

**SECTION B – Part 1**

**For Approval by Cabinet and  
Recommendation to Council:**

**Corporate Budget Plan,  
incorporating the Capital  
Strategy, and Treasury  
Management and Investment  
Strategy**

**2021/22 to 2023/24**

**February 2021**

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## Part 1 – Revenue and Capital Budget Plan

### 1. Financial planning and management: matching resources to the vision and delivering outcomes

Walsall Council exists to serve the people and communities of Walsall, by representing and working with them to protect and improve the quality of life for all, particularly the most vulnerable. Walsall Council will provide strong, fair, open and honest leadership for the borough and its people and work with any organisation willing to work in the best interests of Walsall. We do this with limited resources and so must always work to ensure that public money is targeted to where it is most needed and used in the most efficient way possible. We are led by the communities we serve who help shape the services we provide and we help those communities to make a positive difference to their own lives through active civic engagement and co-operation.

The council's budget is a financial representation of the organisation's plans for the forthcoming financial year and beyond. In times of economic uncertainty, it is imperative that the council plans over the medium term. This budget looks over the spending round for 2021/22 and the following 2 years to 2023/24, and is constructed as an integral part of the council's planning processes.

It is aligned to its priorities and objectives and specifically the council's corporate plan and the council's Proud Programme of transformational change. It aims to achieve this through the delivery of efficiencies, income reviews and service reviews and redesigns to redirect existing and reducing resources to areas of high council priority in order to deliver the council's outcomes.

This budget has been prepared using the council's high level purpose and priorities as outlined in the council's Corporate Plan. A one year Corporate Plan running for 2021/22 is proposed, building on the current corporate plan, agreed areas of focus, outcomes and markers of success. This will allow for the council to undertake further research, analysis and to listen to our communities to inform the Corporate Plan 2022 to 2025. The council's financial plan and budget will therefore be reviewed and aligned to the new Corporate Plan in the next budget cycle. The 2021/22 Plan has the vision of *Inequalities are reduced and all potential is maximised*. The plan sets out 5 areas of focus (EPICC), 10 outcomes and 20 markers of success to assess progress in delivery of the plan. This budget plan, cash limits, savings and investments are aligned to EPICC and specifically the 10 outcomes which are as follows:

#### Economic Growth

- Creating an environment where business invests and everyone who wants a job can access one
- Education, training and skills enable people to fulfil their personal development

#### People

- People live a good quality of life and feel they belong
- People know what makes them healthy and they are encouraged to get support when they need it

#### Internal Focus

- Internal services deliver quality and adapt to meet the needs of customer facing services

- Services are efficient and deliver value for money

#### Children

- Children thrive emotionally, physically, mentally and feel they are achieving their potential
- Children grow up in connected communities and feel safe everywhere

#### Communities

- Housing meets all people’s needs, is affordable, safe and warm
- People are proud of their vibrant town, districts and communities

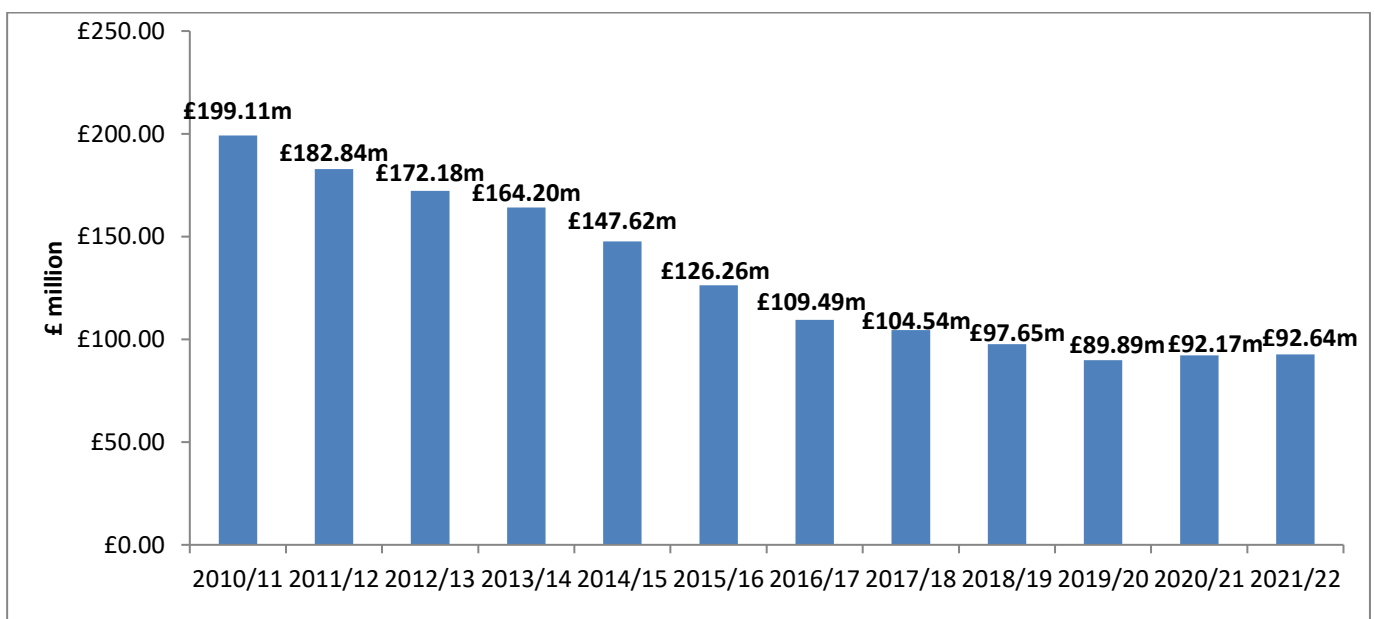
The council will be a key enabler of improvements to Walsall and its’ Districts as a place to live, learn and work; working innovatively and collaboratively with strong and resilient communities, public sector partners, schools and businesses to shape services that deliver real and sustainable improvements to people’s lives. The council will by necessity be smaller, doing fewer things, and those services that we continue to provide will be delivered in a very different way to how they are now. Our efforts will be focussed on reducing health, social and economic inequalities and creating an environment where the potential of the area, local businesses, communities and people can be maximised.

## 1.1 Our Challenges

### 1. Core Government Funding

Around half of Walsall’s funding comes from Government grant (55.87% - top up, schools DSG and some specific service grants). In 2010, Walsall received £199.11m of Government core funding support to deliver services, alongside income generated from council tax. Between 2010/11 and 2021/22, Government has cut funding by c£106.47m. Alongside cost pressures over the same period, savings totalling over £230m have had to be identified and implemented.

**Government Funding 2010/11 to 2021/22**



Total forecasts for core funding are shown below, which compares the baseline funding for 2021/22 (as advised in the draft local government settlement received on 18 December 2020) with comparative data for 2020/21, and forecast assumptions for future years. This includes the spreading of the predicted business rates deficit for 2020/21 over the following three years. The impact of Covid-19, including the issuing of business rates reliefs are expected to be covered by specific government grants, which will impact on the distribution of funds identified below. We are expecting the Spending Round during 2021 for 2022/23 onwards to confirm impact on core funding for the next review period.

This shows an expected increase of c£220k in core funding over the period to 2023/24.

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	Total (Reduction) / Increase £m
Business Rate Retention (BRR)	74.61	74.61	74.61	74.61	0.00
Top Up Grant	17.99	18.09	18.45	18.83	0.84
Baseline Funding *	92.60	92.70	93.06	93.44	0.84
Adjustment against baseline	(0.43)	(1.16)	(0.05)	(1.05)	(0.62)
<b>Total adjusted baseline</b>	<b>92.17</b>	<b>91.54</b>	<b>93.01</b>	<b>92.39</b>	<b>0.22</b>
<b>2021/22 Decrease</b>		<b>(0.63)</b>			
<b>2022/23 Increase **</b>			<b>1.47</b>		
<b>2023/24 Decrease **</b>				<b>(0.62)</b>	
<b>Total Increase</b>					<b>0.22</b>

\* Government set Walsall a baseline figure under the business rates retention scheme (Settlement Funding Assessment – SFA as referred to in table 4). The 'adjustment against baseline' takes into account our estimate of what Walsall will collect.

\*\* We await confirmation of the Government Spending Round to confirm core funding allocations for 2022/23 onwards. Current assumptions are that ongoing increases will be in line with inflation.

The Government replaced the way it funds councils with a new scheme known as Business Rate Retention (BRR) from April 2013. A review of the scheme by government to amend the % of retained business rates from 49% to 75% was due to be finalised by 2020/21 but due to delays this has not been fully undertaken and introduced. The review is still on-going with changes expected in 2022/23.

From 2017/18, Walsall has been part of the West Midlands Combined Authority (WMCA) 100% business rate retention (BRR) pilot. Government agreed that this would be at 'no detriment' to participating authorities; however, there remains some uncertainty as to the future final impact of national policy in respect of BRR.

The council's second largest source of funding is council tax (20.15% of the council's gross spend is funded from council tax), which continues to be subject to Government restrictions on the amount that can be raised from this income stream, previously through 'capping', and now through the referendum principles. The budget currently assumes council tax increases of 1.99% over the next three years, with an additional 3% in 2021/22 for Adult Social Care activity, in line with current referendum principles.

The provisional settlement for 2021/22 was announced on 18 December 2020. The future financial environment therefore continues to be challenging for councils for 2022/23 and beyond, with significant uncertainties in future grant, including public health, better care fund,

etc. One of the major thrusts has been that local authorities can now keep a share of the business rates generated within their area rather than pooling for national redistribution, however this benefit is limited by other parts of the funding mechanism, such as Government top slicing of funds to meet new burdens, safety net authorities, national capitalisation targets, etc.

Additionally, as part of BRR, the Government is consulting on transferring additional responsibilities to local authorities. This could lead to further pressures if these are not fully funded.

## **2. Impact of Covid-19**

2020/21 has been a particularly challenging year, with the global pandemic impacting greatly on service delivery and financially. Emerging service pressures and Covid-19 have required action to be taken to limit the council's financial exposure. These actions continue to ensure that the budget is balanced at year-end, with a sufficient level of reserves to manage existing liabilities and emerging risks which may arise in 2021/22, including the unknown ongoing impact of Covid-19.

The council continues to respond to the unprecedented financial challenges imposed by Covid-19. Government committed to fully compensating councils for the costs of authorities' responses to Covid-19 and has to date allocated £46.35m of funding (plus £115.15m of support to Walsall residents and businesses) in 2020/21 to help support those costs in Walsall. As well as the initial costs of funding the council's response, the impact of Covid-19 includes significant loss of income following closure of services and facilities; a considerable impact on the council tax and business rates income; and delays to the delivery of approved budget savings as the council has refocused its resources on its response to Covid-19.

The council is able to manage the financial impact of Covid-19 in 2020/21 within allocated funds, *providing* Covid-19 cost pressures and income losses remain within the predicted scenario as reported to Cabinet, however should cost pressures and income losses substantially exceed this, then additional further action will need to be taken. Given the current nation-wide position, the risk of further impact increases, not only for the remainder of 2020/21, but also into 2021/22.

The 2020/21 budget was predicated on delivery of £8.77m from the Proud Programme from the adoption of new ways of working across the council, significantly enhancing our enabling technology capabilities, and improving our service efficiency and performance. Planned activities within the Walsall Proud Programme (WPP) were reviewed in order to determine those activities which can continue and those which should be delayed as the council responded to the Covid-19 situation. As part of this review, an assessment of the financial impact has also been undertaken in relation to those work streams due to deliver savings in 2020/21 alone. The current assessment is that up to £8.02m of savings will now be delivered in 2021/22. This is in the main due to: a refocus of programme resource into managing the council's Covid-19 response; an inability to generate fee and charge increases due to facility closures and a reduced client base on reopening some services; and an inability to commence consultation on a number of organisational redesigns. This is factored into the financial plan for 2021/22.

Government, in the Spending Round published on 25 November 2020, announced a further £3bn of funding to be made available in 2021/22 to include support for the first quarter of the year for income losses, and for support for tax revenue losses;

- £1.55bn to meet additional Covid-19 pressures. The provisional Settlement on 17 December 2020 confirmed Walsall's allocation as £9.23m. This is aimed at covering Covid-19 costs and loss of income not recoverable from the sales, fee and charges grant (which is only payable for the first three months of the financial year).
- £0.67bn additional grant funding to help local authorities support the continuing cost of helping households that are least able to afford council tax payments. Walsall's allocation is £4.52m.
- £0.76bn to compensate local authorities for 75 per cent of irrecoverable loss of council tax and business rates revenues in 2020/21 that would otherwise need to be funded through local authority budgets in 2021/22 and later years i.e. collection fund deficits being dispersed (the impact is dependent on submission of final council tax and business rates returns for 2020/21, with current estimates being £3.99m).
- £0.02bn for extending the existing Covid-19 sales, fees and charges reimbursement scheme for a further three months until the end of June 2021 (the financial grant figure will be subject to actual losses incurred in 2021/22 as they arise).
- At this point, further impacts of the pandemic are unclear, as such whilst the above is welcome, an assurance from Government that they will fund all pressures and income losses in relation to Covid-19 would be welcome.

### **3. Demand and other cost pressures**

Alongside reductions in funding, the council also faces increasing cost pressures due to both increasing demand (for example, as a result of welfare reforms reducing individuals disposable incomes further, the numbers of older people requiring support to remain independent, etc), new burdens imposed by Government, but without the corresponding full funding given, and the continuing impact of Covid-19. The following summarises initiatives, demand and other pressures that have and will continue to have financial implications for the council over the coming years:

- Increases in demand:
  - From an ageing population putting strain on local authority systems both in financial and operational terms. For example, adult social care packages and placements costs have risen by £15.87m from £56.21m in 2010/11 to £72.08m in 2020/21;
  - For looked after children (LAC), and the associated impact on numbers of social workers, and costs required to support these children. There were 629 LAC in March 2016, compared to 683 by December 2020;
- Increased demand for support from our most vulnerable community members from the impact of Covid-19;
- Increased costs to support the response to Covid-19 such as personal protective equipment, maintaining social distancing requirements, etc;
- The potential impact of the UK leaving the EU on costs, including labour costs and inflationary pressures on good and services;
- Welfare reform, including universal credit;
- Increased corporate costs, including costs in relation to pay and pension inflation and reforms.

- Continued reductions in core funding, for example:
  - Impact of full business rate retention (BRR) as part of the West Midlands pilot, and changes to the Government's intention to move to 75% retention for all non-pilots;
  - Impact of the Government's next Spending Review/Round during 2021, and the impending 'Fair funding' review of council services, to include the setting of new baseline funding allocations;
  - Government reliance on individual council's ability to raise income through council tax increases, rather than providing national ongoing funding to support social care pressures, which will become unsustainable in the longer term;
  - Public Health grant – this was expected to be transferred fully into BRR from 2020/21, and become un-ringfenced, but no further guidance has been issued as to when this may occur. There is limited intelligence as to how this will impact, and we expect that this will be addressed as part of the next spending review. Once subsumed into BRR, a significant chunk of this could be lost in future funding reviews;
  - Continuation or otherwise of other specific grants e.g. improved better care fund, social care, troubled families, etc;
  - Uncertainty as to how much the Government will reimburse us for actual income losses/cost pressures in relation to Covid-19 in 2021/22 and potentially beyond.

Further information on cost pressures and how these are being managed within the medium term financial outlook are outlined in section 2 and summarised in **Annex 5**.

## 1.2 The Medium Term Financial Strategy (MTFS)

The MTFS is a strategic framework and policy document within which the council's finances are constructed and managed. It is part of a suite of policy documents that together comprise the council's approach to effective sound governance and good practice. It is the translation of our vision, aims and objectives into a financial plan, which thereby facilitates delivery of these through the portfolio planning process.

The MTFS is a key document in bringing together the level of available resources with the demands for service delivery and investment, facilitating sound financial and service risk and opportunity management. It also links to the impact on the council's capital resources and external funding opportunities.

**Figure 1** shows the relationship between the various components of the financial framework. The MTFS is the overarching corporate financial policy sitting below the Corporate Plan and above the other elements of the financial cycle. It is the driver for all other financial activity. Below the MTFS sit the other financial strategies; the Capital Strategy and the Treasury Management and Investment Strategy.



**Figure 1: Financial Framework**

THE FINANCIAL FRAMEWORK					
CATEGORY	OVERALL	REVENUE	CAPITAL	TREASURY MANAGEMENT	RISK MANAGEMENT
<b>Strategies</b>	<b>Medium Term Financial Strategy</b>				
		Tax Strategy	Capital Strategy	Treasury Management (TM) Strategy	Risk Management Strategy
<b>Guidance</b>	CIPFA and technical guidance	Budget Guidelines	Capital Guidelines	CIPFA Code of Practice for TM	Risk Management Toolkit
<b>Plans</b>	MTFO	Annual Budget	Capital Programme and Asset Management Plan	Treasury Policy Statements	Risk Management Action Plans
<b>Governance</b>	Constitution	Budget Management and Control Manual and the Annual Governance Statement		Prudential Indicators & Annual Report	Risk Register reporting and regular review
	Contract and Finance Rules				Audit Committee Reports and Annual Report
	Internal and External Audit Plans and our response to inspection and audit				

The council adopts a policy-led, medium term approach to financial planning, seeking to ensure our budgets are clearly linked to our vision, aims and objectives. We are committed to maintaining financial stability and delivering value for money through effective and efficient services.

The main objective for the council is to maintain good long-term financial health. Achieving this allows us to deliver good quality, value for money services, shaped by our customer demand. Services that are modern, efficient, effective, and fit for purpose. This requires a framework that delivers both continuous, adaptive improvement and core strength.

How we will achieve this is through:

- Financial Governance and Leadership
- Financial Planning
- Finance for Decision making
- Financial Forecasting and Monitoring
- Financial Reporting

*Financial governance and leadership*

1. Our senior management will be financially literate and able to understand fully the financial environment in which the council operates.

*Financial planning*

1. Our financial planning will be inextricably linked to the council’s strategic and corporate planning process. Our financial plans will reflect the councils key strategic priorities.
2. An annual medium term financial outlook, covering a four year time horizon, will integrate current expenditure plans and investment programmes, with cash-flow and

balance sheet projections, developed in the context of a longer-term strategy, which supports the council's strategic plan.

#### *Finance for decision making*

1. In developing our strategic and corporate plan we will consider the value for money achieved by allocating resources to different activities.
2. We will understand the financial implications of current and potential alternative policies, programmes, and activities.
3. We will analyse our cost profiles and cost drivers and how they will behave under different circumstances.
4. We will understand the whole-life costs associated with capital investment.
5. We will consider all tax related implications, as outlined in the council's tax strategy, in all decisions made.

#### *Financial monitoring and forecasting*

1. Management will assure itself that financial performance to date and forecast financial outturns are in line with the plan, including cash-flow and balance sheet projections.
2. Variances will be identified as soon as possible, so that management can either take corrective action to manage unfavourable variances or apply any favourable variances to corporate priorities.
3. The underlying costs of the organisation's key activities and how these are profiled over time will be monitored and reviewed.
4. Financial information will be integrated with non-financial performance and activity information. Together, such information forms the basis for financial forecasts and enables value for money to be monitored.
5. The financial information used both for setting the budget and internal accountability, monitoring and forecasting throughout the year is derived from the same systems that are used to generate the results reported externally in the organisation's statutory financial statements.

#### *Financial reporting*

1. To run the organisation effectively, management will have up-to-date financial and non-financial performance information on a timely basis.
2. Reports will be presented in a form that is tailored to user needs, are easy to understand and highlight the key financial issues that they need to be aware of.
3. For its part, management needs to provide timely, accurate and balanced information about its stewardship and use of resources and its non-financial performance to the organisation's different stakeholders. Such information will be presented in a form tailored to meet their needs.

## **2. Summary of the 2021/22 Revenue Budget**

The budget has been prepared for the period 2021/22 to 2023/24 to extend beyond the current Parliament. The 2020/21 position is reported regularly to Members. The current position is a forecast underspend of c£260k, excluding the impact of Covid-19. Covid-19 cost pressures / income losses are expected to be funded from Covid-19 grants made available by the Government, subject to the unknown impact for the remainder of 2020/21, the risks of which are being monitored on a regular basis.

The focus in this plan is 2021/22, as this is the year for which Full Council are required to set the forthcoming financial envelope (the 'statutory determinations' or gross expenditure and gross income), the council tax requirement and the band D council tax level. Section 4 provides further detail on 2022/23 and beyond.

