst local authorities are required to set a balanced revenue budget, legislation permits local authorities to obtain credit and therefore fund their capital programmes from borrowing. Individual authorities are required to have regard for the Prudential Code published by the Chartered Institute of Public Finance and Accountancy. The Prudential Code requires authorities to ensure:
- all capital expenditure and investment plans are affordable;
  - all external borrowing and long-term liabilities are within prudent and sustainable levels;
  - treasury management and other investment decisions are taken in accordance with professional good practice; and
  - authorities can demonstrate themselves to be accountable by providing a clear and transparent framework.
- 1.4 Historically, this Council has discharged its responsibilities under the Prudential Code by ensuring that the Treasury Management Strategy, which is approved annually by full Council, is prepared with reference to the latest capital programme. The Capital Programme is itself developed with explicit consideration of the extent to which proposed capital investment is affordable, prudent and sustainable given the resources available to the Council as set out in the MTFS.
- 1.5 Following an update to the Prudential Code in December 2021, local authorities are now required to have a Capital Strategy. The introduction of this requirement acknowledges that individual authorities will each have their

own approach to assessing priorities for capital investment, the amount the Authority can afford to borrow and the Authority's appetite to risk.

- 1.6 This strategy sets out in a single document the long term context in which capital expenditure and investment decisions are made and establishes that the Council has arrangements in place to ensure it gives due consideration to risk, reward, and impact on the achievement of priority outcomes. The Strategy is updated annually and subject to approval by Full Council alongside the annual budget.

## **2. CAPITAL EXPENDITURE**

- 2.1 Capital expenditure incorporates a range of different types of financial transaction which the Council might enter into. What these transactions have in common is that they relate to investments decisions which impact on the Council and its stakeholders over a period which extends beyond the financial year in which the transaction is entered into. The Council's appointed S151 Officer ultimately has responsibility for determining whether expenditure is capital in nature in accordance with relevant regulation and statute.

### **Role and Purpose of the Asset Management Plan**

- 2.2 The Council has developed an Asset Management Plan in accordance with acknowledged best practice. This document provides a strategic framework for managing the Council's current portfolio of land and buildings ensuring that officers and elected members can have confidence, in the long-term, that the Council has the land and property needed to fulfil the pledges set out in the Council's Business Plan.
- 2.3 The Asset Management Plan incorporates oversight of operational and non-operational property owned by the Council. Operational assets are those assets held by the Council to enable the Council, or its partners, to deliver those services which are either statutory in nature or provided on a discretionary basis to the extent that providing those services is consistent with the strategic objectives of the Council. Non-operational assets are those assets which are not directly used for the purposes of service delivery but are held to either provide the Council with a return on investment, either through rental income, appreciation in the value of the asset or the potential contribution that holding the asset makes to the Council's wider corporate objectives, e.g. taking forward opportunities to regenerate and develop the local economy.
- 2.4 Responsibility for the Asset Management Plan rests with the Council's Assets and Projects team which reports to the Council's Corporate Director and Chief Finance Officer. The Assets and Projects team regularly appraise

the condition of the Council's property portfolio to determine the revenue and capital resources required to ensure the portfolio continues to meet the needs of Service Managers. When the needs of services managers change the Assets and Projects team will assist in determining the impact on the property portfolio, including the resources required to meet those needs. The Assets and Projects team recognise that the Council's property needs are unlikely to remain static and the past cost of maintaining a Council asset is not necessarily a reliable indicator of future costs. Forward projections regarding the resources to be allocated to asset management recognise the interaction between revenue and capital expenditure in determining the Council's cost base.

- 2.5 The capital resources required to meet investment needs identified as part of the Asset Management Plan are routinely assessed and anticipated capital expenditure is profiled over the financial years when it is expected to be incurred. On at least an annual basis capital schemes identified as part of the Asset Management Plan are presented to a meeting of the Council's Corporate Asset Team to determine when and if they should be incorporated into the Council's Capital Programme.

#### **Investment in Vehicles, Plant, Equipment and IT**

- 2.6 The Council has nominated service managers who are responsible for the vehicles, plant and information technology assets in use within the Council. These assets all have an expected useful economic life informed by an assessment by the nominated manager. The need to allocate capital resources to fund the replacement of these assets at the end of their useful life is assessed annually by the Council's Corporate Asset Team. There is also an annual appraisal of business cases relating to proposals to invest in additional equipment not reflected in the programme of rolling replacements.