### **2.1 2021/22 Revenue Budget Headlines**

The revenue budget is constructed in accordance with the council's Medium Term Financial Strategy (MTFS), the Corporate Plan, and all relevant corporate financial protocols and presents a draft balanced budget, with:

- A focus on a policy-led, medium term, risk assessed budget setting approach using priorities established by Cabinet;
- A total net council tax requirement of **£132.55m**;
- A 4.99% council tax increase, equivalent to a Band D Council Tax of **£1,871.87** (excluding precepts) and **£2,112.46** (including precepts) subject to confirmation of final precepts;
- Investment of **£3.28m** for Adult Social Care cost pressures primarily to cover demographic changes;
- Investment of **£5.95m** for Children's Services cost pressures primarily to cover Looked after Children, management of caseloads, demographic changes and contractual inflation;
- Provision for other known budget pressures, including cost pressures, reduced levels of income or grant, and pay changes of **£19.46m**;
- Bringing total investment to **£28.69m**;
- Savings of **£28.90m**;
- Appropriate use of prudential borrowing to support capital investment where affordable and sustainable with revenue costs being reflected in this report;
- Opening general reserves of **c£16.64m** as assessed and recommended by the S151 Officer.

The financial implications arising from the financing of the capital programme for 2021/22 are contained within this revenue budget.

## 2.2 Net Council Tax Requirement

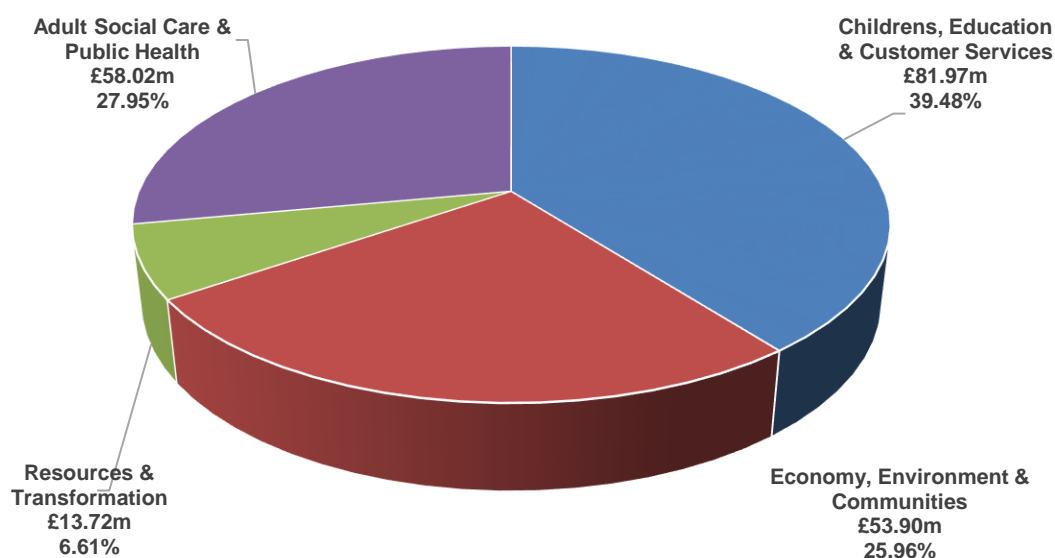
The gross revenue expenditure budget for 2021/22 will be **£657.73m**, and gross income will be **£525.18m**, resulting in a net council tax requirement of **£132.55m**.

It has been possible to commit to **£28.69m** of investment to address key priorities in 2021/22, funding of essential cost pressures, provision to fund inflationary pressures (i.e. pay and contractual) and corporate cost pressures to fund for example, pension costs. Income targets have also been realigned where ongoing shortfalls have arisen.

The change in council tax requirement from 2020/21 to 2023/24 is shown in **Table 1**.

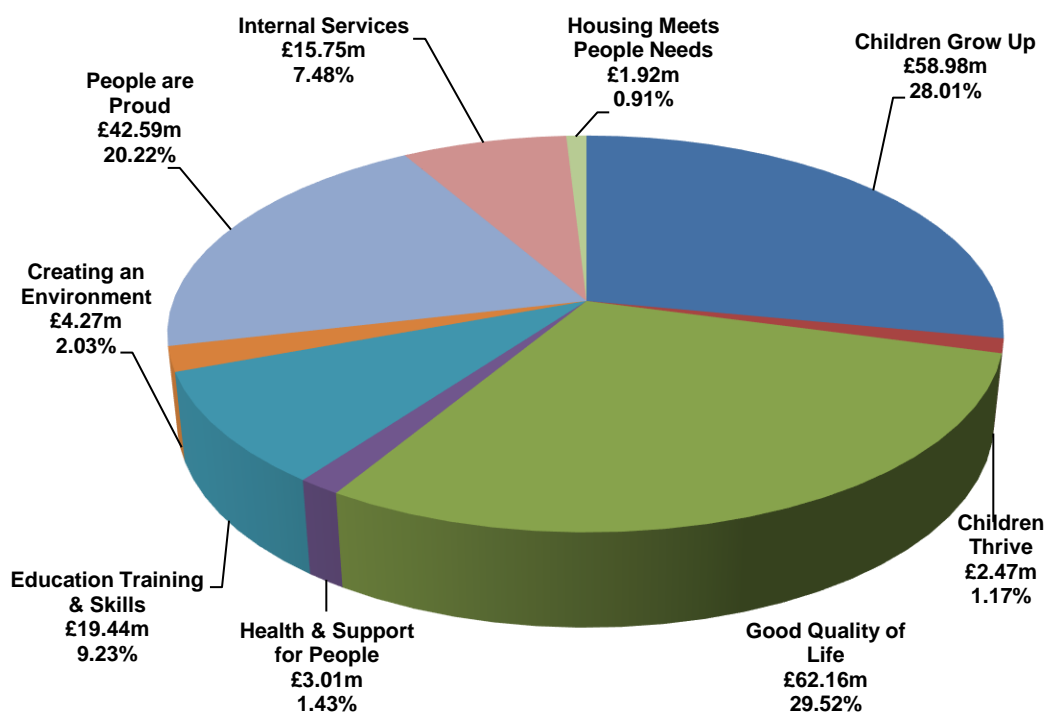
<b>Table 1: Council Tax requirement (Movements)</b>			
	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Council tax Requirement</b>	<b>127.57</b>	<b>132.55</b>	<b>136.14</b>
<b>Cost Pressures:</b>			
Growth / Investment ( <b>Annex 5</b> )	28.69	18.55	12.34
<b>Savings plans identified (Annex 7)</b>	(28.90)	(19.10)	(4.47)
<b>Proud savings for which delivery plans are being identified</b>		(2.91)	(10.05)
<b>Other movements / funding changes:</b>			
Other changes including grants / income	4.26	6.98	0.16
Core Funding changes	(1.07)	(1.47)	4.12
Collection fund (surplus) / deficit	(0.47)	1.93	
Transfer to / (from) reserves	2.47	(0.39)	1.58
<b>Revised Council Tax Requirement</b>	<b>132.55</b>	<b>136.14</b>	<b>139.82</b>
Council Tax Increase	4.99%	1.99%	1.99%

**Figure 2a – Net council tax requirement by directorate**



Note: Figure 2a excludes centrally held and capital financing budgets

**Figure 2b – Net council tax requirement by outcomes**



Note: Figure 2b excludes centrally held and capital financing budgets

This results in a band D council tax for the Walsall Council element only of £1,871.87, representing an increase of 4.99% from 2020/21 levels. Most properties in Walsall (67.54%) are in bands A or B (**Annex 3**).

## 2.3 Levies and Precepts

**Table 2** shows the levy to be made on Walsall Council by the West Midlands Combined Authority for transport, and the levy by the Environment Agency.

Levy	2020/21 £	2021/22 £	Increase / (Decrease) £	Increase / (Decrease) %
West Midlands Combined Authority Levy (Transport)	11,146,812	11,183,812	37,000	0.33
Environment Agency	82,739	82,739	0	0.00

Walsall's precepting authorities are the West Midlands Police and Crime Commissioner, and West Midlands Fire and Rescue Authorities, as shown in **Table 3** below.

Precepting Authority	2021/22 Amount £	Band D 2021/22 £	Band D 2020/21 £	Band D Increase %
WM Police and Crime Commissioner	12,572,211	177.55	162.55	9.23
WM Fire and Rescue	4,463,825	63.04	61.81	1.99

**Table 4** shows the Council Tax calculation at Band D.

<b>Table 4: Net Council Tax Requirement and Council Tax Levels 2021/22</b>		
<b>Element of budget</b>	<b>2021/22 budget £</b>	<b>Council Tax Band D £</b>
<b>WMBC element - required from council tax</b>	<b>132,545,781</b>	<b>1,871.87</b>
Police & Crime Commissioner precept	12,572,211	177.55
Fire & Rescue precept	4,463,825	63.04
<b>Total from council tax</b>	<b>149,581,817</b>	<b>2,112.46</b>

*NB: based on an approved council tax base of 70,809.41 band D equivalents.*

## 2.4 Council Tax – Referendum principles

In recent years Central Government has capped the level of council tax rises. Capping principles are determined on a year by year basis. Since 2012/13, each authority is required to determine whether their council tax increase requires a referendum, which would require the seeking of support from the local electorate. Schedule 5 of the Localism Act introduced a new chapter into the Local Government Finance Act 1992, making provision for council tax referendums to be held if an authority increases its council tax by an amount exceeding a set of principles determined by the Secretary of State and agreed by the House of Commons.

The local government finance settlement announced on 15 December 2016 outlined plans for local authorities to relax the referendum rules on the social care precept element of the council tax (2% introduced in 2016/17) to allow local authorities to increase the precept element to 3% in 2017/18 (increase of 1%), as long as the increase over the three year period to 2019/20 was no more than 6%. Walsall increased its Social Care precept by 3% in 2017/18, 2% in 2018/19, and 1% in 2019/20.

The provisional local government settlement for 2020/21, as announced on 20 December 2019, confirmed the council tax referendum limit of up to 4%, inclusive of 2% continuation of the social care precept. Walsall increased its council tax by 3.99% in 2020/21.

The provisional local government settlement for 2021/22, as announced on 17 December 2020, confirmed a council tax referendum limit of up to 5% (4.99% maximum), inclusive of 3% for a social care precept. This would mean if a local authority seeks to raise its relevant basic amount of council tax by 5% or more for 2021/22, local people would have the right to vote to keep council tax bills down through a binding referendum veto.

Walsall proposes to increase council tax by 4.99% (1.99% general increase and 3% precept for Adult Social Care), within the referendum limits set by Government.

The Government's advertised 4.5% increase in spending power for local government in 2021/22 is heavily reliant on councils making the maximum council tax increase as well as the number of properties eligible to pay council tax continuing to grow at pre-pandemic levels. Overall, £1.9bn of the £2.2bn spending power increase first announced at the spending review comes from council tax. Given the scale of the challenge in 2021/22, with an initial funding gap of £33.6m, Walsall has opted to increase the council tax by the maximum permitted, as this secures ongoing funding to support essential service delivery.

This equates to a council tax increase of £1.71 per week or 24p a day for a band D property or a £1.14 increase per week (16p per day) for a band A. 67.5% of residents are in band A and B increasing to 83.5% including band C. It is recognised that the above may have an impact on residents' income. Where residents are on low incomes, they may be entitled to council tax reduction, may be offered welfare benefits and/or money management advice. The council also has a discretionary scheme in place to help those who need support. The council will continue to monitor impact.

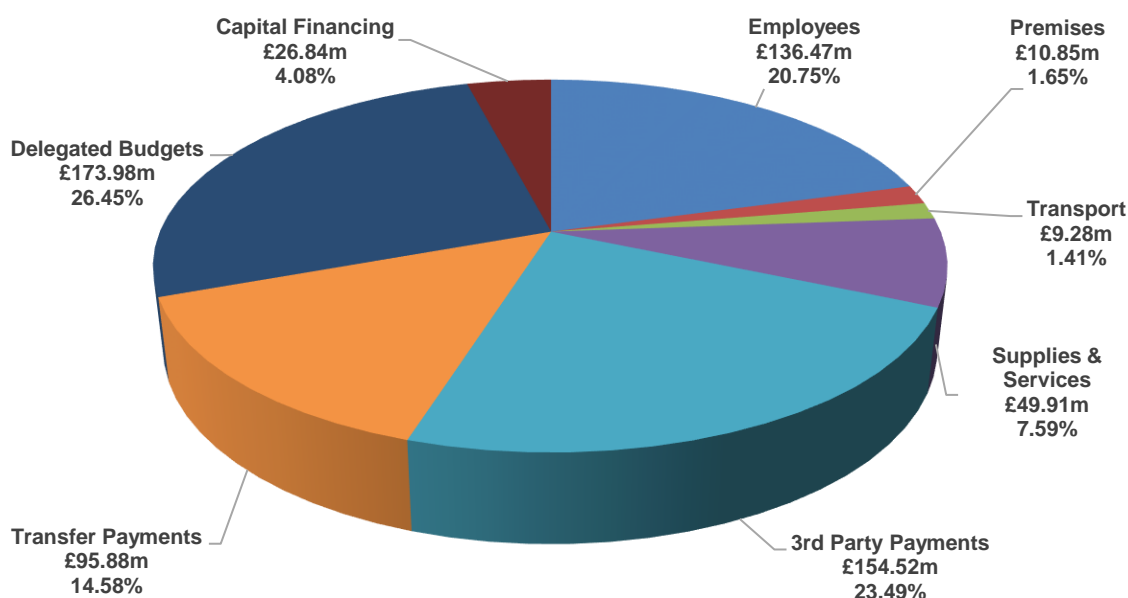
## 2.5 Expenditure and Income

### Expenditure analysis

The council analyses its expenditure by category, as referred to in **Table 5**, and illustrated in **figure 3**.

Table 5: Expenditure by Category of Spend	
Type of Expenditure	£ million
Employees	136.47
Premises and Transport	20.13
Supplies and Services	49.91
Third Party Payments	154.52
Delegated Budgets	173.98
Leasing and Capital Financing	26.84
Transfer Payments	95.88
<b>Total Expenditure (excluding Internal Recharges)</b>	<b>657.73</b>

**Figure 3 – Spend by Type of Expenditure**

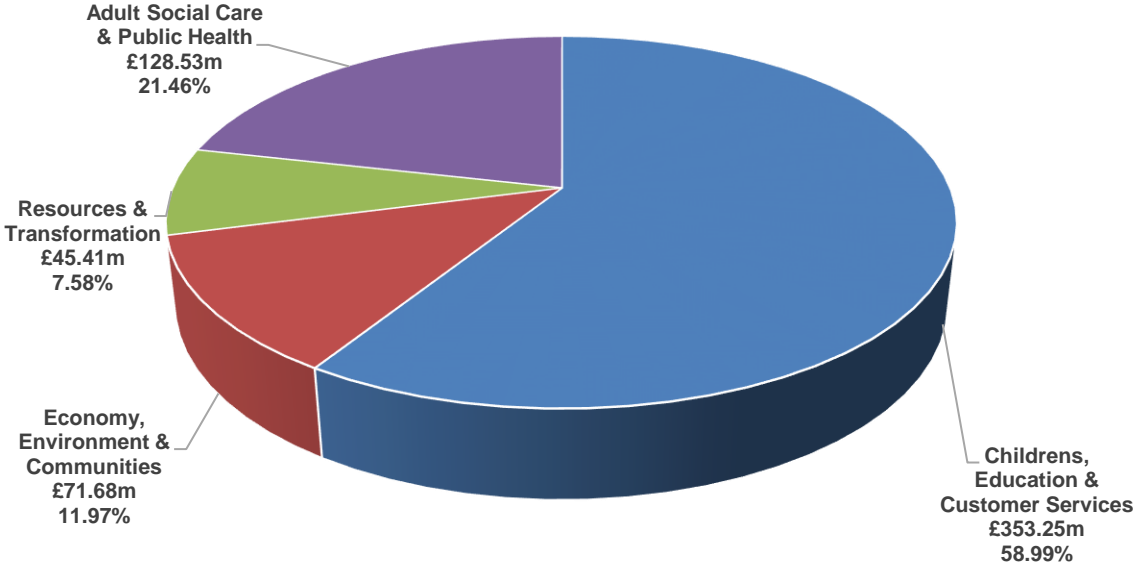


### Notes

- *Transfer payments include expenditure such as housing benefits, rent allowances and social services direct payments – for example payments for which no goods or services are received in return by the local authority.*
- *Delegated budgets include budgets for schools, community associations and allotments.*
- *Third Party Payments include payments to external contractors.*

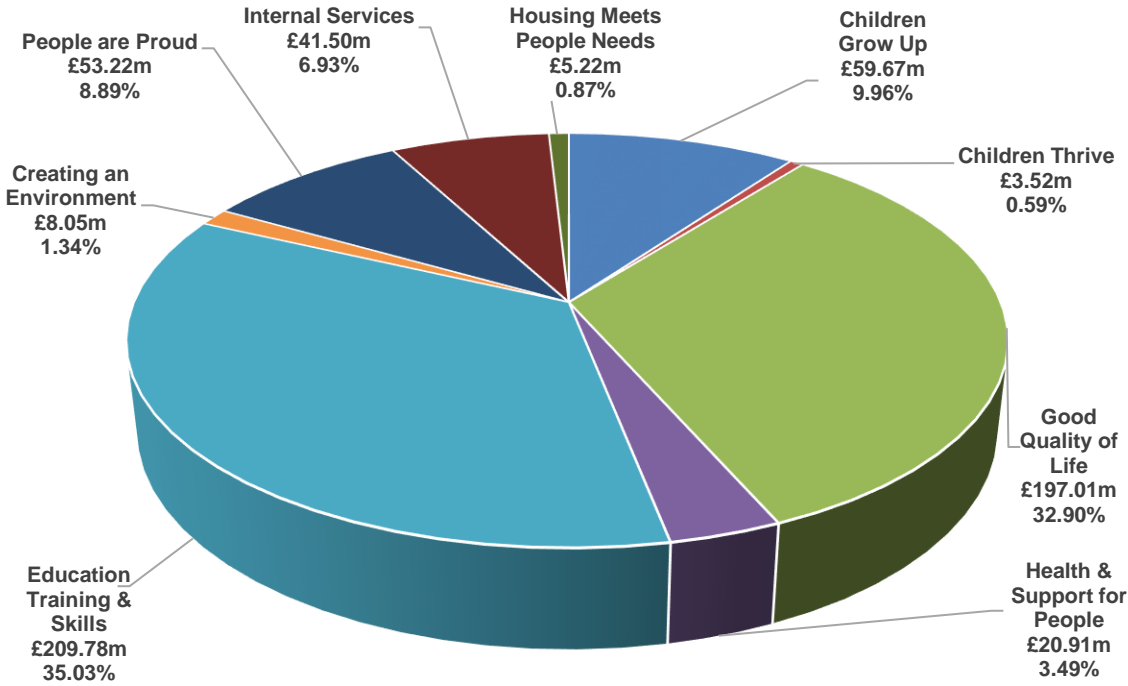
The total council expenditure is analysed by directorate in **figure 4a** and outcome in **figure 4b**. For Children’s Services, 20.45% of the £353.25m relates to Housing Benefit payments and 49.25% relates to Schools.