#### **Role and Function of the Corporate Asset Team**

- 2.7 The Corporate Asset Team is an officer-led group which meets bi-monthly under the Chairmanship of the relevant Corporate Director. On behalf of the Council's Corporate Management Team, the Corporate Asset Team assumes responsibility for providing a strategic oversight in respect of all matters pertaining to asset management.
- 2.8 All proposed changes to the Council's three-year capital programme are subject to review by the Corporate Asset Team prior to being considered by Corporate Management Team, the Cabinet and Full Council. Any scheme which is not already incorporated into the Council's Asset Management Plan will only be considered for inclusion in the Capital Programme if the Officer proposing the scheme can demonstrate, with appropriate evidence, one or more of the following:

- there is a statutory obligation for the Council to incur the capital expenditure proposed;
- the proposed capital expenditure relates to works deemed necessary on the grounds of health and safety;
- capital expenditure is proposed to protect a Council asset and reduce the risk of excessive revenue expenditure being incurred in upcoming financial years;
- the proposed capital expenditure will generate income, either of a revenue or capital nature, in excess of the capital expenditure which is expected to be incurred including any financing costs but does not meet the definition of asset acquired 'primarily for yield' as defined in guidance issued by HM Treasury; and/or
- the proposed capital expenditure will (after including financing costs) reduce revenue expenditure incurred by one or more of services in future financial years.

2.9 The capital financing regulations permit the Council to treat as capital expenditure certain types of transaction which do not result in the acquisition of a physical asset by the Council. These transactions can be high-volume, small value transactions such as the awarding of Disabled Facilities Grants which are currently funded from monies received as part of Cambridgeshire County Council's Better Care Fund allocation. Such transactions do not require specific approval providing the nature and purpose of the expenditure has been approved as part of the Capital Programme.

2.10 Any proposals to incur capital expenditure which do not lead to the recognition of a physical asset where the expenditure proposed exceeds £10,000 but does not fall within the scope of the Council's Commercial and Investment Strategy will be considered at a meeting of CMT. If approved by Cabinet, approval will be sought at a meeting of Cabinet before being considered at full Council if necessary. Possible examples include, but are not restricted to:

- granting loans to third parties (for reasons not linked to the objectives of the Commercial and Investment Strategy);
- providing grant-funding to a third party which enables that third party to undertake expenditure which would have been capital in nature had it been undertaken by the Council.

### **Role and Function of the Investment Board**

2.11 During the 2019-20 financial year the Council initiated the development of a Commercial and Investment Strategy for the Council. The current version of the Strategy was approved by full Council on 9 January 2020.

- 2.12 The Commercial and Investment Strategy was developed in recognition of the investment opportunities available to the Council acknowledging that utilising the Council's powers to invest could bring substantial benefits not only to the Council but also to the wider District and its residents. The Capital Strategy has been updated to take account of the changes in the Council's arrangements for determining its capital priorities which arise from the implementation of the Commercial and Investment Strategy. This is explained in more detail in section four of this document.
- 2.13 Following the approval of the Commercial and Investment Strategy Cabinet approved the establishment of a sub-committee known as the Investment Board. The Investment Board has initially been allocated a maximum budget of £25M to take forward capital schemes which facilitate the achievement of the objectives set out in the Strategy. To date £6.190M of this allocation has been utilised to take forward specific schemes and the balance has been profiled over the upcoming three financial years.
- 2.14 The Investment Board undertakes its own appraisals of proposed capital schemes. The appraisal of such schemes will be separate from and in addition to the proposals for new capital schemes considered at meetings of Corporate Asset Team which follow the process outlined in paragraph 2.10 of this strategy. The Investment Board has delegated powers to approve schemes providing the maximum budget is not exceeded.
- 2.15 Capital schemes which fall within the remit of the Investment Board include the acquisition of share capital or the granting of loan funding to companies and/or partnerships in which the Council has an interest. The decision about whether to establish a company or enter into a partnership rests with Cabinet. The Investment Board is responsible for the approval of the business plans of any entities created as a result of a decision taken by Cabinet. Approval of the relevant business plan will precede the allocation of capital funds.
- 2.16 On 9 June 2020 Cabinet approved a business case for the establishment of a Local Authority Trading Company. Following that meeting the Council formally registered Fenland Future with Companies House (Company No. 12659496). Directors have been appointed to the Board of Fenland Future and the Board and during the 2024/25 financial year work on appraising potential investments and developing relevant business cases has continued.
- 2.17 The Council recognises that since the Commercial and Investment Strategy was approved in January 2020 guidance has been introduced restricting local authorities' access to Public Works Loan Board financing where that funding is to be used to acquire investment assets primarily for yield. Additionally, the Council recognises that where internal borrowing is utilised

to acquire investment assets this has the potential to increase the Council's overall level of debt by bringing forward the point in time when the Council needs to borrow externally. Notwithstanding these considerations, the Council believes there is still a substantial opportunity for the Council to deliver against its objectives linked to regeneration and improving the supply of housing in the District by investing responsibly under the aegis of the Commercial and Investment Strategy.