**Figure 4a – Gross expenditure by directorate**



Note: Figure 4a excludes centrally held and capital financing gross expenditure budgets

**Figure 4b – Gross expenditure by outcome**



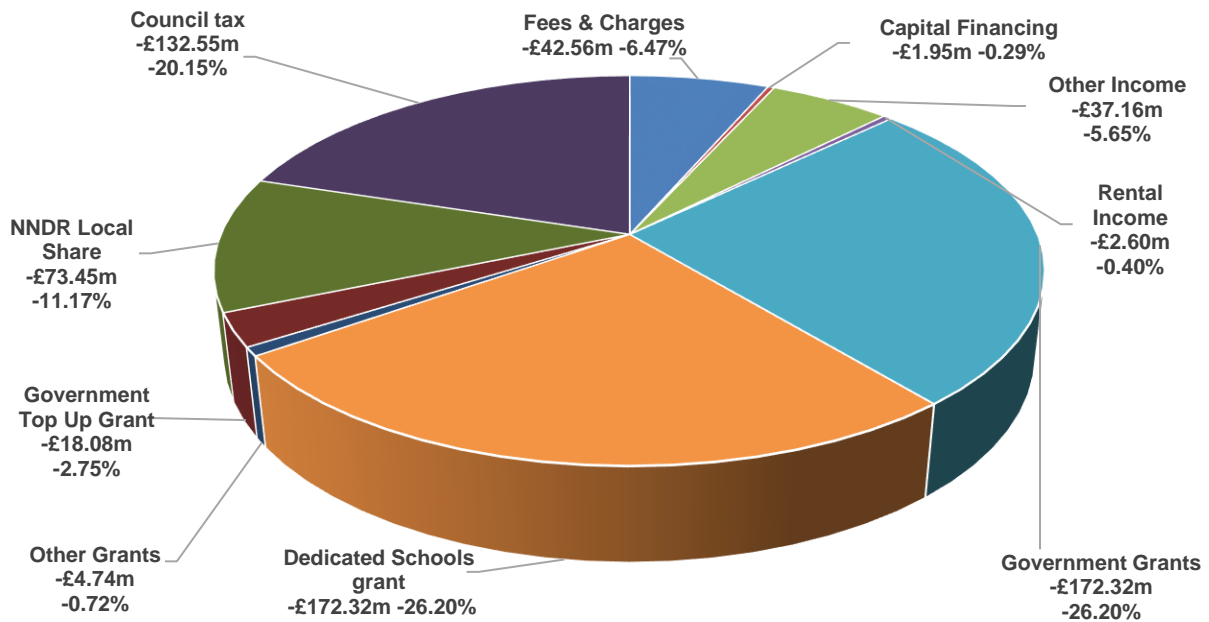
Note: Figure 4b excludes centrally held and capital financing gross expenditure budgets



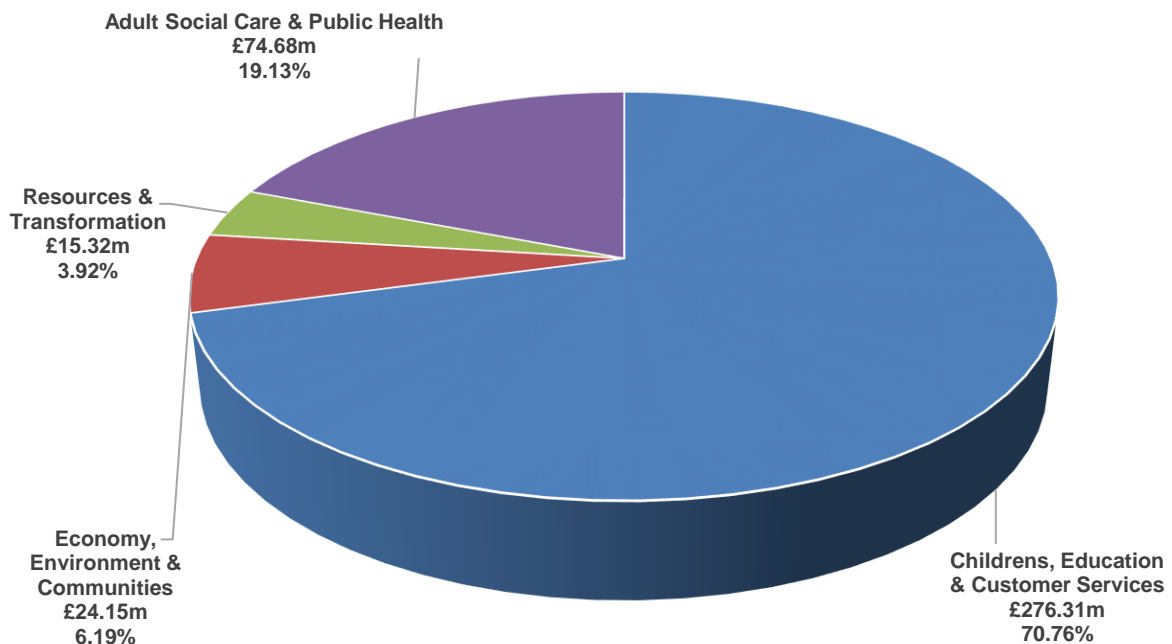
Income analysis

The council receives income from a number of sources including council tax, Central Government grant and specific grants to help pay for certain services including schools and social care. The council also charges for some services, such as parking, use of leisure facilities, etc. In 2021/22 the council tax will account for 20.15% of total income. **Figure 5** shows all the main sources of income, which is analysed by directorate at **Figure 5a** and by outcome at **Figure 5b**.

**Figure 5 – Sources of income**

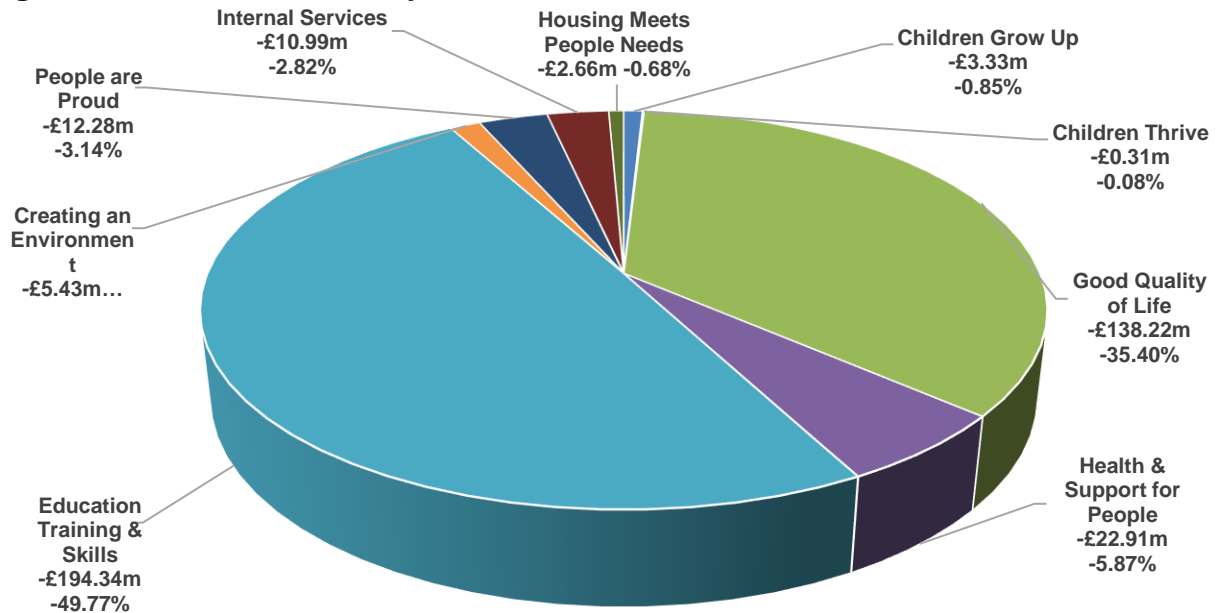


**Figure 5a – Gross income by directorate**



Note: Figure 5a excludes centrally held and capital financing gross income budgets

**Figure 5b – Gross income by outcome**



Note: Figure 5b excludes centrally held and capital financing gross income budgets

## 2.6 Government central funding and business rate retention

The Government provides funding to councils through a grant redistribution system (previously referred to as formula grant) which includes the redistribution of business rates collected and revenue support grant.

The Government replaced the way it funds councils with a new scheme known as Business Rate Retention (BRR) from April 2013. A review of the scheme by government to amend the % of retained business rates from 49% to 75% was due to be finalised by 2020/21 but due to delays this has not been fully undertaken and introduced. The review is still on-going with changes expected in 2022/23.

Areas that have agreed a Devolution Deal had the opportunity to be involved in a 100% business rates retention pilot, which began from 1 April 2017. This provides the opportunity to shape national thinking about the eventual scheme, and to take forward further devolution. Walsall, along with the other six West Midlands Authorities, has been piloting the scheme from 1 April 2017. This means that Walsall retains 99% of business rates collected with the other 1% being paid over to the Fire Authority.

There is a change in funding under the 100% business rates scheme in that revenue support grant (RSG) is no longer paid to the authority. Funding will continue to be paid to the authority through a top up grant and retained business rates into 2021/22.

The Spending Round (SR20), announced on 25 November 2020, confirmed that the Government will not proceed with the implementation of the Review of Relative Needs and Resources (formerly the Fair Funding Review) and 75% Business Rates Retention in 2021/22. The reset of accumulated business rates growth will also not take place in 2021/22. These decisions were reported as allowing both the Government and councils to focus on meeting the immediate public health challenges posed by the Covid-19 pandemic. There therefore remains considerable uncertainty in respect of the amount of income we will receive in Government funding from 2022/23 onwards.

The 2021/22 provisional finance settlement announced on 17 December 2020 represents the ninth year in which the BRR scheme is the principal form of local government funding, summarised as follows:-

- Business rates local share - £74.61m in 2021/22 – this is an estimate of what Walsall will bill in business rates. This local share is guaranteed and is based on the council retaining 99% of what is expected to be billed in 2021/22, as part of the pilot scheme, including the local share amount of approximately £28m of the Extended Retail, Leisure and Hospitality Reliefs provided by the Government in response to Covid-19. Government set Walsall a baseline figure under the business rates retention scheme of £92.70m for 2021/22 which is made up of the business rates local share and top up grant. They also set a safety net threshold of £89.92m for 2021/22. If the safety net threshold is triggered, then any income loss below the threshold is funded by government. Any shortfall between £92.70m and £89.92m has to be borne by the council (99%), and fire authority (1%). Walsall is currently estimating the baseline to be £91.54m, slightly below the government baseline and so no safety net would be payable. Volatility in business rates will therefore need careful monitoring throughout the year.
- Top up grant – **£18.08m** in 2021/22. Some authorities collect more business rates than their calculated baseline funding level, and are therefore required to pay a tariff to Government in excess of their allocated share. Councils like Walsall have a greater baseline funding level than the business rates they can collect and will be paid a top up grant from Government to meet the shortfall.

The West Midlands Combined Authority has been piloting 100% business rates retention since 2017/18. This will be without detriment to the resources that would have been available to individual authorities under the current local government finance regime (with any “detriment” payments funded from outside the Settlement).

Government measure local authority expenditure by “*core spending power*”. Spending power is based on each local authority’s power to influence and not control local spending levels. This will include income raised through council, business rates retention, specific grants and NHS funding for social care (the latter being spend which the council may have an influence over but does not control).

Walsall’s direct funding, as determined by government, represents an increase of 0.1% from 2020/21 to 2021/22. This is the second real increase in government core funding since 2010/11. Direct funding under the pilot scheme, compared to funding received in previous years, is set out in **Table 6**.

<b>Table 6 : Government Settlement funding Assessment</b>			
	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Revenue Support Grant	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Business Rates Baseline (99% retained from 2017/18 including effect of revaluation)	<b>73.4</b>	<b>74.6</b>	<b>74.6</b>
Top Up Grant	<b>17.7</b>	<b>18.0</b>	<b>18.1</b>
<b>Total Government Settlement</b>	<b>91.1</b>	<b>92.6</b>	<b>92.7</b>
Adjusted Settlement Funding Assessment	<b>97.6</b>	<b>91.1</b>	<b>92.6</b>
Grant increase/-decrease (adjusted) - £m	<b>(6.5)</b>	<b>1.5</b>	<b>0.1</b>
Grant increase/-decrease (adjusted) - %	<b>-6.6%</b>	<b>1.6%</b>	<b>0.1%</b>

## 2.7 Collection Fund

The collection fund is accounted for separately to the revenue general fund and accounts for income collected from council tax and business rates. In January of each financial year, an in-depth appraisal is undertaken to assess the estimated level of collection (as aggregated to include that relating to the current and previous years), the likely balance of the fund and to advise the precepting authorities (Fire and Police) of their share of the council tax surplus/deficit to enable them to take this into account in their own budget calculations.

The assessment undertaken in January 2021, which incorporated the impact of Covid-19 on lost council tax and business rate, calculated the following:

- Council Tax - an estimated in year deficit of £1.82m for Walsall (total estimated deficit for 2020/21 of £2.05m including preceptors) which in accordance with regulations put in place due to Covid-19 can be spread over the next three years. This is partly offset by a brought forward surplus of £1.93m from 2019/20 (total actual surplus of £2.17m including preceptors) meaning there is a net surplus of £108k for Walsall (total actual net surplus for 2020/21 of £122k, less the required contribution of £14k to the West Midlands Police and Fire & Rescue);
- Business Rates – an estimated in year deficit of £3.91m for Walsall (total estimated deficit for 2020/21 of £3.95m), which, in accordance with regulations put in place due to Covid-19 can be spread over the next three years. In addition there is a brought forward deficit of £239k for Walsall (total actual deficit of £242k), meaning there is a net deficit of £4.15m (total actual net deficit for 2020/21 of £4.19m, less the required contribution towards the deficit of £42k from the West Midlands Fire & Rescue).

### *Changes to council tax base*

Council tax base is to be set at 70,809.41 Band D equivalents (71,549.80 in 2020/21). Although the overall number of households in the borough has not reduced, the decline in the council tax base (which measures the number of Band D equivalent properties) is mainly due to a large increase in residents applying to the Council Tax Reduction Scheme (CTRS) throughout 2020/21 as a result of Covid-19.

### *Changes to collection rates*

In year collection for council tax is expected to reduce to 92.4% in 2020/21, down from 94.0% in 2019/20, mainly as a result of Covid-19 and the short term impact on people's ability to pay. However over the longer period 97.8% of debt is still expected to be collected, in line with budgeted expectations.

Collection rates for business rates are expected to be significantly down on budgeted expectations as a result of the ongoing pressures businesses are seeing due to Covid-19. Uncollected debt for the 2020/21 billing year as at 31 March 2021 is expected to be approximately £4m compared to £2m in 2019/20. Collection rates performance for business rates in 2020/21 are not comparable to prior years due to a number of rates reliefs being made available by Government to support businesses during the pandemic, with approximately £27m of the £74m billed for business rates during 2020/21 being covered by Retail, Leisure and Hospitality Grants.

## *Smoothing of collection fund losses*

The Local Authorities (Collection Fund: Surplus and Deficit) (Coronavirus) (England) Regulations 2020 came into force on 1 December 2020 allowing the repayment of collection fund deficits arising in 2020/21 to be spread over the next three years rather than the usual period of one year, and these Regulations apply separately to each of the council tax and non-domestic rates collection fund balances.

## **2.8 Other specific grants / pooled funding**

The council receives a large number of external grants which make up 55.87% of the councils total funding. The main grants are summarised below:

- Dedicated Schools Grant – this is passported directly to schools under a specified formulae – the council is expecting to receive c£172.32m in 2021/22 with future allocations dependent on final pupil numbers.
- Public Health Grant - Local Authorities in England took responsibility for the commissioning of some Public Health services from the National Health Service (NHS) on April 1st 2013. The grant is £18.04m, and is expected to continue at this level for future years, although the final allocation is still subject to confirmation.
- Additional Social Care grant - on 29 October 2018 an additional £410m was announced to council's for adults and children's social care, and the SR19 confirmed the continuation of funding into 2020/21, along with a further £1bn to be distributed using the existing Adult Social Care Relative needs Formula for 2020/21. The local allocation for Walsall is £8.8m in 2020/21. SR20 on 25 November 2020 confirmed that this will continue into 2021/22, along with an extra £1bn to fund adult and children's social care. This new £1bn is primarily made up of local council tax revenues (via the ability to raise a precept of 3% on council tax) and £300 million of new grant funding for adult and children's social care – the provisional settlement on 17 December 2020 confirmed Walsall's allocation as £2.4m.
- Better Care Fund (BCF) – The authority is the lead for the BCF pooled budget which involves partnership working between adult social care and Walsall Clinical Commissioning Group (WCCG), with both parties making a contribution into the fund. BCF (formerly the Integration Transformation Fund) was announced by the Government in the June 2013 spending round, at a national value of £5.3bn, to ensure a transformation in integrated health and social care. It creates a local single pooled budget to incentivise the NHS and local government to work more closely together around people, placing their well-being as the focus of health and care services. The 2015/16 financial year was the first year of the BCF, with the Improved Better Care Fund (iBCF) introduced in 2017/18. For 2021/22, £9.38m will be received for BCF and £13.76m for iBCF.
- New Homes Bonus (NHB) - £1.15m is held centrally to support the budget, a reduction of £883k for 2021/22, with predicted ongoing reductions included in the MTFO for future years. NHB is currently under review, with future allocations to be confirmed.
- Troubled Families Grant has been confirmed as being extended into 2021/22, with an indicative allocation of £1.08m.
- Housing Benefit grant of £72m, expected to reduce annually as we continue to move to Universal Credit.
- Grants of £3bn to support councils in 2021/22 for the continued impact of Covid-19, as announced in SR20 on 25 November 2020, as follows:

- £1.55bn to meet additional Covid-19 pressures. The provisional Settlement on 17 December 2020 confirmed Walsall's allocation as £9.23m. This aims to cover Covid-19 costs and loss of income not recoverable from the sales, fee and charges grant (which is only payable for the first three months of the financial year).
- £0.67bn additional grant funding to help local authorities support the continuing cost of helping households that are least able to afford council tax payments. Walsall's allocation is £4.52m.
- £0.76bn to compensate local authorities for 75 per cent of irrecoverable loss of council tax and business rates revenues in 2020/21 that would otherwise need to be funded through local authority budgets in 2021/22 and later years i.e. collection fund deficits being dispersed (the impact is dependent on submission of final council tax and business rates returns for 2020/21, with current estimates being £3.99m).
- £0.02bn for extending the existing Covid-19 sales, fees and charges reimbursement scheme for a further three months until the end of June 2021 (the financial grant figure will be subject to actual losses incurred in 2021/22 as they arise).
- At this point, further impacts of the pandemic are unclear, as such whilst the above is welcome, an assurance from Government that they will pay for all pressures and income losses in relation to Covid-19 would be welcome.
- A new Lower Tier Services Grant of £111m has been made available for 2021/22 as announced at provisional settlement on 17 December 2020 – Walsall allocation confirmed as £439k;
- Other grants are expected to continue at current levels – these include specific grants for schools (Pupil Premium, 6<sup>th</sup> Form, Teachers' pay/pensions), Street Lighting, and Leisure related funding.

## 2.9 Growth and Investment

The following key financial planning assumptions are included and are based on best professional estimates. The draft budget 2021/22 – 2023/24 includes provision for investment and cost pressures of c£47.38m, as shown in **Annex 5**, which are proposed to address service demand pressures linked to council priorities in the council's Corporate Plan, and the prioritisation of key services.

Primarily, investment covers:

1. *Provision for pay and pensions (corporate cost pressures held centrally, which will be allocated to services in year) and inflation:*
  - Provision for pay and increments;
  - Impact of pension auto-enrolment and tri-annual employer pensions contributions based on the latest valuation information. Work is currently being undertaken by the pension fund to provide details for the next 3 years, therefore best estimate have been used;
  - Provision for contractual increases;
  - No provision for general inflation – services are required to manage this within existing budgets.

2. *Demand and demographic changes within services (demand led cost pressures):*
  - Increases in placements/costs for looked after children;
  - Increased care packages/costs within adult social care arising from an increased ageing population;
  - Management and inclusion of ongoing service pressures and income shortfalls from the current year.
  
3. *Changes in Government funding:*
  - Core funding has reduced by c£106.47m between 2010/11 and 2021/22. There remains considerable uncertainty in respect of the amount of income we will receive in Government funding from 2022/23 onwards. The local government provisional settlement announced on 17 December 2020 outlined government spending plans for 2021/22 – an increase of £0.1m in our core funding;
  - Core funding via top up grant has halved, from c£32m in 2017/18 to £18m in 2021/22;
  - Comparison of actual business rates income compared with what the Government anticipated the council to collect, along with provision for appeals against rate valuations, means that actual income is roughly in line with Government estimates;
  - Changes in the value of business rates retained by local authorities (currently 100% for Walsall as part of the pilot for 2021/22, although under review by Government in the longer term with an assumption of a minimum 75% retention), the risk to the council increases, as the council will be required to fund more of the cost of appeals, which have proved a significant cost to councils' to date;
  - Impact of Covid-19 on the collection fund.

## **2.10 Savings requirement**

In order to set a balanced budget, and after a review of available resources from central Government grant and local resources, and taking into account additional known and likely pressures, total revenue reductions of just over £8.76m were approved by Council in February 2020 for 2020/21. Due to the impact of Covid-19, there has been a delay in the full implementation of approved savings into 2021/22 as set out in previous sections.