### **3. DEBT AND BORROWING AND TREASURY MANAGEMENT**

- 3.1 Day-to-day responsibility for the Treasury Management function rests with the Chief Finance Officer. This section of the strategy reproduces key information taken from the Treasury Management Strategy Statement. The profile of borrowing linked to the Commercial and Investment Strategy shown below is indicative. The operational boundary and authorised limits shown in Tables 3 and 4 have been determined with reference to the budget allocated to the Investment Board referred to in paragraph 2.15 above. This recognises that the Investment Board could invest the remaining allocation in one financial year if this were deemed to be appropriate.

#### **Key Considerations relating to Treasury Management**

- 3.2 The tables below set out the Council's Investment and Debt positions with forward projections.

*Table 1: Year End Investment Balances projected over the period 1 April 2024 – 31 March 2028*

<b>Year End Investments</b>	<b>2024/25 Revised Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>	<b>2027/28 Estimate</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Fund balances / reserves</b>	<b>14,130</b>	<b>11,400</b>	<b>11,200</b>	<b>11,000</b>
<b>Expected investments</b>	<b>9,900</b>	<b>7,800</b>	<b>8,600</b>	<b>9,600</b>



*Table 2: Year End Debt and Net Investment projected over the period 1 April 2024– 31 March 2028*

	<b>2024/25 Revised Estimate £000</b>	<b>2025/26 Estimate £000</b>	<b>2026/27 Estimate £000</b>	<b>2027/28 Estimate £000</b>
<b>Debt at 1 April</b>	<b>7,800</b>	<b>14,260</b>	<b>27,255</b>	<b>44,605</b>
<b>Expected change in debt to fund capital programme (excluding Commercial and Investment Strategy schemes)</b>	<b>3,635</b>	<b>8,120</b>	<b>10,350</b>	<b>15,350</b>
<b>Borrowing to fund Commercial and Investment Strategy Schemes</b>	<b>2,825</b>	<b>4,875</b>	<b>7,000</b>	<b>0</b>
<b>Actual gross debt at 31 March</b>	<b>14,260</b>	<b>27,255</b>	<b>44,605</b>	<b>59,955</b>
<b>Capital financing requirement (CFR) at 31 March</b>	<b>19,480</b>	<b>31,821</b>	<b>48,225</b>	<b>62,352</b>
<b>Borrowing less CFR – 31 March</b>	<b>(5,220)</b>	<b>(4,566)</b>	<b>(3,620)</b>	<b>(2,397)</b>

3.3 At 1 April 2024 the Council's Debt position comprised other long-term liabilities relating external borrowing of £7.8M. These loans were taken out at prevailing market rates between 1994 and 2004. The term of these loans is between 25 and 50 years. Following the transfer of the Council's Housing Stock in 2007, which generated a significant capital receipt for the Council, the Council has retained investment balances which exceed the amounts borrowed. However, changes in prevailing interest rates since the loans were taken out mean that a high premium would be payable by the Council if it were to seek to repay any of the loans early. The premiums to be applied are considered to be prohibitively high for early redemption to be regarded as a reasonable treasury management decision. The Council continues to keep this situation under review with the support of its appointed treasury management advisors. However, for the purposes of this strategy, it has been assumed that external borrowing of £7.8M brought forward, as at 1 April 2024, will continue to be carried forward due to the current historically low interest rates.

3.4 Regulation requires the Council to determine, as part of the Treasury Management Strategy, the maximum external debt position for the upcoming three financial years. This is known as the Council's authorised limit. Additionally, the Council is required to set an operational boundary. The purpose of the operational boundary is to set a threshold for external

borrowing which the Council would not expect to exceed in the ordinary management of its affairs. Sustained breaches of the operational boundary would be indicative that the Council could be at risk of exceeding its authorised limit.

- 3.5 The current authorised limits and operational boundaries for the period covered by this strategy are set out in the table below.