For 2021/22 and future years, the council's medium term financial outlook has been updated to reflect the predicted changes to direct government funding, the collection fund and other known cost pressures set out in the previous sections of this report, resulting in a revised requirement to make changes to service delivery to meet a three year funding shortfall of c£65.43m as follows:

2021/22 - £28.90m  
2022/23 - £22.01m  
2023/24 - £14.52m

## 2.11 Walsall Proud Programme

Our approach to setting the budget from 2020/21 was different to previous years. The new approach set the overall financial savings expected to be delivered via Proud Programme work stream activity.

The Walsall Proud Programme (WPP) is an extensive and ambitious programme of change designed to modernise the way the council works and deliver improved services to customers. The launch of the programme in April 2019 marked the beginning of a period of intensive activity designed to deliver sustainable improvements to both the council's existing ways of working and as a consequence, its long term budget position. As such, these improvements are set to last well beyond the term of the programme putting the council in a sustainable position for the future, able to attract great employees, balance competing demands for scarce resource, provide easy access to council services and play a vital role in the future of our communities.

The Proud Promise is a key feature of the Programme and guides the decisions of the Walsall Proud Programme Board. The Proud promise is:

- Improve outcomes and customer experience
- Improve employee satisfaction and engagement
- Improve service efficiency and performance

To deliver this ambitious programme of change, the council contracted with PricewaterhouseCooper as a Strategic Transformation Partner. The aim of this arrangement is to bring much needed critical capability and capacity to the council to work in partnership with the council to design and drive change.

The WPP will deliver the enabling capabilities for Directors' to deliver the required savings for 2021/22 and beyond – the extent of savings being dependent on the pace of change and the level of ambition. The Proud Programme covers all council services and consists of nine key work streams. The high level financial opportunity (£) attached to each of the work streams is as follows, totalling £70.26m:

1. Outcomes, Service Levels and Delivery Models (work stream currently under review) - £5.69m;
2. Commissioning, Procurement & Contract Management (Third Party Spend) - £19.41m;
3. Communication, Change and Culture & Behaviours – £ is nil as this is an enabler for other services and work streams;
4. Customer Access and Management - £17.44m;
5. Designing the Ways of Working – Hubs and Enabling Support Services - £9.94m;
6. Enabling Technology - £ is nil as this is an enabler for other services and work streams;
7. Income Generation & Cost Recovery - £15.45m;
8. Connected Working (Perform+) - £2.33m;
9. Corporate Landlord - £ is nil as this is an enabler for other services and work streams.



Further details of the work streams and activity are shown in **Annex 6**. Cabinet approved a total investment cost to benefit ratio of 1:2.5 for Proud (for every one-off £1 invested, this will deliver £2.50 of recurring additional benefit which can be used to support the council's financial position or be reinvested into services).

The programme is developed around the following ten key outcomes, aligned to council Corporate Plan priorities:

Economic Growth;

- Creating an environment where business invests and everyone who wants a job can access one
- Education, training and skills enable people to fulfil their personal development

People;

- People live a good quality of life and feel they belong
- People know what makes them healthy and they are encouraged to get support when they need it

Internal Focus;

- Internal services deliver quality and adapt to meet the needs of customer facing services
- Services are efficient and deliver value for money

Children;

- Children thrive emotionally, physically, mentally and feel they are achieving their potential
- Children grow up in connected communities and feel safe everywhere

Communities;

- Housing meets all people's needs, is affordable, safe and warm
- People are proud of their vibrant town, districts and communities

Proud savings of £28.90m are required in 2021/22 to balance the budget and these have been identified. These are summarised at **Annex 7**, split into two categories;

**A. Policy Proposals** - with a direct impact on services, and which require an Executive (Cabinet) decision to proceed, these are referred for stakeholder consultation and equality impact assessment prior to decisions being made to include these in Cabinet's final budget proposals.

**B. Operational Proposals** – savings which officers have delegations to implement; examples include restructures, back office savings, operational efficiencies.

These savings are summarised by Proud Programme Outcomes in **Table 7:**

<b>Table 7: 2021/22 Indicative Savings by WPP Outcome</b>			
<b>Outcome</b>	<b>Policy savings Annex 7A £m</b>	<b>Operational savings Annex 7B £m</b>	<b>Total savings £m</b>
Creating an environment where business invests and everyone who wants a job can access one	0.00	(0.25)	(0.25)
Education, training and skills enable people to fulfil their personal development	0.00	(0.56)	(0.56)
People live a good quality of life and feel they belong	(0.24)	(14.68)	(14.92)
People know what makes them healthy and they are encouraged to get support when they need it	(0.06)	(0.88)	(0.94)
Internal services deliver quality and adapt to meet the needs of customer facing services / Services are efficient and deliver value for money	(3.09)	(2.77)	(5.86)
Children thrive emotionally, physically, mentally and feel they are achieving their potential	0.00	(0.08)	(0.08)
Children grow up in connected communities and feel safe everywhere	(0.12)	(4.46)	(4.58)
Housing meets all people's needs, is affordable, safe and warm	0.00	(0.26)	(0.26)
People are proud of their vibrant town, districts and communities	(0.73)	(0.72)	(1.45)
<b>Total Savings / efficiencies</b>	<b>(4.25)</b>	<b>(24.65)</b>	<b>(28.90)</b>

### The impact of Covid-19

In March 2020, the council along with the communities it serves and its partners, faced the Covid-19 crisis. As a provider of public services and in its civic leadership role, the council quickly responded by re-prioritising services, responding to Government announcements, working in partnership and immediately redirecting resources to achieve the necessary crisis response.

As part of this response, the council conducted a review of the WPP in order to determine those activities which could continue and those which should be delayed whilst the council responded to the Covid-19 situation. The following criteria was used:

- **Care** - Employees and residents are already experiencing disruption to their lives and significant amounts of uncertainty. Therefore, we will not conduct activities which may add to this;
- **Manage disruption** - We will identify those activities which can continue over the coming months so that we can continue to progress towards delivering the Programme benefits where possible;
- **Working remotely** - Our teams will work remotely and use the technology available to collaborate on projects and deliver outputs. Exceptions to this will be managed and the impact on progress monitored.

Throughout the Covid-19 period, work continued on the Programme where possible. It was also possible to identify examples of changes in working practices which having taken place in response to Covid-19 were in line with the aspirations of the Proud Programme. These included introducing new ways of working, making the best use of technology, challenging existing processes and procedures, working in partnership and demonstrating the best of what our teams can achieve.

Over recent months, activity within the Programme has restarted. This includes preparing for employee consultations; completing outstanding design work within the Enabling Support Services work stream; continuing with procurement activities within the Enabling Technology work stream; commencing work on the council's Asset Management Strategy and providing Connected Working tools and techniques to support teams. In parallel and complementary to the Resilient Communities service transformation plan (STP); public consultation has begun on the Resilient Communities proposals, in conjunction with the resident's survey, and engagement activities have commenced with partners. Both activities had been delayed due to lockdown restrictions and council priorities as a result of the coronavirus pandemic. Consultation with employees also re-commenced in autumn 2020. There remains a risk that any significant further waves of Covid-19 will impact on the deliverability of the Programme at a most critical time.

### Service Transformation Planning process (STP)

The council identified an opportunity to bring together the work of the Proud Programme and the work taking place in each directorate in response to Covid-19. As part of the Outcomes, Service Levels and Delivery Models work stream, the Proud Programme has worked with services to establish a desired direction of travel for service delivery. Drawing on good practice and applying Walsall context, a number of common themes have been identified which will support the future delivery of council services:

- Using effective marketing and communications to change behavior;
- Using local assets and empowering communities to deliver outcomes;
- Partnering in an effective way where a council-only response is not enough;
- Providing one, clear, unified offer for council-only delivered services

These themes will help transformation planning for the council as a whole in order to best deliver the Corporate Plan priorities and outcomes. In line with this, the Programme has been supporting Directors to develop Service Transformation Plans (STPs) to deliver both financial and non-financial benefits. Each Director was asked to prepare an STP identifying:

- The strategic direction of travel for their service(s);
- How the service(s) would deliver against the 3 KPIs of the Proud Programme;
- How each service would use the new ways of working and capabilities delivered by the Programme to deliver the 3 KPIs;
- Savings to be delivered over 2021/22 to 2022/23.

Directors worked within a compressed timeframe to deliver their STPs, including the undertaking of Directors test and challenge sessions. This process has enabled Directors to consider the practical application of the original Proud Programme business case within their individual area and as a result generate the budget proposals set out within this report.

Analysis is continuing to ensure that:

- The council's Corporate Plan objectives and proposed direction of travel for each area has been considered;
- All future options for the application of new ways of working has been considered within each service transformation plan; and,
- Further options for service transformation in future are clearly identified including opportunities to bring that activity forward, where applicable.

This analysis is required as the council seeks to address the budget position for the years' beyond 2021/22. It also ensures that the Proud Programme business case (agreed in 2018) which sets out the benefit opportunities (including financial) to be delivered through investment in the programme can be delivered. The Programme is now entering a critical period as it moves broadly from design and into implementation. For a period, the council will be required to manage the implementation of STP's whilst continuing to deliver new ways of working through the work streams, for example, implementation of the Customer Access and Management capability is underway at the same time as Director's will be seeking to use that capability as part of delivering their plans. This will put additional strain on resourcing throughout the organisation and will require a joined up approach to change management both internally and externally.

**Annex 1** outlines the indicative cash limit for 2021/22 by directorate, and **Annex 2** by outcome. **Annex 4** outlines indicative cash limits by directorate.

## **2.12 General / Earmarked Reserves and Contingencies**

The council's MTFS sets out how the council will structure and manage its finances now and in the future to ensure it continues to demonstrate financial stability and to ensure this facilitates delivery of the council's corporate plan objectives.

The council's statutory S151 Officer produces the strategy, and advises on the level of reserves, in accordance with statute, best practice, professional opinion and the council's MTFS. In accordance with Section 25 of the Local Government Act 2003 and to comply with CIPFA guidance on local authority reserves and balances, the S151 Officer is required to formally consider and report to members upon the adequacy of reserves in respect of the 2021/22 budget, as outlined in **Annex 12**.

Additionally, this requirement covers reporting on the robustness of the estimates used for the purpose of calculating the budget.

The Government is fundamentally changing the way in which local government is funded, which increases the financial risk to the council. As such, and in accordance with statute and best practice, the level and nature of reserves have been reviewed as part of the budget process.

### **3. Summary of the 2021/22 Capital Programme**

Following the publication of the revised Prudential Code for Capital Finance in Local Authorities 2017, there is a requirement for councils to produce a Capital Strategy. This should “*set out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk, reward and impact on the achievement of priority outcomes.*” The revised Capital Strategy is set out at **Annex 8**.

The council has an asset portfolio of around £515m. Therefore managing and maintaining these assets is a key issue for the council to ensure they continue to be fit for purpose and their value is maintained. The capital programme is key to delivering the council’s vision and priorities.

Due to the diverse nature of capital expenditure, each capital scheme impacts on residents in different ways according to their use of council facilities and services. The capital programme has been constructed within the principles outlined in our Capital Strategy. This document drives the construction and management of the capital programme. The Strategy reflects and enables delivery of the council’s vision and priorities and approved schemes must deliver that aim. It also requires the council to optimise successful partnership working for example through the Walsall Partnership, NHS Walsall, registered social landlords and regionally with other councils.

The 2021/22 capital programme totals £103.76m, detailed in **Annex 9**, and is presented in two parts:

- A. Council funded programme (£57.05m) - funded through borrowing and capital receipts (**Table 8/9**). Of this £1.33m is identified for council wide schemes, funding to support essential works including health and safety and other projects that cannot be guaranteed at the start of the year.

A further £28.00m provision is made for council pipeline investment opportunities, including emerging regeneration schemes, where funding or match funding is required, and major capital projects. To access these funds, an outline business case will need to be approved by the council’s Strategic Investment Board, (which is currently being set up), followed by a full business case which will require Cabinet approval.

- B. Non-council funded programme (£46.71m) - funded from capital grants (**Table 10**).

In addition, the council’s leasing programme for 2021/22 is £4.6m, the revenue costs of which are funded from services own budgets (**Table 11**).

Capital resources will continue to be limited in the future, inevitably placing more pressure on our ability to make future capital investment decisions. Funding will be more reliant on the council’s ability to secure capital receipts from sale of land and buildings or affordable additional borrowing. A strategic review of assets will be undertaken as part of the Corporate Landlord work stream of the Proud Programme, which will inform the revision of the Capital Strategy and formulation of future years capital programmes.

Following consultation during 2020, HM Treasury have now revised access requirements for local authorities seeking to access borrowing from the Public Works and Loans Board (PWLB). These revisions mean that Local Authorities will not be able to access PWLB borrowing to buy investment property with the primary aim of 'generating yield', and specifically to access PWLB funding authorities will need to submit three year capital plans to PWLB, with the S151 officer confirming that there is no intention to buy investment properties primarily for yield at any point within those three years.

If there are any intentions by the authority to buy investment properties primarily for yield within the three year capital programme then PWLB will not be able to lend to the authority for the period of that programme. HM Treasury have also confirmed that where local authorities do seek to pursue debt-for-yield projects which they finance in other ways, such as through the use of internal cash balances or borrowing from other financial institutions, they would then not be able to access PWLB borrowing to refinance this element of debt going forwards.

As interest rates on PWLB borrowing are normally more favourable than other forms of borrowing, being unable to access PWLB and having to seek borrowing from other financial institutions is therefore likely to increase the overall revenue costs required to fund the elements of the councils capital programme which are funded from borrowing – for example every 1% increase in interest costs on a three year capital programme including circa £120.00m of capital spending funded from borrowing (similar to the level included within this report) would add £1.20m of additional ongoing revenue costs per year by the end of the three year period.

### **Council Funded Programme: Funded from Walsall's own resources**

#### Funding

The council funded element of the capital programme is normally financed from borrowing, capital receipts and the carry forward of unspent allocations from previous years.

Borrowing is required to be funded from the council's own resources – generated through savings, and/or paid for via council tax. (This is also commonly known as unsupported or Prudential borrowing). Councils are allowed to borrow in accordance with the Treasury Management Code of Practice. The current capital financing / services cash limit is forecast to be able to support £54.53m of additional borrowing to fund high priority items in 2021/22.

An allocation of £1.50m is assumed from capital receipts each year, which is monitored in year by property colleagues. Any additional receipts received in year (excluding those earmarked for specific schemes) will be considered to fund projects identified on the reserve list of schemes. Additionally, **Annex 11** sets out the council's Flexible Use of Capital Receipts Strategy, which will utilise eligible new receipts to fund elements of the council's Proud Programme. **Table 8** shows planned resources to fund the mainstream capital programme for the three years from 2021/22.

<b>Category</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>	<b>2023/24 £m</b>
Capital receipts projected	1.50	1.50	1.50
Earmarked capital receipts	0.00	0.00	0.00
General borrowing	9.84	10.32	6.70
Revenue contribution to capital	0.02	0.02	0.02
Prior year underspends	1.00	0.00	0.00
Borrowing for Regional Materials Recycling Facility	4.76	2.72	0.00
Borrowing / Capital Receipts for Proud investment	0.00	0.00	0.00
Borrowing for Waste Strategy	8.89	3.00	0.00
Borrowing – Enterprise Zones*	2.94	13.94	4.07
Borrowing – Pipeline investments	28.00	8.00	4.00
Borrowing – High Streets Fund	0.10	4.24	14.68
<b>Total Mainstream resources</b>	<b>57.05</b>	<b>43.74</b>	<b>30.97</b>

\*Requirement to cash flow prior to generation of business rates.

Further £4m provision for Flexible use of Capital Receipts carried forward from 2020/21.

### Capital Schemes

For 2021/22 services were asked to review current and future schemes included in the capital programme approved by Council in February 2020. Requests for new allocations were considered in line with council priorities and the work of the Proud Programme. Details can be found in **Annex 9A** and are summarised by directorate in **Table 9** below.

<b>Directorate</b>	<b>Rolling Programme £m</b>	<b>Prior / Current Year Approval £m</b>	<b>New Allocations £m</b>	<b>Total Mainstream £m</b>
Adult Social Care and Public Health	0.00	0.00	0.00	0.00
Children's, Education and Customer Services	0.48	0.33	0.00	0.81
Economy, Environment and Communities	2.82	18.87	0.17	21.86
Resources and Transformation	0.00	4.18	0.87	5.05
Centrally held budgets *	1.00	0.00	28.33	29.33
<b>Total Council Funded Capital</b>	<b>4.30</b>	<b>23.38</b>	<b>29.37</b>	<b>57.05</b>

\*Centrally held relates to £1.00m funding to support essential works, including health and safety e.g. retained housing land, asbestos removal, statutory testing, legionella, fire risk, demolition of redundant buildings, planned maintenance, risk management and self-insured property damage, along with £0.33m of additional funding to support new health and safety requirements such as social distancing and security measures as a result of Covid-19. A further £28.00m is set aside for pipeline investment opportunities, which will be allocated in year subject to a full business case being approved by Cabinet.

Schemes are recommended to go ahead for a number of reasons:

- Address policy including;
  - Support with cost of living
  - Creating jobs and helping people get new skills
  - Improving educational achievements
  - Helping local high streets and communities

- Help create more affordable housing
- Promoting health and wellbeing
- Ensuring a modern effective council (including ICT infrastructure)
- Return on investment / Asset management - schemes that unlock external investment in the borough; drive out long term revenue savings; support the strengthening of the borough's economy; deliver an efficient and effective operational estate; and invests in assets to grow future income streams for the council;
- Supports the delivery of ongoing benefits identified through the Proud Programme;
- Capital insurance reserves: to protect the council's position, for which funding is available should the need arise to draw it down;
- Priority schemes for which external funding can be drawn down and which may or may not require a contribution from the council's own resources.

All capital schemes were reviewed by the Corporate Management Team and Asset Strategy Group, prior to formal consideration by Cabinet for recommendation to Council. The draft capital programme was scrutinised by Overview and Scrutiny Committees. Whilst the overall demand for resources usually exceeds those available, schemes deemed to be a high priority in terms of reflecting the council's priorities can be funded, representing a balanced programme for 2021/22 with indicative allocations which are subject to further review for 2022/23 onwards.

A number of 2020/21 schemes (**Annex 10**) are expected to be carried forward into 2021/22, totalling £34.84m. This will be reported to Cabinet for approval.

### Externally Funded Programme

Full details of externally funded schemes are found in the draft capital programme at **Annex 9B** and are summarised in **Table 10** below. Many of these are indicative allocations pending formal notification from the respective funding bodies, and the capital programme will be adjusted in year to reflect final allocations. Certain schemes can go ahead as these are either fully funded by grant or have the necessary mainstream match funding already approved. If grant or mainstream funding is unavailable then the scheme will not go ahead.

<b>Table 10: Externally Funded Capital Programme 2021/22 by Directorate</b>			
<b>Directorate</b>	<b>Government Funding £m</b>	<b>Third Party / External* £m</b>	<b>Total Funding £m</b>
Adult Social Care and Public Health	0.00	0.00	0.00
Children's, Education and Customer Services	8.44	0.00	8.44
Economy, Environment and Communities	3.48	8.55	12.03
Resources and Transformation	26.24	0.00	26.24
Centrally held budgets	0.00	0.00	0.00
<b>Total Externally Funded Capital</b>	<b>38.16</b>	<b>8.55</b>	<b>46.71</b>

*\*Walsall is Accountable Body for Growth Deal and Land & Property Investment Fund.*



## Leasing Programme

The 2021/22 leasing programme totals £4.60m and is summarised in **Table 11** below. Leasing minimises the call on capital resources by spreading the acquisition cost over a number of years. Revenue funds are required to finance operating leases, and are included in the revenue budget.

<b>Table 11: Leasing Programme 2021/22</b>		
<b>Directorate</b>	<b>Asset cost</b>	<b>Revenue Leasing</b>
	<b>£m</b>	<b>£m</b>
<b>Economy, Environment and Communities</b>		
Refuse Vehicles	1.86	0.65
Light Commercial Vehicles	1.93	0.36
Tractors & Agricultural Machinery	0.29	0.23
Welfare Vehicles	0.52	0.06
Equipment	0.00	0.12
<b>Total draft leasing programme</b>	<b>4.60</b>	<b>1.42</b>

## 4. Medium term financial outlook – 2022/23 onwards

### Revenue

Key sources of funding, in particular fees and charges, Government grant and specific grant are assessed on a regular basis, along with emerging cost pressures. The focus is on forward planning to ensure financial risk is managed and mitigated and all known liabilities are funded, including the cost of capital investment decisions.