*Table 3: Operational Boundary over the period 1 April 2024 – 31 March 2028*

<b>Operational Boundary</b>	<b>2024/25 Revised Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>	<b>2027/28 Estimate</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Debt</b>	<b>11,435</b>	<b>24,555</b>	<b>34,905</b>	<b>50,255</b>
<b>Other long term liabilities</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>
<b>Commercial Activities/ Non-Financial Investments</b>	<b>2,825</b>	<b>7,700</b>	<b>14,700</b>	<b>14,700</b>
<b>Total</b>	<b>15,260</b>	<b>33,255</b>	<b>50,605</b>	<b>65,955</b>

*Table 4: Authorised Limit over the period 1 April 2024 – 31 March 2028*

<b>Authorised Limit</b>	<b>2024/25 Revised Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>	<b>2027/28 Estimate</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Debt</b>	<b>16,435</b>	<b>29,555</b>	<b>39,905</b>	<b>55,255</b>
<b>Other long term liabilities</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>	<b>1,000</b>
<b>Commercial Activities / Non- Financial Investments</b>	<b>2,825</b>	<b>7,700</b>	<b>14,700</b>	<b>14,700</b>
<b>Total</b>	<b>20,260</b>	<b>38,255</b>	<b>55,605</b>	<b>70,955</b>

- 3.6 Table 2 above indicates that the Council's Actual Debt position is expected to increase over the period covered by this strategy. This reflects an anticipated decision to undertake external borrowing to fund the expenditure commitment set out in the capital programme. In accordance with the Council's constitution, any decision about when, how much and from where to borrow will be made by the appointed S151 Officer.
- 3.7 Regulations prevent the Council from borrowing in advance of needs purely in order to profit from the investment of the extra sums borrowed. There is no requirement for the Council to draw on investment balances to fund its capital commitments prior to undertaking external borrowing but guidance being developed by CIPFA encourages authorities to considering exiting long-term investments to reduce the need to take on additional debt. To manage interest rate risk effectively, the Council will continue to consider medium and long-term forecasts of interest rates provided by its Treasury Management advisors to project likely returns from the investment of

surplus funds and the financing costs associated with external borrowing. This approach recognises that postponing long-term borrowing to future years could be more expensive over the life of the loan if interest rates were to increase.

- 3.8 The Council is required by statute to make arrangements to ensure that there is provision to repay as part of the Council's revenue budget any borrowing undertaken to finance the capital programme. This is known as the Minimum Revenue Provision (MRP) and the Council is required to approve its MRP policy on an annual basis:

*Table 5: Projected Minimum Revenue Provision over the period 1 April 2024 – 31 March 2028*

	<b>Projected Minimum Revenue Provision (£000)</b>
<b>2024/25</b>	451
<b>2025/26</b>	652
<b>2026/27</b>	946
<b>2027/28</b>	1,223

- 3.9 Regulation requires the Council to ensure that its MRP policy results in prudent levels of MRP. The Council's MRP policies are explained in full as part of the Treasury Management Strategy Statement which is approved by Full Council annually. Specific provisions are in place to explain the approach taken to determine MRP for schemes taken forward as part of the Commercial and Investment Strategy.
- 3.10 At the present time no assumptions have been made regarding the MRP which would be due on schemes taken forward as part of the implementation of the Commercial and Investment Strategy. These assumptions will be updated as schemes are taken forward.
- 3.11 In recognition of the inherent volatility of commercial investment the Council has established an Investment Strategy reserve. One of the purposes of that reserve is that it should hold surpluses in respect of those years where actual income generated from commercial investments exceeds budget estimates. This can help reduce the impact on the General Fund of any unanticipated shortfall which might arise in future years.

#### **4. FRS16 - Leases**

- 4.1 The CIPFA LAASAC Local Authority Accounting Code Board (LASAAC is the Local Authority (Scotland) Accounts Advisory Committee) had deferred the implementation of IFRS16 until 1 April 2024, the 2024/25 financial year. IFRS 16 defines a lease as a contract or part of a contract, which conveys the right to use an asset (the underlying asset) for a period of time in exchange for a consideration. Under the standard the distinction between finance leases and operating leases under the previous leasing standard is removed and all leases are treated in the way the finance leases currently are. A 'right of use' asset is shown on the balance sheet with a corresponding liability of the discounted value of the future lease payments. There are exceptions for short, dated leases (under a year, or with less than a year remaining at

transition) and low value leases (low value to be determined by the council using its approach to determining de minimus items). This means that all leases that do not meet the exceptions will be treated as capital expenditure from 2024/25 and form part of the Capital Financing Requirement. Although legally the Council doesn't own the asset during the lease duration, International Accounting Standards require that the Council capitalise the asset and liability on its balance sheet, much like a loan. Whilst this increases the CFR, the nature of the finance lease agreement doesn't require the Council to separately borrow to fund the asset.

## **5. Environmental, Social and Governance Risk Management**

- 5.1 This Council is supportive of the Principles for Responsible Investment ([www.unpri.org](http://www.unpri.org)) and will seek to bring ESG (environmental, social and governance) factors into the decision-making process for investments. Within this, the Council is also appreciative of the Statement on ESG in Credit Risk and Ratings which commits signatories to incorporating ESG into credit ratings and analysis in a systemic and transparent way. The Council uses ratings from Fitch, Moody's and Standard & Poor's to support its assessment of suitable counterparties. Each of these rating agencies is a signatory to the ESG in credit risk and ratings statement, which is as follows:

*"We, the undersigned, recognise that environmental, social and governance (ESG) factors can affect borrowers' cash flows and the likelihood that they will default on their debt obligations. ESG factors are therefore important elements in assessing the creditworthiness of borrowers. For corporates, concerns such as stranded assets linked to climate change, labour relations challenges or lack of transparency around accounting practices can cause unexpected losses, expenditure, inefficiencies, litigation, regulatory pressure and reputational impacts.*

*At a sovereign level, risks related to, inter alia, natural resource management, public health standards and corruption can all affect tax revenues, trade balance and foreign investment. The same is true for local governments and special purpose vehicles issuing project bonds. Such events can result in bond price volatility and increase the risk of defaults.*

*In order to more fully address major market and idiosyncratic risk in debt capital markets, underwriters, credit rating agencies and investors should consider the potential financial materiality of ESG factors in a strategic and systematic way. Transparency on which ESG factors are considered, how these are integrated, and the extent to which they are deemed material in credit assessments will enable better alignment of key stakeholders.*

*In doing this the stakeholders should recognise that credit ratings reflect exclusively an assessment of an issuer's creditworthiness. Credit rating agencies must be allowed to maintain full independence in determining which criteria may be material to their ratings. While issuer ESG analysis may be considered an important part of a credit rating, the two assessments should not be confused or seen as interchangeable.*

*With this in mind, we share a common vision to enhance systematic and transparent consideration of ESG factors in the assessment of creditworthiness.”*

- 5.2 For short term investments with counterparties, this Council utilises the ratings provided by Fitch, Moody's and Standard & Poor's to assess creditworthiness, which do include analysis of ESG factors when assigning ratings.

## **6. COMMERCIAL ACTIVITY**

- 6.1 The Council has a long-standing portfolio of non-operational assets which it manages to secure a rental income and income from fees and charges earned from providing facilities for conferences and meetings. The main non-operational assets held by the Council are:
- Boathouse Business Centre, Wisbech – Office Units, Conference and Meeting Space
  - South Fens Business Centre, Chatteris - Office Units, Conference and Meeting Space
  - South Fens Enterprise Park, Chatteris – Light Industrial Units for Small Business Use
- 6.2 Rents generated from the lease to third parties of areas of land, buildings and/or infrastructure held by the Council principally for the purposes of service delivery, i.e. premises at Fenland Hall, the Base and Wisbech Port have been assessed by officers to fall outside the scope of commercial activity in the context of this section of the Council Strategy. This reflects the fact that the motive for holding these assets is not principally commercial in nature.
- 6.3 Responsibility for assessing the need for capital investment in the current portfolio of non-operational assets, reflecting those non-operational assets held as at 31 March 2024 currently rests with the Corporate Asset Team in accordance with the arrangements set out in paragraph 2.10 above.
- 6.4 During the 2020-21 financial year the Council approved a Commercial and Investment Strategy. The Council has established an Investment Board to take forward capital schemes which deliver against objectives set out in part two (commercial property investment) and part three of the Strategy (commercial investment and regeneration).
- 6.5 The Commercial and Investment Strategy sets out the assessment criteria to be used for investments undertaken in accordance with part two of the strategy. This requires the Council to determine the net yield associated with each proposed acquisition, after taking account of financing costs, including MRP, and to assess the particular circumstances relating to each acquisition to understand the risks the Council is subject to and possible sources of mitigation. The Council is cognisant of the recent changes to the regulations which govern the basis on which authorities can take out loans from the

Public Works Loan Board and specifically preclude authorities who plan to acquire investment assets primarily for yield from accessing PWLB loans. Reference to the current regulations has been incorporated into the Investment Board's decision-making processes.