As referred to in section 2, Walsall Council, via the West Midlands Combined Authority, has been designated a pilot for the 100% business rates retention scheme, which has been confirmed will continue into 2021/22.

A review of the scheme by government to amend the % of retained business rates from 49% to 75% was due to be finalised by 2020/21 but due to delays this has not been fully undertaken and introduced. The review is still on-going with changes expected in 2022/23.

The Government expects national increases in growth in rate yields to fully offset the reduction in core funding. The reality is that Walsall, due to its relative need and business rate yield, will be unable to fully cover this further significant funding shortfall. This is exacerbated further by the ongoing impact of the pandemic. Assumptions have been made in our medium term financial outlook around overall changes to Government spending for this period, along with known cost reductions and pressures.

Beyond 2021/22, funding allocations still remain uncertain. A further Spending Review is expected in 2021 to cover the period from 2022/23, along with the outcome of the Fair Funding review of local authority finance, both of which are expected to impact on our medium term financial outlook.

A balanced budget is reported for 2021/22, with savings of £28.90m to be delivered through the Proud Programme. Draft balanced budgets are presented for 2022/23 and 2023/24, with £22.01m of savings required in 2022/23 and £14.52m in 2023/24. The majority of 2022/23 savings have been identified (£19.10m), with a further £2.91m for which delivery plans are currently being worked up. The position for 2022/23 and 2023/24 is summarised in **table 12**.

<b>Table 12 : Indicative savings</b>		
<b>Work stream / STP activity</b>	<b>Savings 2022/23 £m</b>	<b>Savings 2023/24 £m</b>
<b>Savings as shown on Annex 7</b>	<b>(19.10)</b>	<b>(4.47)</b>
<i>Indicative savings:</i>		
Customer Access & Management	(0.81)	(3.13)
Designing Ways of Working - Hubs	(0.12)	(0.46)
Designing Ways of Working - Enabling Support Services	(0.17)	(0.66)
Enabling Technology	0.00	0.00
Income Generation & Cost Recovery	(0.95)	(3.67)
Third Party Spend	(0.86)	(2.13)
<b>Total savings</b>	<b>(22.01)</b>	<b>(14.52)</b>

This provides the council with a sound opportunity to plan ahead and seek to rebalance the budget to deliver its corporate plan priorities, and allows it flexibility to adapt to an ever changing climate.

As referred to in Section 2, further details on the work streams and current activity are shown in **Annex 6**.

**Annex 4** outlines indicative cash limits by directorate and the required phasing of implementation of the Proud Programme to deliver a balanced budget over the period to 2023/24, summarised in **Table 13**.

<b>Table 13 : Revenue Cash Limits by Directorate</b>			
<b>Directorate</b>	<b>Indicative 2021/22 £m</b>	<b>Indicative 2022/23 £m</b>	<b>Indicative 2023/24 £m</b>
Adult Social Care and Public Health	58.02	57.18	41.26
Children's, Education and Customer Services	81.97	76.99	64.01
Economy, Environment and Communities	53.90	52.85	49.83
Resources and Transformation	13.72	11.63	5.87
<b>Net Portfolio Cash Limits</b>	<b>207.61</b>	<b>198.65</b>	<b>160.97</b>
Levies	11.27	11.27	11.27
Central budgets *	(86.33)	(73.78)	(32.42)
<b>Council Tax Requirement</b>	<b>132.55</b>	<b>136.14</b>	<b>139.82</b>

*\*Central budgets includes direct Government funding and business rates.*

### **Capital**

Capital programme resources are limited. The financing for capital expenditure on new investments is heavily reliant on grants and other funding received from the Government. The Government is clearly, in the medium term, planning to significantly reduce government financed capital spending.

The remaining flexibility is currently through capital receipts and borrowing. Capital receipts projections however are limited, and fully dependent on when council assets are sold. Earmarking of capital receipts beyond what we are statutorily obliged to do is not recommended without overall strategic consideration of the entire capital programme. Use of unsupported borrowing incurs ongoing revenue debt charges and impacts on council tax payers.

Capital allocations and grants from Government and other sources have not yet been published, therefore best estimates have been used, based on published information to date. Any further reduction in funding will require amendments to the draft programme.

Despite the above difficulties, significant investment is planned and funded over the three years 2021/22 to 2023/24 and the capital programme is balanced for each year, subject to annual review. The council is able to fund all existing commitments and has, through prioritisation of bids and resources and sound treasury management, been able to support new investment into key services, and areas of capital investment need.

The list of capital schemes included in the capital programme for 2021/22 to 2023/24 are shown in **Annex 9. Table 14** shows the capital programme against predicted available resources. **Table 15** summarises the capital programme by directorate.

<b>Table 14 : Capital Programme</b>			
	<b><u>2021/22</u></b>	<b><u>2022/23</u></b>	<b><u>2023/24</u></b>
<b><u>Anticipated Capital Resources</u></b>	<b><u>£m</u></b>	<b><u>£m</u></b>	<b><u>£m</u></b>
Council resources as shown in table 8	57.05	43.74	30.97
External Funding	46.71	18.82	10.83
<b><i>Total capital resources</i></b>	<b><i>103.76</i></b>	<b><i>62.56</i></b>	<b><i>41.80</i></b>
<b><u>Capital Bids</u></b>			
Rolling Programme Schemes	4.30	4.30	4.30
Prior Year Approvals	14.23	23.93	7.99
Current Year Approvals (2020/21)	9.15	3.00	0.00
Proud Investment	0.02	0.17	0.00
New capital allocations	29.35	12.34	18.68
<b><i>Total council funded schemes</i></b>	<b><i>57.05</i></b>	<b><i>43.74</i></b>	<b><i>30.97</i></b>
Externally funded schemes	46.71	18.82	10.83
<b><i>Total draft capital programme</i></b>	<b><i>103.76</i></b>	<b><i>62.56</i></b>	<b><i>41.80</i></b>
<b><i>Funding shortfall (surplus)</i></b>	<b><i>0.00</i></b>	<b><i>0.00</i></b>	<b><i>0.00</i></b>

<b>Table 15 : Capital Programme by directorate</b>			
<b>Directorate</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Adult Social Care and Public Health	0.00	0.00	0.00
Children's, Education and Customer Services	9.25	8.43	8.43
Economy, Environment and Communities	33.89	38.83	18.34
Resources and Transformation	31.29	6.30	10.03
Centrally held budgets *	29.33	9.00	5.00
<b>Draft Capital Programme</b>	<b>103.76</b>	<b>62.56</b>	<b>41.80</b>

*\*Centrally held relates to an annual allocation of £1.00m funding to support essential works, including health and safety e.g. LSVT retained housing land, asbestos removal, statutory testing, legionella, fire risk, demolition of redundant buildings, planned maintenance, risk management and self-insured property damage, along with £0.33m of additional funding to support new health and safety requirements such as social distancing and security measures as a result of Covid-19. A further £42.00m over the three years is set aside for pipeline investment opportunities, which will be allocated in year subject to a full business case being approved by Cabinet.*

## Part 1 Annex 1: Summary of Corporate Revenue Budget 2021/22 by Directorate

DIRECTORATE	2020/21 REVISED FORECAST £	BASE BUDGET ADJUSTMENTS £	INVESTMENT AND PRESSURES (Annex 5) £	INDICATIVE SAVINGS * (Annex 7) £	2021/22 FORECAST BUDGET £
Adult Social Care	66,136,706	2,158,590	3,275,208	-13,550,981	58,019,523
Children's Services	82,134,249	842,774	5,954,319	-6,962,523	81,968,819
Economy, Environment & Communities	53,729,238	493,566	2,216,451	-2,537,333	53,901,922
Resources & Transformation *	16,321,235	-1,281,926	1,637,375	-2,958,411	13,718,273
<b>TOTAL SERVICES</b>	<b>218,321,428</b>	<b>2,213,004</b>	<b>13,083,353</b>	<b>-26,009,248</b>	<b>207,608,537</b>
Non-service specific prudence/central items/capital financing	-102,670,618	4,349,370	14,748,535	-2,889,000	-86,461,713
<b>Levies:</b>					
West Midlands Combined Authority Transport Levy	11,146,812	37,000	0	0	11,183,812
Environment Agency	82,739	0	0	0	82,739
<b>NET REVENUE EXPENDITURE</b>	<b>126,880,361</b>	<b>6,599,374</b>	<b>27,831,888</b>	<b>-28,898,248</b>	<b>132,413,375</b>
(Use of)/contribution to reserves	685,777	-553,371	0	0	132,406
<b>TOTAL COUNCIL TAX REQUIREMENT</b>	<b>127,566,138</b>	<b>6,046,003</b>	<b>27,831,888</b>	<b>-28,898,248</b>	<b>132,545,781</b>

\*There is further investment of £860k in 2021/22, £4.52m in 202/23 and £6.82m in 2023/24 relating to pay and pensions to be allocated to services.

## Part 1 Annex 2: Summary of Corporate Revenue Budget 2021/22 by Outcome

OUTCOME	2020/21 REVISED FORECAST £	BASE BUDGET ADJUSTMENTS £	INVESTMENT AND PRESSURES * (Annex 5) £	SAVINGS (Annex 7) £	2021/22 FORECAST BUDGET £
Creating an environment where business invests and everyone who wants a job can access one	5,312,624	-1,132,096	336,447	-250,981	4,265,994
Education, training and skills enable people to fulfil their personal development	18,412,025	-151,172	1,738,168	-557,390	19,441,631
People live a good quality of life and feel they belong	71,174,954	1,997,990	3,907,467	-14,917,195	62,163,216
People know what makes them healthy and they are encouraged to get support when they need it	2,933,638	763,553	249,655	-937,143	3,009,703
Internal services deliver quality and adapt to meet the needs of customer facing services / Services are efficient and deliver value for money	-77,394,172	4,680,184	16,283,861	-5,860,860	-62,290,987
Children thrive emotionally, physically, mentally and feel they are achieving their potential	2,672,494	-20,795	-100,000	-84,352	2,467,347
Children grow up in connected communities and feel safe everywhere	59,055,130	304,291	4,204,923	-4,582,347	58,981,997
Housing meets all people's needs, is affordable, safe and warm	2,132,999	43,289	0	-256,751	1,919,537
People are proud of their vibrant town, districts and communities	43,266,446	-439,241	1,211,367	-1,451,229	42,587,343
<b>TOTAL COUNCIL TAX REQUIREMENT</b>	<b>127,566,138</b>	<b>6,046,003</b>	<b>27,831,888</b>	<b>-28,898,248</b>	<b>132,545,781</b>

\*There is further investment of £860k in 2021/22, £4.52m in 202/23 and £6.82m in 2023/24 relating to pay and pensions to be allocated to services.

## Part 1 Annex 3: Council Tax Data 2021/22

### 1. COUNCIL TAX EXCLUDING PRECEPTS (WALSALL COUNCIL ONLY)

#### A. LEVELS FOR PROPERTIES WITH TWO OR MORE RESIDENTS (67% of Properties)

BAND	WEIGHT	2020/21 C.TAX	2021/22 C.TAX	ANNUAL CHANGE	OF WHICH ASC RELATED	ANNUAL INCREASE	WEEKLY INCREASE	DAILY INCREASE
		£	£	£	£	%	£	£
A	6/9	1,188.60	1,247.91	59.31	35.66	4.99%	1.14	0.16
B	7/9	1,386.70	1,455.90	69.20	41.60	4.99%	1.33	0.19
C	8/9	1,584.80	1,663.88	79.08	47.54	4.99%	1.52	0.22
<b>D</b>	<b>9/9</b>	<b>1,782.90</b>	<b>1,871.87</b>	<b>88.97</b>	<b>53.49</b>	<b>4.99%</b>	<b>1.71</b>	<b>0.24</b>
E	11/9	2,179.10	2,287.84	108.74	65.37	4.99%	2.09	0.30
F	13/9	2,575.30	2,703.81	128.51	77.26	4.99%	2.46	0.35
G	15/9	2,971.50	3,119.78	148.28	89.15	4.99%	2.84	0.41
H	18/9	3,565.80	3,743.73	177.93	106.97	4.99%	3.41	0.49

### 2. OVERALL COUNCIL TAX INCLUSIVE OF PRECEPTS

#### A. LEVELS FOR PROPERTIES WITH TWO OR MORE RESIDENTS (67% of Properties)

BAND	WEIGHT	2020/21 TOTAL C.TAX	2021/22 WMBC C.TAX	ESTIMATE - ACTUAL T.B.A		OVERALL (INC PRECEPTS)
				2021/22 FIRE PRECEPT	2021/22 POLICE PRECEPT	2021/22 TOTAL C.TAX
		£	£	£	£	£
A	6/9	1,338.17	1,247.91	42.03	118.37	1,408.31
B	7/9	1,561.20	1,455.90	49.03	138.09	1,643.02
C	8/9	1,784.22	1,663.88	56.03	157.82	1,877.73
<b>D</b>	<b>9/9</b>	<b>2,007.26</b>	<b>1,871.87</b>	<b>63.04</b>	<b>177.55</b>	<b>2,112.46</b>
E	11/9	2,453.31	2,287.84	77.05	217.01	2,581.90
F	13/9	2,899.36	2,703.81	91.06	256.46	3,051.33
G	15/9	3,345.43	3,119.78	105.07	295.92	3,520.77
H	18/9	4,014.51	3,743.73	126.08	355.10	4,224.91

**B. LEVELS FOR PROPERTIES WITH ONE RESIDENT (25% DISCOUNT) (33% of Properties)**

BAND	WEIGHT	2020/21 TOTAL C.TAX	2021/22 WMBC C.TAX	ESTIMATE - ACTUAL T.B.A		OVERALL (INC PRECEPTS)
				2021/22 FIRE PRECEPT	2021/22 POLICE PRECEPT	2021/22 TOTAL C.TAX
		£		£	£	£
A	6/9	1,003.63	935.94	31.52	88.78	1,056.23
B	7/9	1,170.90	1,091.92	36.77	103.57	1,232.27
C	8/9	1,338.17	1,247.91	42.03	118.37	1,408.31
D	<b>9/9</b>	<b>1,505.44</b>	<b>1,403.90</b>	<b>47.28</b>	<b>133.16</b>	<b>1,584.34</b>
E	11/9	1,840.00	1,715.89	57.79	162.75	1,936.43
F	13/9	2,174.52	2,027.86	68.29	192.35	2,288.49
G	15/9	2,509.08	2,339.84	78.80	221.94	2,640.58
H	18/9	3,010.89	2,807.81	94.56	266.33	3,168.69

**3. SPREAD OF PROPERTIES**

The proportion of properties within Walsall MBC within each Council Tax band at 1st December 2020 is as follows:

BAND	A	B	C	D	E	F	G	H	TOTAL
PROPERTIES (No)	50,804	27,126	18,417	10,335	5,567	2,381	828	51	115,509
PROPERTIES (%)	44.08	23.46	15.95	8.89	4.82	2.05	0.71	0.04	100
CUMULATIVE TOTALS	67.54								
	83.49								
	92.38								



## **Part 1 Annex 4 : Revenue Cash Limit 2021/22 to 2023/24 by Directorate**

This annex outlines the indicative cash limits by directorate, including portfolio responsibilities. These will be updated in year to reflect any movement in directorate/portfolio responsibilities. Savings plans for 2023/24 will be realigned to services when agreed.

### **1. Adult Social Care and Public Health Directorate**

- **Adult Social Care Portfolio**

Care services for older people and people with learning disabilities, people with physical disabilities and people with mental health needs, health partnership, commissioning and CCG/health interface lead supporting people, protection for vulnerable adults, transition arrangements between Children's and Adult Social Care.

- **Health and Wellbeing Portfolio**

Public Health and member of Health and Wellbeing Board.

- **Leader of the Council Portfolio**

Overall responsibility for Council strategy, the corporate plan, communications and public relations, government relations and liaison with local MPs and West Midlands leaders.

- **Personnel and Business Support Portfolio**

Procurement, print and design.

- **Resilient Communities Portfolio**

Engagement and consultation.

	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>£</b>	<b>£</b>	<b>£</b>
<b>Opening cash limit</b>	66,136,706	58,019,523	57,177,259
<b>Base budget adjustments</b>			
- Falls prevention	(36,875)	0	0
- Other pay changes / service realignments	2,195,465	0	0
<b>Investment / Pressures – see Annex 5</b>	3,275,208	5,176,727	3,652,586
<b>Less Proposed Savings Plans – see Annex 7</b>	(13,550,981)	(6,018,991)	(19,569,972)
<b>Adult Social Care draft cash limit</b>	<b>58,019,523</b>	<b>57,177,259</b>	<b>41,259,873</b>

### **2. Children's, Education and Customer Services Directorate**

- **Children's Portfolio**

Services for children in need of help and protection, children looked after and care leavers, early help, schools meals commissioning, involvement of children and young people, transition arrangements between Children's and Adult Social Care, Walsall Children's Safeguarding Board and Chair of Corporate Parenting Board.

- **Education and Skills Portfolio**

Schools and education services, interagency cooperation, involvement of children and young people, special educational needs, disabilities and inclusion. Adult learning.

- **Personnel and Business Support Portfolio**

Complaints.

- **Regeneration Portfolio**

Money Home Job.

	2021/22 £	2022/23 £	2023/24 £
<b>Opening cash limit</b>	82,134,249	81,968,819	76,987,804
<b>Base budget adjustments</b>			
- Home to school transport	(250,000)	(250,000)	(250,000)
- Social workers invest to save	(100,000)	0	0
- Other pay changes / service realignments	1,192,774	0	0
<b>Investment / Pressures – see Annex 5</b>	5,954,319	4,672,386	3,640,602
<b>Less Proposed Savings Plans – see Annex 7</b>	(6,962,523)	(9,403,401)	(16,365,924)
<b>Children’s Services draft cash limit</b>	<b>81,968,819</b>	<b>76,987,804</b>	<b>64,012,482</b>

### 3. Economy, Environment and Communities Directorate

- **Leader of the Council Portfolio**  
Emergency planning, West Midlands Combined Authority, Association of Black Country Authorities and Black Country Joint Committee.
- **Clean and Green Portfolio**  
Gateways and corridors, pollution control, waste strategy, refuse collection, recycling, street cleaning, parks (maintenance) and the council’s vehicle fleet.
- **Health and Wellbeing Portfolio**  
Healthy Spaces (Green Spaces Strategy and Development).
- **Regeneration Portfolio**  
Economic development, physical development, markets, town and district centres, planning policy. Strategic housing role. Traffic and transportation, car parks, strategic transport and highways.
- **Resilient Communities Portfolio**  
Locality co-ordination, community development, community associations, voluntary and community sectors, Community Safety, community cohesion, Safer Walsall Partnership. Leisure and culture services including the New Art Gallery, libraries, sports and museums, Cemeteries and crematoria, public protection.

	2021/22 £	2022/23 £	2023/24 £
<b>Opening cash limit</b>	53,729,238	53,901,922	52,852,061
<b>Base budget adjustments</b>			
- Street Lighting one off funded from reserves	450,000	(450,000)	0
- Other pay changes / service realignments	43,566	0	0
<b>Investment / Pressures – see Annex 5</b>	2,216,451	126,813	240,000
<b>Less Proposed Savings Plans – see Annex 7</b>	(2,537,333)	(726,674)	(3,264,007)
<b>Economy, Environment and Communities draft cash limit</b>	<b>53,901,922</b>	<b>52,852,061</b>	<b>49,828,054</b>

#### 4. Resources and Transformation Directorate

- **Leader of the Council Portfolio**  
Transformation and digital. Finance including payroll and pensions, insurance, risk management, policy led budgeting. Financial Regulations, Audit, Legal and Democratic Services, Performance. Member Development.
- **Personnel and Business Support Portfolio**  
HR, equalities, hard facilities management, catering, cleaning, caretaking and Town Hall events, information governance, administration and business support.
- **Regeneration Portfolio**  
Property and asset management, Black Country Consortium, sub regional regeneration issues, local development framework, business liaison and skills.

	2021/22	2022/23	2023/24
	£	£	£
<b>Opening cash limit</b>	16,321,235	13,718,273	11,632,283
<b>Base budget adjustments</b>			
- Elections	(250,000)	250,000	0
- Economic Growth Programme	(1,000,000)	0	0
- Other pay changes / service realignments	(31,926)	0	0
<b>Investment / Pressures – see Annex 5</b>	1,637,375	766,045	300,000
<b>Less Proposed Savings Plans – see Annex 7</b>	(2,958,411)	(3,102,035)	(6,060,446)
<b>Resources and Transformation draft cash limit *</b>	<b>13,718,273</b>	<b>11,632,283</b>	<b>5,871,837</b>

\* Includes the review of administration across the council, so will be achieved from the realignment of services in year.