- 6.6 Following approval of a proposal in March 2021 to date, the Council has acquired one commercial investment property which is let to a commercial tenant on a 25-year repairing and insuring lease.
- 6.7 The Investment Board is a sub-committee of the Cabinet. The Council's constitution requires that the committee's membership includes the Leader (who Chairs the Investment Board), the Portfolio Holder for Finance, as well as one other member of Cabinet appointed by the Leader or two members of Cabinet if the Leader also has the Finance Portfolio. The constitution requires the Chair of the Investment Board to ensure the Investment Board meets a minimum of three times each year. The Chair of the Overview and Scrutiny Panel will attend the Investment Board's meetings in an observational capacity.
- 6.8 The Investment Board is a decision-making body and its functions include the determination of investment appraisals and business cases submitted for its consideration. A report on the discharge of these functions is provided to the Cabinet twice a year.
- 6.9 The Investment Board also has responsibility for monitoring the performance and financial delivery of those appraisals and business cases it agrees to fund. The Section 151 Officer ensures that reports on the activities of the Investment Board prepared for consideration by Cabinet include details about the impact of the Board's activities on the overall financial position of the Council.
- 6.10 Statutory guidance published by DLUHC (Department of Levelling Up, Housing Communities requires the Council to:
- assess and disclose publicly the extent to which it is dependent on profit-generating investments to deliver a balanced revenue budget over the life of the medium-term financial strategy; and
  - to set limits for gross debt and commercial income as a proportion of the Council's budgeted net service expenditure over the life of the medium-term financial strategy.

#### Commercial Income as a proportion of net service expenditure

- 6.11 The current limit for budgeted commercial income as a proportion of net service expenditure has been set at 20% (equivalent to commercial income of £3.299M per year based on 2025/26 budgeted net service expenditure).
- 6.12 The Investment Board was established in January 2020. To date it has approved the acquisition of one tenanted industrial property and thirty six houses under the Local Authority Housing Fund for Afghan and Ukraine

families and general temporary accommodation for the homeless. The indicator recommended by CIPFA is reported in the table below:

*Table 6: Commercial Income as a proportion of Net Service Expenditure*

<b>Budgeted Income 2025/26 non-operational assets (Economic Estates)</b>	£1.293M
<b>Net Service Expenditure</b>	£16.497M
<b>Commercial Income as a % of Net Service Expenditure</b>	7.83%
<b>Approved Limit</b>	20%

#### Gross Debt as a proportion of net service expenditure

- 6.13 The current limit for gross debt as a proportion of net service expenditure has been set at 375% (equivalent to gross debt of £61.86M per year based on 2025/26 budgeted net service expenditure).
- 6.14 As explained in paragraph 3.3 above whilst the Council has not undertaken external borrowing in recent years it does have £7.8M of external debt which was taken out at prevailing market rates between 1994 and 2004. This impacts on the calculation of gross debt as a proportion of net service expenditure as follows:

*Table 7: Gross Debt as a proportion of Net Service Expenditure*

<b>Gross Debt expected as at 31 March 2025</b>	£7.8M
<b>Net Service Expenditure (2025/26)</b>	£16.497M
<b>Gross Debt as a proportion of Net Service Expenditure</b>	42.5%
<b>Approved Limit</b>	375%

#### Commercial Property Investment – Loan to Value Assessment

- 6.15 An important consideration when appraising the impact of the Council's commercial and investment strategy on the Council is to consider the extent to which borrowing undertaken by the Council to fund investment in property is matched by the underlying value of the assets purchased.
- 6.16 When assets are first purchased it is common for the directly attributable costs associated with acquiring the asset, including applicable stamp duty, to exceed the realisable value of the asset. Consequently, if a property purchase is funded from borrowing this may mean in the early years of the Council's ownership the fair value of property owned by the Council may be less than the borrowing undertaken by the Council to fund the acquisition. Over time, if property prices appreciate this will have a positive impact on the Council's loan to value ratio.
- 6.17 The Council will obtain valuations of all its commercial investment properties annually and disclose the Loan to Value ratio as part of each year's capital strategy.

- 6.18 The Council has one commercial investment property which had been funded from borrowing. A valuation of that asset obtained as part of work completed to produce the 2023/24 statutory accounts indicated that, as at 31 March 2024, its value had increased to £4.39m which is an increase of £0.944m against the consideration the Council had paid to the vendor in March 2021 exclusive of stamp duty and legal fees.