## **Part 1 Annex 5 : Summary of New Growth and Investment 2021/22 – 2023/24 aligned to Proud Programme Outcomes**

Directorate	Ref No	Details of Growth by outcome	2021/22 £	2022/23 £	2023/24 £
<b>People live a good quality of life and feel they belong</b>					
<b>Adult Social Care</b>	<b>1</b>	Additional Social Care demand / cost pressures	3,185,050	3,153,075	3,652,586
	<b>2</b>	Better Care Funding iBCF2 fall out of grant	0	2,023,652	0
	<b>31</b>	New Ways of Working/Staff Reconfiguration. Customer Access Management/ Resilient Communities – linked to saving OP89	50,000	0	0
	<b>32</b>	Benefit maximisation project – linked to saving OP96	40,158	0	0
<b>Children's Services</b>	<b>3</b>	Reduction in Council Tax administration grant	39,038	0	0
	<b>4</b>	Reduction in Housing Benefit administration grant	57,190	0	0
	<b>33</b>	Restructure within Money Home Job - Process Improvement – linked to saving OP98	15,000	0	0
<b>Economy, Environment &amp; Communities</b>	<b>6</b>	Taxi licensing – shortfall in income	52,000	0	0
	<b>7</b>	Licensing – shortfall in income	51,000	0	0
	<b>8</b>	Bereavement Services – shortfall in income	114,000	0	0
	<b>34A</b>	Resilient communities management posts	104,031		
	<b>35</b>	Regulatory Services new Community Protection Enforcement team	200,000	0	0
<b>Total People live a good quality of life and feel they belong</b>			<b>3,907,467</b>	<b>5,176,727</b>	<b>3,652,586</b>
<b>Creating an environment where business invests and everyone who wants a job can access one</b>					
<b>Economy, Environment &amp; Communities</b>	<b>5A</b>	Organisational redesign – Development Management	234,398	0	0
<b>Resources &amp; Transformation</b>	<b>5B</b>	Organisational redesign – Programme Management	102,049	0	0
<b>Creating an environment where business invests and everyone who wants a job can access one</b>			<b>336,447</b>	<b>0</b>	<b>0</b>
<b>People know what makes them healthy and are encouraged to get support when they need it</b>					
<b>Economy, Environment &amp; Communities</b>	<b>9</b>	Active Living - shortfall in income	188,155	0	0
	<b>36</b>	Increase membership retention by utilising new customer experience centre provision – linked to saving OP82	31,500	-12,500	0
	<b>37</b>	External Marketing & Promotion Partnership Development – linked to saving P17	30,000	0	0
<b>Total People know what makes them healthy and are encouraged to get support when they need it</b>			<b>249,655</b>	<b>(12,500)</b>	<b>0</b>
<b>Children grow up in connected communities and feel safe everywhere</b>					
<b>Children's Services</b>	<b>10</b>	Additional Looked after Children demand / cost pressures	2,948,000	3,454,000	2,559,000
	<b>11</b>	Troubled Families	0	542,000	0
	<b>12</b>	Ongoing staffing resource for Children's Commissioning and Placements function to support Looked After Children controls/savings/placement	67,500	0	
	<b>13</b>	Taxis for children in care	100,000	0	0
	<b>15</b>	Foster care inflation	65,311	66,441	66,602
	<b>16</b>	Regional Adoption Agency	194,455	0	0
	<b>38</b>	Crisis support	0	0	500,000

Directorate	Ref No	Details of Growth by outcome	2021/22 £	2022/23 £	2023/24 £
Children's Services	39	Development of locality partnership offer in Early Help – linked to saving OP3	199,587	-158,587	0
	40	Mother & Baby - Daisy Project – linked to saving OP7	222,338	0	0
	41	Family drugs and alcohol court – linked to saving OP10	0	94,910	0
	42	Foster carer support - placement disruption – linked to saving OP11	193,580	0	0
	43	Mocking Bird – Increase in number of social workers	79,004	20,790	0
	44	Placement sufficiency - recruitment & retention – linked to saving OP12	85,148	0	0
	45	Grandparents plus - build in for future years – linked to saving OP13	50,000	50,000	0
<b>Total Children grow up in connected communities and feel safe everywhere</b>			<b>4,204,923</b>	<b>4,069,554</b>	<b>3,125,602</b>
<b>Children thrive emotionally, physically, mentally and feel they are achieving their potential</b>					
Children's Services	18	Educational psychologists	(100,000)	0	0
<b>Total Children thrive emotionally, physically, mentally and feel they are achieving their potential</b>			<b>(100,000)</b>	<b>0</b>	<b>0</b>
<b>Education, training and skills enable people to fulfil their personal development</b>					
Children's Services	17	Home to school transport	1,422,000	648,000	515,000
	19	Removal of revenue target for attendance fines	77,000	0	0
	46	Home to school transport - route optimisation – linked to saving OP5	159,168	(45,168)	0
	47	Reduction in use of agency and temporary staff – linked to saving OP17	80,000	0	0
<b>Total Education, training &amp; skills enable people to fulfil their personal development</b>			<b>1,738,168</b>	<b>602,832</b>	<b>515,000</b>
<b>People are proud of their vibrant town, districts and communities</b>					
Economy, Environment & Communities	5C	Organisational redesign – Engineering / Clean & Green	186,553	0	0
	34B	Resilient communities management posts	104,031	0	0
	20	Economy and Environment contractual inflation	339,313	239,313	240,000
	21	Fall out of leasing for extended vehicles	35,019	0	0
	22	Unauthorised encampment works	100,000	0	0
	23	Engineering / rights of way – shortfall in income	10,000	0	0
	24	Emergency Planning – shortfall in income	30,000	0	0
Economy, Environment & Communities	48	Communities and Partnerships – new prevent role	56,451		
	49	Planning enforcement	100,000	(100,000)	0
	50	Communities and Partnerships – new Community Safety team	250,000	0	0

<b>Total People are proud of their vibrant town, districts and communities</b>			<b>1,211,367</b>	<b>139,313</b>	<b>240,000</b>
<b>Internal Services deliver quality and adapt to meet the needs of customer facing services</b>					
<b>Resources &amp; Transformation</b>	<b>14</b>	Legal costs	250,000	0	0
	<b>25</b>	Human Resources – licences due to extension of One Source	(56,000)	0	0
	<b>26</b>	Integrated Facilities Management – shortfall in traded services income	250,000	0	0
	<b>51</b>	Integrated Facilities Management – centralised maintenance	0	250,000	0
	<b>52</b>	Webcasting and hybrid council meetings	15,000	15,000	0
<b>Directorate</b>	<b>Ref No</b>	<b>Details of Growth by outcome</b>	<b>2021/22 £</b>	<b>2022/23 £</b>	<b>2023/24 £</b>
<b>Resources &amp; Transformation</b>	<b>53</b>	Organisational redesign to deliver Intelligent Client Model across Asset Mgt, Capital Projects and Facilities Management - linked to saving P4	477,326	0	0
	<b>54</b>	Additional staffing for IT operating model	379,000	94,000	0
	<b>55</b>	Finance - Phased review and restructure of accountancy team management posts – linked to saving OP39	120,000	0	0
	<b>56</b>	Finance - review and reduction in transactional activity within finance following implementation of One Source – linked to saving OP44	0	207,045	0
	<b>57</b>	Finance - Adult Social Care Client Care Team - introduce charge for appointeeship management / support – additional advocacy support linked to saving P2	100,000	(100,000)	0
	<b>58</b>	Cloud / Microsoft licences	0	300,000	300,000
<b>Central / Capital Financing</b>	<b>27</b>	Capital financing - review of debt portfolio	7,986,493	437,000	600,000
	<b>28</b>	Revenue implications of capital programme	500,000	500,000	500,000
	<b>29</b>	Covid-19 cost pressures / loss of income	5,761,042	353,558	(5,414,600)
	<b>30</b>	Proud Investment Programme	0	2,000,000	2,000,000
	<b>59</b>	Hub investment linked to work stream activity	501,000	0	0
<b>Total Internal Services deliver quality and adapt to meet the needs of customer facing services</b>			<b>16,283,861</b>	<b>4,056,603</b>	<b>(2,014,600)</b>
<b>Total Growth and investment</b>			<b>27,831,888</b>	<b>14,032,529</b>	<b>5,518,588</b>

Additionally, there is £860k of pay (increments) and pension related investment to be allocated to services in 2021/22, £4.52m in 2022/23 and £6.82m in 2023/24.

## **Part 1 Annex 6: Proud Programme Work Streams and Activity**

### ***1. Outcome, Service Levels and Delivery Models***

Cabinet in September 2019 agreed to the ten refreshed corporate outcomes; the cross cutting themes (components) that the Proud Programme will focus on;

#### Economic Growth

- Creating an environment where business invests and everyone who wants a job can access one
- Education, training and skills enable people to fulfil their personal development

#### People

- People live a good quality of life and feel they belong
- People know what makes them healthy and they are encouraged to get support when they need it

#### Internal Focus

- Internal services deliver quality and adapt to meet the needs of customer facing services
- Services are efficient and deliver value for money

#### Children

- Children thrive emotionally, physically, mentally and feel they are achieving their potential
- Children grow up in connected communities and feel safe everywhere

#### Communities

- Housing meets all people's needs, is affordable, safe and warm
- People are proud of their vibrant town, districts and communities

The indicative three year timetable for the roll out of the component elements and transformation projects was also outlined. Service redesign of planning has commenced and the new Resilient Communities model is also being established.

### ***2. Commissioning, Procurement and Contract Management (Third Party Spend)***

To identify opportunities that will enable us to financially support our current and future services, especially those developed by the Walsall Proud Programme. It will do this by reviewing and reducing third party spend and improving the 'Procure to Pay' process and systems. We are implementing two Strategic Sourcing Plans - 1) Efficient Council (printing, energy, post, cleaning, fleet and fuel) and 2) Procurement Control; Contract Oversight Committee.

### ***3. Communication, Change, Culture and Behaviours***

All organisations, services and staff have cultures and behaviours, good and bad. This work stream looks at how individuals make decisions, initially in the context of staff undertaking and supporting the Walsall Proud Programme. It will then implement approaches and processes that will encourage and boost the good, and challenge and change the bad.

Activity includes accelerating ambition, creativity and innovation; support to establish the 'creativity' function; workforce development/training to embed the innovation mind set; specific suppliers to implement new innovations or projects. Leadership coaching and training; workforce development and training; cultural and behavioural analysis and custom-design support.

#### **4. Customer Assessment and Management**

This will address the mechanisms available to us to manage a single view of the customer, improve their experience and introduce efficiencies in our ways of interacting with them. This work stream is currently developing a blueprint for the new customer operations centre and prioritising phasing of processes to go live within the centre.

Activity includes customer journey mapping; redesign of end to end processes; functional and technical support for implementing the new customer management model; staff training.

#### **5. Designing the Ways of Working – Hubs and Enabling Support Services**

This will consider how our 'hubs', including 'communications, marketing and engagement', 'Business Intelligence' and 'Commissioning, Procurement and Contract Management', work to support service providers. The detailed design it will produce will change these hubs' 'Ways of Working' to make them more effective. Blueprints have been developed and preparation for transition and implementation has begun.

Activity includes implementing new ways of working design; options analysis for back office; Also for Hubs: business intelligence - Support to implement new insight/strategy/policy model; staff training to embed new ways of working; setup bespoke dashboards/visualisations; communications and marketing support.

#### **6. Enabling Technology**

This will underpin and enable technology benefits envisaged throughout the Walsall Proud Programme, as well as the overall technology and digital offer for our customers. We are producing a roadmap for our future technology, translating our business strategy into a technological strategy. We are building and testing, and will roll out the initial processes for the customer relationship management platform. The telephony platform specification has been produced. The dashboard is being built in the business intelligence platform.

Activity includes tech support for possible configuration of online procurement processing; adoption and innovation of emerging technology i.e. Artificial intelligence, drones etc; Support to define the CAM technology architecture, define and procure core platform; Implement the digital first technology platform to support triage and customer query workflow, and single customer record fully integrated with back office systems; configuration of the platform; delivery of an environment that allows for continued service and application build out via capacity building; Support to pilot and deliver robotic processes automation in back office and support services; Hubs - configuration and integration of technology stack to pull data from multiple sources and make accessible dash-boarding visualisations; Support to put in place platforms/workflow that supports performance improvement.

#### **7. Income generation and Cost Recovery**

This is focusing on finding ways of boosting our income through the recovery of expenditure across services. Doing this will lead to a greater and more sustainable income for these services and the organisation. Cabinet in September approved the council's income and commercial policy and corporate debt policy; and approved consultation on a number of new income generating proposals. A revised fees and charges register has been implemented, and a number of business cases are being implemented to support future sustainability of services, such as traded services, adult social care benefits maximisation and charging.

Activity includes review of income generation and cost recovery options, options analysis, commercialisation.



## **8. *Connected Working (Perform+)***

This is looking at how we work, as teams and as individuals. 'Perform+' has been rolled out in Money, Home, Job, and in Adult Social Care. Diagnostics for wave2 have commenced in a number of services and the council is setting up the Perform Academy for sustainable future roll out. This people-centred approach uses one-on-one coaching of managers and team leaders and the introduction of new workplace tools and techniques to make sure employees have the skills, support and resources needed to deliver against aspirations.

Activity includes performance improvement support; implementing service delivery models to improve quality and reduce failure demand.

## **9. *Corporate Landlord***

Activity included optimising assets based on new ways of working practices. Cleanse and enhance property data and dash boarding; develop and implement estates strategy.

## **Part 1 Annex 7 : Benefits Realisation (Savings) for Proud Programme activity by Outcome**

### **A : Summary of Policy Proposals**

Directorate	Ref No	Detail of Policy Proposals by Outcome	2021/22 £	2022/23 £	Total £
<b>Children grow up in connected communities and feel safe everywhere</b>					
Children's Services	P1	Change, Grow, Live Contract - bring service back in house	(122,714)	(467,714)	(590,428)
<b>Total Children grow up in connected communities and feel safe everywhere</b>			<b>(122,714)</b>	<b>(467,714)</b>	<b>(590,428)</b>
<b>Internal Services deliver quality and adapt to meet the needs of customer facing services</b>					
Resources & Transformation	P2	Finance - Adult Social Care Client Care Team - introduce charge for appointeeship management / support	0	(72,800)	(72,800)
	P3	Finance - Adult Social Care Client Care Team - introduce charging for administration of deaths for appointees	0	(6,000)	(6,000)
	P4	Organisational redesign to deliver Intelligent Client Model across Asset Management, Capital Projects and Facilities Management.	(195,921)	(42,726)	(238,647)
	P5	Redesign of Occupational Health contract	(7,500)	(7,500)	(15,000)
Central / Capital Financing	P15	Finance - change to minimum revenue provision	(2,889,000)	148,000	(2,741,000)
<b>Total Internal Services deliver quality and adapt to meet the needs of customer facing services</b>			<b>(3,092,421)</b>	<b>18,974</b>	<b>(3,073,447)</b>
<b>People are proud of their vibrant town, districts and communities</b>					
Economy, Environment & Communities	P6	Re-profile the highway maintenance mainstream budget for 2021/22	(300,000)	300,000	0
	P7	Increased capitalisation of staff costs	(46,000)	0	(46,000)
	P8	Increased capitalisation of highway works	(300,000)	0	(300,000)
	P9	Charge developers for travel plans	0	(30,000)	(30,000)
	P16	Biodiversity – rewilding of urban grass	(88,249)	0	(88,249)
<b>Total People are proud of their vibrant town, districts and communities</b>			<b>(734,249)</b>	<b>270,000</b>	<b>(464,249)</b>
<b>People live a good quality of life and feel they belong</b>					
Children's Services	P11	Introduce council tax penalty charges for failing to notify a change of circumstance	(150,000)	0	(150,000)
Economy, Environment & Communities	P12	Reduction to voluntary organisation	0	(51,300)	(51,300)
	P13	Cease pest and animal control service	(87,606)	0	(87,606)
	P14	Bereavement services – the sale of keepsake memorials and a range of personal memorabilia	(1,000)	0	(1,000)
<b>Total People live a good quality of life and feel they belong</b>			<b>(238,606)</b>	<b>(51,300)</b>	<b>(289,906)</b>
<b>People know what makes them healthy and they are encouraged to get support when they need it</b>					
Economy, Environment & Communities	P17	Active Living Centres - External marketing & promotion partnership development	(62,000)	0	(62,000)
<b>Total People know what makes them healthy and they are encouraged to get support when they need it</b>			<b>(62,000)</b>	<b>0</b>	<b>(62,000)</b>
<b>Total Policy Proposals</b>			<b>(4,249,990)</b>	<b>(230,040)</b>	<b>(4,480,030)</b>

## B: Summary of Operational Proposals by Outcome 2021/22 – 2022/23

Directorate	Ref No	Detail of Operational Proposals by Outcome	2021/22 £	2022/23 £	Total £
<b>Children grow up in connected communities and feel safe everywhere</b>					
Children's Services	OP1	Efficiencies within the parenting team	(25,000)	0	(25,000)
	OP3	Development of locality partnership offer in Early Help	0	(643,156)	(643,156)
	OP6	Review of current establishment and reduction in the use of agency staff, following recruitment of permanent staff	(395,763)	(747,820)	(1,143,583)
	OP7	Mother & Baby - Daisy Project	(739,980)	(443,988)	(1,183,968)
	OP8	Strengthening families, protecting children	(189,783)	(338,711)	(528,494)
	OP9	Adolescent service - Turning Point - reduce number of adolescents coming into care	(835,205)	(759,933)	(1,595,138)
	OP10	Family drugs and alcohol court	(88,183)	(136,916)	(225,099)
	OP11	Foster carer support - placement disruption	(1,717,687)	(1,554,022)	(3,271,709)
	OP12	Placement sufficiency - recruitment & retention	(150,797)	(107,712)	(258,509)
	OP13	Grandparents plus - build in for future years	(67,235)	(67,236)	(134,471)
OP107	Independent Living	(250,000)	(250,000)	(500,000)	
<b>Total Children grow up in connected communities and feel safe everywhere</b>			<b>(4,459,633)</b>	<b>(5,049,494)</b>	<b>(9,509,127)</b>
<b>Children thrive emotionally, physically, mentally and feel they are achieving their potential</b>					
Children's Services	OP5	Home to school transport - route optimisation	0	(216,204)	(216,204)
	OP15A	Review of structure - access and achievement	(41,352)	0	(41,352)
	OP17	Reduction in use of agency and temporary staff	0	(120,000)	(120,000)
	OP24	Seek contribution from Walsall CCG towards the provision of a Special Education Needs and/or Disability Information, Advice and Support Service (SENDIASS)	(43,000)	0	(43,000)
<b>Total Children thrive emotionally, physically, mentally and feel they are achieving their potential</b>			<b>(84,352)</b>	<b>(336,204)</b>	<b>(420,556)</b>
<b>Creating an environment where business invests and everyone who wants a job can access one</b>					
Economy, Environment & Communities	OP19	Increase in fee paying services planning development and building control	(37,000)	0	(37,000)
	OP20A	Restructure within planning development and strategic planning	(85,000)	0	(85,000)
	OP21	Capitalisation of posts - maximise external funding	(120,000)	(25,000)	(145,000)
	OP30	Removal of expenses and training budgets - regeneration	(8,981)	0	(8,981)
<b>Creating an environment where business invests and everyone who wants a job can access one</b>			<b>(250,981)</b>	<b>(25,000)</b>	<b>(275,981)</b>

Education, training and skills enable people to fulfil their personal development					
Children's Services	OP15B	Review of structure - access and achievement	(87,390)	0	(87,390)
	OP16	Re-negotiation and joint procurement of moderation and school improvement contract	(40,000)	0	(40,000)
	OP25	Increase traded services to schools	(20,000)	(55,000)	(75,000)
	OP26	High needs funding review and provide specialist support to children with additional needs via use of DSG grant	(250,000)	(250,000)	(500,000)
	OP27	Review of structure and functions and provide in-house support to 2, 3 and 4 year olds	(50,000)	0	(50,000)
	OP28	Review and streamline the provision of specialist inclusion services and support	0	(41,283)	(41,283)
Directorate	Ref No	Detail of Operational Proposals by Outcome	2021/22 £	2022/23 £	Total £
Economy, Environment & Communities	OP20B	Restructure within planning development and strategic planning	(50,000)	0	(50,000)
	OP73	Efficiency savings within the libraries service	(60,000)	0	(60,000)
Total Education, training and skills enable people to fulfil their personal development			(557,390)	(346,283)	(903,673)
Internal Services deliver quality and adapt to meet the needs of customer facing services					
Adult Social Care	OP32	Paperless council meetings - savings to be made from eliminating paper agendas completely	(13,449)	(9,276)	(22,725)
Children's Services	OP29	Children's - To develop Power BI reports to create efficiencies	0	(119,961)	(119,961)
Resources & Transformation	OP4	Efficiencies arising from the review and consolidation of admin & business support functions into a single hub (children's wide)	(163,181)	0	(163,181)
	OP18	Implementation of education health and care plan hub	(2,474)	0	(2,474)
	OP22	Efficiencies arising from the review and consolidation of admin & business support functions into a single hub (EE&C directorate support)	(125,611)	0	(125,611)
	OP31	Efficiencies arising from the review and consolidation of admin & business support functions into a single hub (communications, finance, legal and ICT)	(143,101)	0	(143,101)
	OP33	Review charges in relation to school admission appeals	(20,000)	0	(20,000)
	OP34	The modernisation of an electronic enrolment and canvassing system	(5,000)	(5,000)	(10,000)
	OP35	Efficiencies savings with legal services	(66,666)	(33,334)	(100,000)
	OP36	Become member of the Barristers Framework	(35,000)	0	(35,000)
	OP37	Increase income from School SLA's for legal advice	(7,000)	0	(7,000)
	OP38	Efficiencies in relation to the purchase of law library books	(15,000)	(10,000)	(25,000)
	OP39	Restructure of Finance Function to strengthen strategic financial planning, financial system teams and phased review of accountancy team management posts and review of external funding opportunities; and general efficiencies	(240,657)	(20,000)	(260,657)
	OP40	Review of treasury / debt management costs recharge against investment returns delivered	(60,172)	(1,203)	(61,375)

	<b>OP41</b>	Accounts Payable - Use of automated invoice validation process within One Source	(52,148)	(48,311)	(100,459)
	<b>OP42</b>	Finance - Adult Social Care Charging & Payments and Client Care Teams - Impact of connected working on financial transactions council wide work stream	0	(21,667)	(21,667)
	<b>OP43</b>	Insurance Team - Review of insurance team to deliver focus on reducing claim costs and reduction in insurance fund charges	(99,319)	(1,287)	(100,606)
	<b>OP44</b>	Finance - review and reduction in transactional activity within finance following implementation of One Source	(172,792)	(123,423)	(296,215)
	<b>OP45</b>	Finance - Schools Traded Service team cost recovery review	(19,449)	(19,449)	(38,898)
<b>Directorate</b>	<b>Ref No</b>	<b>Detail of Operational Proposals by Outcome</b>	<b>2021/22 £</b>	<b>2022/23 £</b>	<b>Total £</b>
<b>Resources &amp; Transformation</b>	<b>OP46</b>	Finance - Implementation of Walsall Supplier Early Payment Scheme	(92,000)	(92,000)	(184,000)
	<b>OP47</b>	ICT - Reduced photocopier usages and print reduction	(65,000)	0	(65,000)
	<b>OP48</b>	Infrastructure & Technology Changes - Cloud Navigation / Fibre	(155,000)	0	(155,000)
	<b>OP49</b>	Centralise all IT related expenditure across the council in order to identify and generate efficiencies and consolidate shadow IT capability and general programme efficiencies	(64,000)	(271,000)	(335,000)
	<b>OP50</b>	Sell some IT services to other councils and organisations	0	(21,000)	(21,000)
	<b>OP51</b>	Efficiencies arising from the review and consolidation of admin & business support functions into a single hub (facilities management)	(2,894)	0	(2,894)
	<b>OP52</b>	Facilities management - school catering and caretaking traded services review	(140,395)	(15,200)	(155,595)
	<b>OP53</b>	Facilities management - review of prices and service standards across all internal and traded units and review ways of working for relief caretakers	(191,476)	(58,344)	(249,820)
	<b>OP54</b>	Facilities management - review of structure and ways of working in the post room and centralisation and rationalisation of postage costs	(95,903)	(13,000)	(108,903)
	<b>OP55</b>	Facilities management - review administration structure and ways of working	(22,000)	0	(22,000)
	<b>OP56</b>	Facilities management - Improved value for money on repairs and maintenance contracts	(90,000)	0	(90,000)
	<b>OP57</b>	CPM - review structure and ways of working	(52,951)	(25,791)	(78,742)
	<b>OP58</b>	Efficiencies arising from the review and consolidation of admin & business support functions into a single hub (HR)	(16,002)	0	(16,002)
	<b>OP59</b>	HR restructure	(100,000)	(50,000)	(150,000)
<b>OP60</b>	Consider ceasing of physio contract	(12,000)	(12,000)	(24,000)	
<b>OP75</b>	Efficiencies arising from the review and consolidation of admin & business support functions into a single hub (communities & partnerships)	(6,720)	0	(6,720)	
<b>OP85</b>	New Ways of Working/Staff Reconfiguration. Admin Hub and Enabling support services	(92,079)	0	(92,079)	
<b>OP108</b>	Review of mobile phones contract	(29,000)	(31,000)	(60,000)	

	<b>OP109</b>	Cross council efficiencies relating to administration and business support	(300,000)	(2,100,000)	(2,400,000)
<b>Total Internal Services deliver quality and adapt to meet the needs of customer facing services</b>			<b>(2,768,439)</b>	<b>(3,102,246)</b>	<b>(5,870,685)</b>
<b>People are proud of their vibrant town, districts and communities</b>					
<b>Economy, Environment &amp; Communities</b>	<b>OP61</b>	Increasing the number of fixed penalty notices issued	(50,000)	0	(50,000)
	<b>OP62</b>	Abandonment of current 'silo' roles within waste service	0	(363,682)	(363,682)
	<b>OP63</b>	Increase MOT charges	(19,975)	0	(19,975)
	<b>OP64</b>	Events income generation	(10,000)	0	(10,000)
	<b>OP65</b>	Management restructure	0	(320,000)	(320,000)
	<b>OP66</b>	Covid-19 reset of the street cleansing service	0	(49,320)	(49,320)
<b>Directorate</b>	<b>Ref No</b>	<b>Detail of Operational Proposals by Outcome</b>	<b>2021/22 £</b>	<b>2022/23 £</b>	<b>Total £</b>
<b>Economy, Environment &amp; Communities</b>	<b>OP67</b>	Private sector or sponsorship funding of Christmas lights	(5,000)	0	(5,000)
	<b>OP70</b>	Review of permit scheme charges within statutory cap - permit costs to utilities companies for works on highways	(40,000)	0	(40,000)
	<b>OP71</b>	Section 38 fees increase	(45,806)	0	(45,806)
	<b>OP72</b>	Restructure of Resilient Communities to include community safety, area partnerships and cohesion service	(406,558)	0	(406,558)
	<b>OP74</b>	Heritage and culture / Arts and events - increase fees and charges	(9,351)	(9,351)	(18,702)
	<b>OP101</b>	Restructure in Voluntary & Community Sector Service	(63,682)	0	(63,682)
	<b>OP102A</b>	Restructure and efficiencies within regulatory services & community protection	(7,026)	0	(7,026)
	<b>OP105</b>	Review of CCTV contract	(42,772)	0	(42,772)
	<b>OP110</b>	Increased charges for dropped kerbs	(8,000)	0	(8,000)
	<b>OP111</b>	MOT service full cost recovery	(8,810)	0	(8,810)
<b>Total People are proud of their vibrant town, districts and communities</b>			<b>(716,980)</b>	<b>(742,353)</b>	<b>(1,459,333)</b>
<b>People know what makes them healthy and they are encouraged to get support when they need it</b>					
<b>Adult Social Care</b>	<b>OP2</b>	Review of Black Country Women's Aid contract	(188,886)	0	(188,886)
	<b>OP77</b>	New Ways of Working/Staff Reconfiguration - Public Health Operating Model	(74,495)	0	(74,495)
	<b>OP112</b>	Public Health	(475,000)	(800,000)	(1,275,000)
<b>Economy, Environment &amp; Communities</b>	<b>OP78</b>	Cost effective procurement of new fitness equipment	0	(34,646)	(34,646)
	<b>OP79</b>	Bloxwich Active Living Centre landing development	0	(80,820)	(80,820)
	<b>OP80</b>	Management restructure across Active Living Centres	(28,762)	0	(28,762)
	<b>OP81</b>	Concessionary "Move It" leisure scheme annual fee increase	(63,000)	0	(63,000)
	<b>OP82</b>	Increase membership retention by utilising new customer experience centre provision	(45,000)	0	(45,000)
<b>Total People know what makes them healthy and they are encouraged to get support when they need it</b>			<b>(875,143)</b>	<b>(915,466)</b>	<b>(1,790,609)</b>

People live a good quality of life and feel they belong					
Adult Social Care	OP83	New Ways of Working/Staff Reconfiguration. Resilient Communities	(112,988)	(112,988)	(225,976)
	OP84	New Ways of Working/Staff Reconfiguration. Customer Access Management	(37,663)	(37,663)	(75,326)
	OP86	New Ways of Working/Staff Reconfiguration. IT Operating Model	(16,475)	0	(16,475)
	OP87	New Ways of Working/Staff Reconfiguration. Commissioning Hub	(149,394)	0	(149,394)
	OP88	General efficiencies	(187,668)	0	(187,668)
	OP89	New Ways of Working/Staff Reconfiguration. Customer Access Management/ Resilient Communities	(1,139,894 )	(1,178,407)	(2,318,301)
	OP90	Review of Older People existing long term and new residential nursing & domiciliary placement costs support packages for learning disabilities including supported living and mental health	(2,424,243 )	(4,400,928)	(6,825,171)
	OP91	Reduction of day care funded by direct payments	(690,893)	(356,471)	(1,047,364)

Directorate	Ref No	Detail of Operational Proposals by Outcome	2021/22 £	2022/23 £	Total £
Adult Social Care	OP92	All Age Disability	(156,000)	(156,000)	(312,000)
	OP93	Transfer of direct payment clients back to a commissioned service so reduction in direct payment standing order fees	(25,000)	0	(25,000)
	OP94	Controlling cost and maximising income generation. Clear joint funding arrangements (with CCG) and recharge processes and review and re-profiling of better care fund/ winter pressures	(5,575,933)	1,532,742	(4,043,191)
	OP95	Review for learning disabilities joint funding	(1,500,000)	0	(1,500,000)
	OP96	Benefit maximisation project	(783,000)	0	(783,000)
	OP97	Review of resources including Goscote and shared lives	0	(500,000)	(500,000)
	Children's Services	OP14	Customer Access Management System (CAMS)	(9,063)	0
OP23		Efficiencies arising from the creation of an integrated customer contact centre	(80,441)	0	(80,441)
OP68		Efficiencies arising from the creation of an integrated customer contact centre	(1,739)	0	(1,739)
OP69		Transfer of all non-technical contact with customers to the customer contact centre - Planning, Engineering & Transport	(9,630)	0	(9,630)
OP76		Efficiencies arising from the creation of an integrated customer contact centre (communities & partnerships)	(22,293)	0	(22,293)
OP98A		Restructure within Money Home Job	(668,517)	(166,745)	(835,262)
OP99		Accuracy for checking claims income	(150,000)	0	(150,000)
OP100		Bespoke webpage and web data entry form	0	(18,000)	(18,000)
OP113		Council wide efficiencies relating to Customer Access Management	(500,000)	(2,899,000)	(3,399,000)
Economy, Environment & Communities	OP102B	Restructure and efficiencies within regulatory services & community protection	(288,537)	0	(288,537)
	OP103	Review of existing fees and charges within resilient communities	(115,522)	(44,315)	(159,837)
	OP104	Provide pre license surgeries to individuals and businesses to support license applications	(7,350)	(7,350)	(14,700)
	OP106	Charging for change of name deeds (registrars)	0	(10,890)	(10,890)
	OP114	Out of hours burial service full cost recovery	(3,575)	0	(3,575)
	OP115	Extended burial hours 24/7	(2,771)	0	(2,771)
	OP116	Taxi licensing process improvement	(20,000)	0	(20,000)
<b>Total People live a good quality of life and feel they belong</b>			<b>(14,678,589)</b>	<b>(8,356,015)</b>	<b>(23,034,604)</b>
<b>Housing meets all people's needs, is affordable, safe and warm</b>					
Children's Services	OP98B	Restructure within Money Home Job – Supported Housing	(256,751)	0	(256,751)
<b>Total Housing meets people's needs, is affordable, safe and warm</b>			<b>(256,751)</b>	<b>0</b>	<b>(256,751)</b>
<b>Total Operational Proposals</b>			<b>(24,648,258)</b>	<b>(18,873,061)</b>	<b>(43,521,319)</b>



<b>Total Savings</b>	<b>2021/22 £</b>	<b>2022/23 £</b>	<b>Total £</b>
Policy Savings	(4,249,990)	(230,040)	(4,480,030)
Operational Savings	(24,648,258)	(18,873,061)	(43,521,319)
<b>Total Savings</b>	<b>(28,898,248)</b>	<b>(19,103,101)</b>	<b>(48,001,349)</b>

*A further £4.47m has been identified for 2023/24 which relates to the Customer Access Management work stream of the Proud Programme. There is also a further £2.91m of savings in 2022/23 and £10.05m in 2023/24 for which delivery plans are being developed – as set out in Section 4 - Medium term financial outlook – 2022/23 plus.*

## Part 1 Annex 8 – Capital Strategy

### 1. INTRODUCTION

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to produce a Capital Strategy to demonstrate how capital expenditure, capital financing and treasury management activity contribute to the provision of desired outcomes and take account of stewardship, value for money, prudence, sustainability and affordability.
- 1.2 The Strategy forms part of the framework for financial planning and is integral to both the Medium Term Financial Outlook (MTFO) and the Treasury Management Strategy and considers the funding implications of the capital programme and where borrowing is required. It sets out how capital investment will play its part in delivering the ambitious long term strategic objectives of the council, how associated risk is managed and the implications for future financial sustainability. The Strategy is also in line with the Ministry of Housing, Communities and Local Government's (MHCLG) 2018 statutory guidance on local government investments.

### 2. AIM AND OBJECTIVES

- 2.1 The Capital Strategy forms a key part of the council's overall corporate planning framework by which capital and investment decisions will be made with a focus on protecting the council's assets and delivering the council's corporate objectives. The overarching aim of the 2021/22 to 2023/24 Capital Strategy is to provide a framework within which the council's capital investment and financing decisions can be aligned with the council's corporate priorities and objectives over the medium term. The Strategy recognises uncertainties, especially in relation to funding in later years.
- 2.2 In order to reflect the council's corporate priorities the Capital Strategy is driven by the Corporate Plan 2018-2021 which sets out the councils Vision, Purpose, Guiding Principles and Strategic Priorities.

The main sections of the Capital Strategy link to the Corporate Plan in the following key areas:

- **Asset Management Planning** – is aligned to the Corporate Plan by reviewing service needs to ensure that quality services are delivered, and to further protect the Council's assets.
- **School Estate Planning** – is aligned to the Corporate Plan by investing in Schools to providing the best start in life for the boroughs children.
- **Investment in Regeneration** – is aligned to the Corporate Plan by a focus on economic growth by supporting key strategic projects that will deliver business growth and jobs across the borough.
- **Investment in ICT and digital services** - is aligned to the Corporate Plan by enabling services to meet the needs of the customer, to be efficient and deliver value for money.

### 3. Capital Expenditure

#### 3.1 Setting the Capital Programme

3.1.1 The council's capital programme covering the period 2021/22 to 2023/24 is set out within **Annex 9** of this Corporate Budget Plan.

3.1.2 The basis of the Capital Programme is driven by the budget and service planning process. This process begins early in each financial year, usually around June. The size of the Capital Programme is determined by:

- The need to incur capital expenditure
- Capital resources available
- The revenue implications flowing from the expenditure.

3.1.3 As part of the budget and service planning process, services are required to review capital needs locally, and to align with service priorities. Where directorate capital and asset groups agree these requirements, then a formal 'capital mandate' form is required to be completed for each proposal. These mandates are required to be completed in line with the published budget process timelines, and will include the following information:

- Project background, including context, key dates and requirements
- Project objectives and outputs
- Scope of the project
- Justification of the project, draft profile of spend by financial year, source of funding, and revenue implications
- References to background papers and key documentation
- Anticipated project sponsor and project manager
- Interested parties, including users and stakeholders

3.1.4 All project mandates are collated for reporting to Corporate Management Team (CMT) for initial scrutiny prior to reporting to the Asset Strategy Group (ASG), who prioritise projects according to council priorities and against available resources, and subject to a detailed business case being completed for larger Strategic capital investment proposals. Supported projects are summarised for initial review and prioritisation by Asset Strategy Group against available resources, who then recommend a draft Capital Programme for consideration by Cabinet. For 2021/22 onwards, large scale Strategic capital projects will be required to complete an outline business case to report to the (newly created) Strategic Investment Board, followed by a full business case to Cabinet to release investment funds.

3.1.5 Business cases, where requested to be completed, will be subject to formal review and assessment. A business case will include more detailed information on the proposed scheme, along with options where applicable, and would expect to include the following:

- Why the project is proposed?
- Options appraisal
- Preferred option and financial information
- Assumptions and dependencies
- Review of risks
- Key milestones
- Outcomes – savings and benefits
- Governance and project management

3.1.6 Cabinet determine the projects to be included within the Capital Programme in the light of the relative priorities and the overall impact on the revenue budget. Schemes that require use of the council's own capital resources (such as prudential borrowing or capital receipts), are categorised according to the following, in order to assist the decision making process:

- Level One Priority – relates to schemes that are unavoidable to meet statutory and legislative requirements in the provision of services. It includes items such as health and safety, new legislation etc. By their nature, these schemes are a first call on available resources. It also includes supported borrowing allocations which are ring fenced to a specific programme of activity.
- Level Two Priority – relates to schemes that unlock external investment in the borough; drives out long-term revenue savings; support the strengthening of the borough's economy; delivers an efficient and effective operational estate linked to the Asset Management programme; and invests in assets to grow future income streams for the council.

3.1.7 The council's policy is to agree the Capital Programme on an annual basis at the Council meeting in February. Once approved, the budget report is made available on the council's website, and published on the finance pages of the council's intranet.

## **3.2 Managing the Capital Programme**

3.2.1 The council's contract/financial procedure rules and constitution provide a clear framework on how all capital projects are to be managed.

3.2.2 Regular monthly monitoring reports are submitted to directorate management teams and then to Corporate Management Team, and to ASG, Cabinet and Overview and Scrutiny Committees, showing actual expenditure compared with budget. This enables high-level scrutiny of the delivery of capital objectives against the plan and for action to be taken to ensure the longer term programme reflects emerging priorities.

3.2.3 To support in year opportunities and commitments the authority will hold a central contingency/project reserve, which is administered by corporate finance. Projects that were deemed worthwhile through the bidding process may be held on a reserve list and commenced if sufficient funding becomes available in year. The protocol around

funding unforeseen and pipeline projects and use of contingency is outlined in section 6 (L) of the MTFs.

3.2.4 The potential use of contingency and reserves for specific projects will be reported to Asset strategy Group. This will also include the request to use council funds as match funding towards external funded schemes, and the funding to support essential works including health and safety schemes that cannot be programmed at the start of the financial year.

### **3.3 Restriction on Borrowing and Use of Capital Receipts**

The council funded element of the Capital Programme is normally financed from borrowing, capital receipts and the carry forward of unspent allocations from previous years.

There is no restriction on the level of borrowing that the council can undertake, subject to compliance with the Treasury Management Code of Practice. However subject to this compliance, borrowing is required to be funded from council's own resources - generated through savings, and/or paid for via council tax (this is also commonly known as unsupported or Prudential borrowing).

Capital receipt projections for 2021/22 are £1.5m and are based on professional estimates of property colleagues. Any additional receipts received in year (excluding those earmarked for specific schemes) will be considered to fund projects identified on the reserve list of schemes or transformation projects in line with the Flexible Use of Capital Receipts Strategy.