#### Borrowing in Advance of Need

- 6.19 Statutory guidance on Local Authority Investments and the Prudential Code published by CIPFA requires that authorities must not borrow in advance of their needs purely in order to profit from the investment of the extra sums borrowed. Government has clarified that this requirement extends to the use of external borrowing to fund the purchase of non-financial investments, including investment properties.
- 6.20 As noted in paragraph 2.15 above the Council's Investment Board has been allocated a budget of £25M to take forward the Council's Commercial and Investment Strategy. The Council's Commercial and Investment Strategy provides for two types of investments to be taken forward: part two of the strategy sets out the process to be followed for commercial property investment and part three is concerned with investments for regeneration and place-shaping.
- 6.21 The Council will need to undertake external borrowing if it is to utilise the full budget of £25M which has been allocated by Full Council.
- 6.22 The statutory guidance recognises that the Council can disregard the provisions of the Prudential Code and the statutory guidance providing it explains its reasons for doing so and its policies for investing the extra amounts borrowed and the arrangements in place to manage the associated risks. However, the decision taken by government in November 2020 to preclude Councils from accessing loans from the Public Works Loans Board if they plan to acquire investment assets primarily from yield limits Councils' opportunities to take forward proposals which would previously have been possible.
- 6.23 The delivery of objectives linked to the Council's Commercial and Investment Strategy represents a key element of the Council's Business Plan. Whilst the regulatory context in which Councils are permitted to invest has altered and is expected to alter again following implementation of the revised Prudential Code from 2024/25s, this Council nevertheless believes there are opportunities for prudent investment in the District. Such investments can contribute to enhancing the District's economic vitality and act as leverage which enhances the viability of investment in our District funded by the private sector.
- 6.24 The Commercial and Investment Strategy sets out in detail the appraisal and decision-making approach the Investment Board is required to follow before any investment in commercial property is undertaken. This ensures that appropriate governance arrangements are in place and the Council has due regard to the risks associated with investments both individually and in



the context of the overall level of risk presented by the Council's current portfolio.

- 6.25 Active monitoring of the portfolio will take place throughout the year with reference to the indicators included in this strategy together with appropriate commentary relevant to the particular investments held by this Council.

## **7. KNOWLEDGE AND SKILLS**

- 7.1 The Council has professionally qualified staff across a range of disciplines including finance, legal and property that follow continuous professional development (CPD) and attend courses on an ongoing basis to keep abreast of new developments and skills.
- 7.2 Appropriate external advice will be engaged from suitably qualified professionals as and when required. This will apply particularly in those circumstances when the Council needs to undertake independent due diligence prior to making a decision regarding a proposed investment. Additionally, the Council will continue to enlist the year-round support of external Treasury Management advisors. This support is currently provided by MUGF Corporate Markets.
- 7.3 Internal and external training is offered to members to ensure they have up to date knowledge and expertise to understand and challenge capital proposals brought forward for approval and interpret the treasury management policies developed by officers in conjunction with relevant professional advisors.

PARISH PRECEPTS 2025/26

TAX BASE (Equated Band D Properties)	PRECEPT 2024/25 £	COUNCIL TAX PER BAND D PROPERTY £	PARISH	TAX BASE (Equated Band D Properties)	PRECEPT 2025/26 £	COUNCIL TAX PER BAND D PROPERTY £	INCREASE FROM 2024/25 %
363	13,419	36.97	BENWICK	363	14,000	38.57	4.3
3,451	173,500	50.28	CHATTERIS	3,517	189,500	53.88	7.2
297	18,500	62.29	CHRISTCHURCH	298	22,200	74.50	19.6
882	65,000	73.70	DODDINGTON	890	65,000	73.03	-0.9
1,288	78,420	60.89	ELM	1,291	80,772	62.57	2.8
405	22,500	55.56	GOREFIELD	406	23,000	56.65	2.0
1,189	59,925	50.40	LEVERINGTON	1,240	62,000	50.00	-0.8
926	84,759	91.53	MANEA	932	90,400	97.00	6.0
6,841	360,000	52.62	MARCH	6,945	375,000	54.00	2.6
251	13,000	51.79	NEWTON IN THE ISLE	251	26,000	103.59	100.0
461	20,010	43.41	PARSON DROVE	469	20,071	42.80	-1.4
416	18,000	43.27	TYDD ST GILES	429	25,600	59.67	37.9
6,047	174,000	28.77	WHITTLESEY	6,226	177,000	28.43	-1.2
883	67,168	76.07	WIMBLINGTON	903	67,168	74.38	-2.2
6,602	407,110	61.66	WISBECH	6,694	412,060	61.56	-0.2
1,269	89,965	70.89	WISBECH ST MARY	1,300	110,257	84.81	19.6
<b>31,571</b>	<b>1,665,276</b>	<b>52.75</b>	<b>GRAND TOTAL</b>	<b>32,154</b>	<b>1,760,028</b>	<b>54.74</b>	<b>3.77</b>

**EARMARKED AND GENERAL RESERVES - Revised 2024/25 and Estimated 2025/26**
**APPENDIX G**

Reserve Name	Balance 01.04.24 £	Capital Funding £	Revenue Contributions to(+)/from(-) 2024/25 £	Revised Balance 31.03.25 £	Capital Funding £	Revenue Contributions to(+)/from(-) 2025/26 £	Estimated Balance 31.03.26 £
Travellers Sites	479,244		57,130	536,374		53,940	590,314
CCTV - Plant & Equipment	51,128		10,000	61,128		10,000	71,128
Station Road, Whittlesey - Maintenance	13,200		2,800	16,000		2,800	18,800
Management of Change	234,313		-206,690	27,623		-27,623	0
Business Rates Equalisation Reserve	800,516			800,516			800,516
Capital Contribution Reserve	116,117			116,117			116,117
Port - Buoy Maintenance	145,798			145,798			145,798
Repairs and Maintenance	658,706	-5,000		653,706	-200,000		453,706
Heritage Lottery Fund (HLF) - Wisbech	49,235			49,235			49,235
Highways Street Lighting	85,140		-6,920	78,220		19,230	97,450
Solid Wall Remediation	100,000			100,000			100,000
Investment Strategy Reserve	1,340,168			1,340,168			1,340,168
Budget Equalisation Reserve	1,654,142			1,654,142			1,654,142
Planning Reserve	335,601		-256,060	79,541		-32,503	47,038
Elections Reserve	111,382		-30,750	80,632		-34,110	46,522
Port - Pilots Staff Development Training	11,875			11,875			11,875
Cambridgeshire Horizons	2,320,442		-173,110	2,147,332		-660,080	1,487,252
Homeless Prevention Reserve	444,997		-8,330	436,667		-9,960	426,707
Specific Government Grants (received in previous years)	1,318,484		-81,253	1,237,231		-356,290	880,942
<b>TOTAL EARMARKED RESERVES</b>	<b>10,270,485</b>	<b>-5,000</b>	<b>-693,183</b>	<b>9,572,302</b>	<b>-200,000</b>	<b>-1,034,595</b>	<b>8,337,706</b>
General Fund Balance	2,000,000			2,000,000			2,000,000
<b>TOTAL RESERVES</b>	<b>12,270,485</b>	<b>-5,000</b>	<b>-693,183</b>	<b>11,572,302</b>	<b>-200,000</b>	<b>-1,034,595</b>	<b>10,337,706</b>

*Comments / Conditions of Use*

Can only be used for specific future maintenance liabilities.

Available for future CCTV maintenance & replacement liabilities.

Required for future road maintenance.

Available for the effective management of any organisational changes required to meet the Council's future priorities.

Available to assist the Council in smoothing out volatility in the business rates retention system.

Available to fund specific spending commitments in future years.

Available for future buoy maintenance to service windfarms.

Available to provide funding for one-off schemes, not covered by the normal Repairs and Maintenance revenue budgets.

To manage the Heritage Lottery Funded scheme in Wisbech.

Available to fund future repairs and maintenance relating to street lighting.

Available to fund potential costs linked to solid wall installations in the District.

Established to provide future funding for Commercial and Investment Strategy projects.

Year-end surpluses are transferred to this reserve. If a deficit is forecast this reserve can be used to offset the expected shortfall.

Available to fund additional planning costs not reflected in the annual budget, including the development of the Local Plan.

Available to fund four-yearly District-wide elections.

Available to fund the training of maritime pilots to fulfill the authority's statutory functions.

Available for the Council's future use in accordance with the conditions attached to the receipt.

Available to fund homeless prevention measures and temporary accommodation costs.

Available to fund specific spending commitments in future years.

Unallocated general reserve required for various and unplanned for contingencies, to mitigate risks associated with future financial planning as well as for general day to day cash flow needs.

NB: In accordance with the Council's Financial Rules and Scheme of Financial Delegation ( Part 4, Rule 6 of the Constitution), paragraphs B57 - B60 delegates authority to the Chief Finance Officer to approve expenditure from these reserves in accordance with their approved use as detailed above.