### **3.4 Asset Management Planning**

The council has a typical local authority property portfolio consisting of operational property, investment property and property held for specific community or regeneration purposes. The council currently manages its portfolio under the guidance of its Corporate Asset Management Plan (currently under review). In this same period, the council has adopted the current MTFO and embarked on a transformation agenda (Walsall Proud Programme) to support the delivery of the Corporate Plan. Both of these may have an impact on the way services are delivered or upon the strategic priorities of the organisation that in turn may require the Council to re-consider how it manages and operates the corporate property portfolio to meet these changing needs. In recognition of this, the council has sought to understand how fit for purpose its current asset management planning and function is and has identified improvements that may be needed to meet the emerging corporate agenda.

An external and independent review was undertaken in mid 2017/18 under the previous Transformation Programme theme of "Our Assets". A high level review of the asset management operating model was undertaken concentrating upon;

- A review of operational assets
- A review of existing property portfolio and service needs linked to four year medium term financial plan
- A review of the council's investment portfolio.

In October 2017 Cabinet / CMT received a presentation of the findings from the Stage 1 Asset Management Review; this review of the council's current asset management practices and capabilities resulted in a series of recommendations for improvement and provided a Draft Improvement Plan containing key activity to bring about the transformation of the Council's corporate asset management function. The review made recommendations that would reaffirm a Strategic Corporate Asset Management Approach (Now known as the Corporate Landlord work stream under the Proud Programme) to the way in which the council manages its operational and non-operational land and property portfolio, and provide the governance, capacity, systems, and skills to ensure our asset management strategy is aligned to corporate plans and objectives.

Since this time, and to prepare for the emerging Case for Change arising from the corporate Stocktake, the asset management governance have been refreshed to provide a platform for overseeing the implementation of any improvement plan and to put into place the right forums for the Strategic Corporate Landlord approach to flourish. The adoption of a Strategic Corporate Landlord model will enable the council to make more informed and joined-up decisions regarding the use of its land and property, and enable strategic decisions such as the adoption of a planned preventative maintenance programmes or land assembly to support regeneration activity, or the purchase of investment property (subject to the new regulations in respect of investing for yield and an appropriate return on investment) to be made in consideration of wider corporate objectives.

The above work is now being progressed as part of the Corporate Landlord work stream of the Walsall Proud Programme.

Additionally the Highway Asset Management Plan 2015-2021 sets out how the Corporate Plan links to the way the council develops and maintains the highways which are the single most valuable asset the council is responsible for. The way the highways are maintained and managed has a direct impact on the borough's residents, businesses and visitors and further investment will sustain and encourage economic growth.

### **3.5 School Estate Planning**

The council has a duty to ensure there are sufficient school places for resident children who require a school place. Basic Need Capital funding is therefore allocated by the Department for Education to local authorities, based on pupil place number forecasts, to deliver the additional places in schools to meet expected demand. Since 2016/17 the Authority has identified a significant increase in demand and has, inclusive of Basic Need carry forwards and confirmed allocations until 2021/22, a funding envelope of circa £44m in order to deliver the required anticipated places. Further allocations will be announced on a rolling annual bases via the ESFA.

The council has also as a result of previous expansion schemes been highlighted into the top decile of costs per place when compared against national benchmarks for school expansions. As a result, the council is working with the ESFA to identify where improvements can be made so that greater efficiencies and improved value for money can be achieved.

In order to support the challenges highlighted above the authority has identified the

need to appoint a strategic partner who will work with the authority to develop and deliver proposals relating to any new and emerging need for pupil places responding to the changing trends in demand for pupil places as well as support the development of a longer term plan for delivery of places and our wider Education Capital Programme. The appointment of a strategic partner will also help the Authority deliver school places more efficiently and effectively and improve value for money, responding to the points raised via the ESFA.

The anticipated expansion programme is likely to have a significant impact on the council's educational estate, providing enhancements to the operational benefit of schools. The programme will entail extensive works to extend, alter and remodel the portfolio, and could in some instances see the construction of new buildings. In accordance with any well-planned construction programme it will be important to undertake pre-construction feasibility activity and site surveys to inform all necessary consents, as well as construction costs, and future maintenance responsibilities. Such consents will need to include planning and building regulations in addition to any specific requirements of other statutory bodies/ undertakers.

### **3.6 Investment in Regeneration**

In support of the objectives set out within the Corporate Plan 2018-2021, to achieve 'Economic Growth for all people, communities and businesses', the Council continues to plan for and deliver its regeneration plans and proposals in line with local, sub regional and regional strategies. This activity becomes even more important as part of the council's 'Reset' agenda following Covid-19, and can underpin the overall borough's economic recovery approach.

Additionally the authority, like many other council's, continues to explore alternative models for intervening in the market to aid our regeneration opportunities, and in ways that may also secure longer term revenue income as well as create additional business rate and council tax income. These opportunities will be modelled to provide assurance that sufficient investment returns over the life of the project are consistent with long term treasury investment returns adjusted for risk.

Building upon the economic growth aspirations of key documents including the West Midlands and Black Country Strategic Economic Plans, local planning policy including the Walsall Site Allocation Document and Town Centre Area Action Plan, and the Walsall Town Centre Masterplan, the Council recognises its role in enabling public and private sector investment to be secured to continue / facilitate the delivery of key development opportunities, and has used capital resources to acquire land interests in key regeneration locations, including within the Black Country Enterprise Zone (BCEZ). Consideration is being given to future acquisitions to support the delivery of other projects.

Walsall has an extensive prioritised development pipeline which comprises schemes that can support the delivery of:

- 115 hectares of land remediated/ redeveloped
- 5,350 new jobs,
- 2,400 new homes
- 280,000 square meters of employment / commercial floors space

Successful delivery of these projects will only be achieved through collaborative working between the council, public sector partners and private developers/ investors, with the potential utilisation of public sources of finance.

The council has a strong track record of working in partnership to secure investment; in recent years the council has supported £350m of investment into the borough and further interventions are planned.

The council is currently working with the West Midlands Combined Authority, Black Country Local Enterprise Partnership, and private sector investors to prepare funding propositions for the delivery of development and infrastructure projects. In July 2019 the council completed the Walsall Town Centre Masterplan to build upon the Walsall Town Centre Area Action Plan to understand the interventions that may need to be undertaken to 're-think' the Town Centre and unlock development opportunities; such opportunities have identified the need for public funding in the region of £116m with some of this achieved through investment propositions and co funding mechanism. The council has been successful in its bid to the Government's Future High Street Fund for a multi-million pound project to transform the connectivity of the town centre's rail and bus stations. In addition the council has been invited to submit bids to the government's Town's Fund, with £25m available for each of the eligible Bloxwich and Walsall town areas.

Looking ahead, and recognising the continued changing market conditions and development viability issues, the council has prioritised its regeneration activity to focus upon key strategic locations in the borough including Walsall and Willenhall Town Centres, the BCEZ, and significant brownfield housing development sites.

Delivery of the BCEZ can utilise Public Works Loan Board funding for upfront enabling works where this will be repaid in full through future business rate uplift. The delivery of new homes in the W2W Corridor can be assisted by the West Midlands Land Fund, but other sources of financing will also be required to unlock the 8500 new homes envisaged across Walsall and Wolverhampton. In this context it should be noted that Government has recently made announcements in relation to additional funding being provided to WMCA which may be able to support project delivery in the borough.



#### **4. DEBT & BORROWING AND TREASURY MANAGEMENT**

- 4.1 A projection of external debt and use of internal borrowing to support capital expenditure, the council's authorised borrowing limit and operational boundary along with the Capital Financing Requirement are set out within the Treasury Management & Investment Strategy.
- 4.2 The Treasury Management & Investment Strategy also sets out the council's Minimum Revenue Provision (MRP) which identifies the financial provision that the authority is required to set aside each year for the provision of the repayment of borrowing over the life of the underlying debt.

##### **Risk Appetite Statement**

- 4.3 The Prudential Code (2017) requires authorities to disclose their risk appetite with regard to its treasury management activity. This is set out within our Treasury Management Policy Statement and within TMP1.
- 4.4 For the purpose of this statement, the authority has adopted the Orange Book (UK government publication on the strategic management of risk within government) definition of Risk Appetite, namely "the amount of risk that an organisation is prepared to accept, tolerate, or be exposed to at any point in time."
- 4.5 It is important to note that risk will always exist in some measure and cannot be removed in its entirety. Additionally, in order to realise investment and commercial gains, an organisation has to take some measure of risk. Therefore, risks need to be considered both in terms of threats to the council as well as positive opportunities.
- 4.6 It is worth noting that the Public Accounts Committee supports well-managed risk taking across government, recognising that innovation and opportunities to improve public services requires risk taking, providing that the ability, skills, knowledge and training to manage those risks well exist within the organisation or can be brought to bear.
- 4.7 The authorities risk appetite statement sets out how it balances risk and return in pursuit of achieving its objectives. It is intended to aid careful decision-making, such that the council takes well thought through risks to aid successful delivery of its services and obligations, while also understanding the adverse aspects of risk undertaken and taking appropriate measures to mitigate these in line with its stated goals. Thereby, the council's risk judgements are more explicit, transparent and consistent over time.
- 4.8 The risk appetite statement forms a key element of the council's governance and reporting framework and is set by full Council as part of the Capital Strategy. In addition, the risk appetite will be considered annually and monitored on an ongoing basis by senior management and external advisors.

## **Relationship to Other Aspects of Risk Management**

4.9 It is important to note that the risk appetite is a high level view on the key areas of risk and the qualitative quantum therein that the council is willing to accept in pursuit of its objectives. In this, it is different to other key aspects of risk management, primarily:

- The Strategic Risk Register – a detailed list of the potential significant risks the council is exposed to;
- The budget risk assessment – the assessed level of risk at which the council can operate, given its reserves, revenues, and access to funding, liquidity, regulatory and legal constraints, and any other restrictions.

4.10 The risk appetite is also supported by the following:

- The council's risk management framework;
- The governance structure and responsibilities;
- Risk reporting;
- Monitoring and escalation procedures.

### **Treasury Management Risk Appetite**

4.11 In general, the council's treasury management risk appetite is expressed through its tolerance to risk in respect of capital preservation, meaningful liquidity and income volatility. The council seeks to minimise its exposure to risks that are unwanted and unrewarded. Capital is managed centrally on an ongoing basis to ensure that there is sufficient liquidity in the short and medium term to meet costs and support front line services, as well as meeting long-term solvency and funding requirements.

4.12 The council's treasury management operations are exposed to a broad range of risks. These, along with the council's approach to managing them, are set out in detail within the authorities Treasury Management Policies (TMP 1 – Treasury Risk management).

4.13 Managing the council's treasury management risks is an area of significant focus for senior management and members, and the council adopts an integrated view to the management and qualitative assessment of risk.

4.14 The council aims to minimise its exposure to unwanted risks – those risks that are not actively sought and which carry no commensurate reward for the council.

## **5. COMMERCIAL ACTIVITY**

5.1 If commercial opportunities do arise the council will review these to understand if there is a potential for a financial or community based (regeneration / creating or securing jobs etc) contribution from the scheme.

5.2 In support of these reviewing these options and informing decision making the council has a strong governance framework that goes beyond the regulatory codes. This includes a Treasury Management Panel (TMP) in addition to the Audit Committee and reporting to Cabinet and Council. The TMP is made up of senior council finance officers who meet to discuss treasury management performance, development of

policy and identification of potential new investment products and the detail relating to them.

- 5.2 Due diligence is of paramount importance. All of the council's commercial investments will be supported by individual business cases that are subject to thorough risk assessment. Where appropriate to the size and scale of the project independent technical and legal reviews will also be considered.
- 5.3 Ongoing performance monitoring for all commercial schemes that have been entered in to is also undertaken and reported to relevant members and senior officers on a regular basis.
- 5.4 The council also seeks to ensure that all commercial schemes it considers and undertakes are fully aligned with priority outcomes set out within the Corporate Plan and are in line with the guidance local authorities are no longer allowed to borrow to invest purely for commercial yield.
- 5.5 The council's approach to non-financial investments, including their contribution, benchmarking indicators, risk assessment process and proportionality of the income derived from them in comparison to net service expenditure is set out within the Treasury Management & Investment Strategy.
- 5.6 Following consultation during 2020, HM Treasury have now revised access requirements for local authorities seeking to access borrowing from the Public Works and Loans Board (PWLB). These revisions mean that local authorities will not be able to access PWLB borrowing to buy investment property with the primary aim of generating yield, and specifically to access PWLB funding authorities will need to submit three year capital plans to PWLB, with the S151 officer confirming that there is no intention to buy investment properties primarily for yield at any point within those three years.
- 5.7 If there are any intentions by the authority to buy investment properties primarily for yield within the three year capital programme then PWLB will not be able to lend to the authority for the period of that programme. HM Treasury have also confirmed that where local authorities do seek to pursue debt-for-yield projects which they finance in other ways, such as through the use of internal cash balances or borrowing from other financial institutions, they would then not be able to access PWLB borrowing to refinance this element of debt going forwards.
- 5.8 As interest rates on PWLB borrowing are normally more favourable than other forms of borrowing, being unable to access PWLB and having to seek borrowing from other financial institutions is therefore likely to increase the overall revenue costs required to fund the elements of the council's capital programme which are funded from borrowing – for example every 1% increase in interest costs on a three year capital programme including circa £120.00m of capital spending funded from borrowing (similar to the level included within this report) would add £1.20m of additional ongoing revenue costs per year by the end of the three year period.

## **6. OTHER LONG TERM LIABILITIES**

### **Pension Guarantees**

- 6.1 The council has entered into a number of long-term contracts for services that have been outsourced to service providers. These often involve the transfer of council employees to the new service provider. Employee's rights are protected under the provision in Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE). However, pension rights are not fully covered within TUPE regulations. The council have thus given pension guarantees to a number of organisations. This guarantee means that if an admitted body fails to pay its pension obligations then the council will be responsible for taking on those obligations.
- 6.2 All guarantees entered into need the approval of Cabinet. The guarantees are reviewed annually as part of the closure of accounts process. The pension balance is assessed on an annual basis by the Pension Fund and is subject to change due to the underlying assets. This is rebalanced on a three year basis, known as a triennial review.

### **Public Finance Initiative (PFI) & Other Long Term Liabilities**

- 6.3 The council operates two PFI's and one Public Private Partnership PPP as follows:
- St Thomas More School PFI - contract for the construction, maintenance and operation of a secondary school in Willenhall.
  - Public Street Lighting PFI - contract for the replacement and maintenance of the council's lighting stock across the borough. The objective of this contract is to ensure that the borough is lit in a uniform manner complying with British and European standards.
  - Housing & Care 21 PPP – contract to provide 285 extra care units (including 70 shared ownership and 5 respite care) across the borough, a 40 bed dementia care unit at Goscote and increased day care across the borough (including weekend access to services).
- 6.4 The financial liabilities are disclosed annually in the council's Statement of Accounts and whilst PFI and PPP contracts are long term liabilities the agreements include financing and as such are excluded from the capital financing requirement.

## **7. KNOWLEDGE AND SKILLS**

- 7.1 The Capital Programme and Treasury Management & Investment Strategy are managed by teams of professionally qualified accountants, who actively undertake Continuous Professional Development (CPD) on an ongoing basis to keep abreast of new developments and develop additional skills. They also have extensive Local Government finance experience between them.
- 7.2 The council's Section 151 Officer is the officer with overall responsibility for capital and treasury activities. They too are a professionally qualified accountant undertaking an ongoing CPD programme.

- 7.3 Any commercial projects that the council seek to enter into will also be supported by teams from all required professional disciplines from across the council, and external professional advice will also be sought if needed.
- 7.4 Internal and external training is offered to members on an ongoing basis to ensure they have up to date skills to make capital and treasury decisions.
- 7.5 The council's Treasury Management Panel meet regularly to discuss treasury management performance, development of policy and identification of potential new investment products and the detail relating to them.
- 7.6 The knowledge and skills of officers and members are commensurate with the council's risk appetite.

## Part 1 Annex 9 : Capital Programme 2021/22 to 2023/24

### A. Draft Capital Programme 2021/22 to 2023/24 – Council Funded Schemes

Directorate	Capital Scheme	Detail of Capital investment	2021/22 £	2022/23 £	2023/24 £
<b>Rolling Programme Schemes</b>					
<b>Economy, Environment &amp; Communities</b>	Memorial Safety Management in Cemeteries	The continued inspection and making safe of memorials in Walsall cemeteries and to discharge the council's duty of care within the cemeteries. Increased safety of memorials benefits the residents of Walsall by delivering a safer environment within Walsall cemeteries.	20,000	20,000	20,000
	Highways Maintenance Programme	As Highway Authority the Council has a legal responsibility to maintain the highway network. Failure to do so inevitably leads to a deterioration of our roads, increasing the likelihood of accidents and would ultimately expose the council to increased risk of third party claims.	2,800,000	2,800,000	2,800,000
<b>Children's Services</b>	Aids and Adaptations / Preventative Adaptations/ Supporting Independence	This project directly supports the council's: 1. Statutory requirement to provide disabled facility grants (DFGs) this includes enabling the council to provide a continuous service rather than as some councils do in terms of stock-piling enquiries till new grant allocations are made to them. 2. Provision of maintenance of lifts and hoists. 3. Minor adaptation works.	400,000	400,000	400,000
	Health Through Warmth - Tackling Fuel Poverty	To help provide a safety net for those who cannot access other funding sources and is available as a loan charged on the individuals' property that is repaid upon sale or relevant transfer of their home. For this sum per year, it could offer 28 new boiler systems and 25 boiler repairs. The fund also helps secure continued investment from external agencies in tackling fuel poverty and excess winter deaths in the borough.	75,000	75,000	75,000
<b>Council Wide</b>	Health & Safety	Provision for urgent schemes to meet health and safety regulations.	250,000	250,000	250,000
	Funding to support essential works including health and safety, and other projects that cannot be programmed at start of year	1: Asbestos removal - the authority is required by legislation to manage asbestos within its properties and to remove to comply with health & safety legislation. 2: Statutory testing of gas and electrical systems in buildings. 3: Control of Legionella - statutory requirement to test all water systems and undertake upgrades and improvements as required. 4: Fire Risk Assessment - statutory requirement to ensure compliance with health & safety. 5: Demolition of redundant buildings to provide saleable assets and increase market value of sites. 6: General repair & maintenance of buildings, historic buildings, aiding relocations. 7: Self-insured property damage – insurance excess. 8: Risk Management - unforeseeable events.	750,000	750,000	750,000

Total Rolling Programme Schemes			4,295,000	4,295,000	4,295,000
Prior Year Approvals					
Economy, Environment & Communities	Traffic Signals Infrastructure	The council has a statutory duty to maintain all its traffic signal infrastructure. This programme of planned pedestrian crossing replacements will ensure the safe and efficient movement of pedestrians across the borough (Traffic Mgt Act 2004). Also supports delivery of the council's CO2 reduction targets.	200,000	200,000	200,000
Directorate	Capital Scheme	Detail of Capital investment	2021/22 £	2022/23 £	2023/24 £
Economy, Environment & Communities	Provision of Community Dropped Crossings	These are dropped kerbs at strategic points along footways which permit access for wheelchairs, pushchairs, mobility scooters etc. to cross roads. The investment will allow the council to provide a rolling programme of community crossing points.	20,000	20,000	20,000
	Promotion of Community Health and Road Safety	To fund road safety schemes, to address local community concerns, which fail to achieve the strategic priorities associated with the Local Transport Plan funding in terms of casualty reduction. In supporting the delivery of these local schemes it is possible to improve local quality of life and safety creating safer communities. Year 4 of 4.	120,000	0	0
	Open Water Safety Schemes - Signage etc.	Health and safety upgrades to council owned open water sites per the council's proposed open water policy. Year 4 of 4.	2,000	0	0
	M6 Junction 10 - Widening of Bridges	Walsall Council is working in partnership with Highways England to improve Junction 10 of the M6 motorway. The scheme will include the widening of the existing bridges over the motorway to improve traffic flow and reduce congestion. In addition improvements will be made to the junction of A454 Wolverhampton Road/Bloxwich Lane/Tempus Drive and the A454 Black Country Route.	0	650,000	0
	Walsall Arboretum Extension and County Park	Infrastructure Improvements - to widen and resurface the main footpath running from the Grange Car Park to the children's play area and historic core of the park, to replace the currently used wheelie bins and to improve access into and around the country park area.	190,000	0	0
	New Rail Stations at Willenhall, Darlaston and Aldridge – highways package	The new rail stations at Darlaston and Willenhall are promoted by WMCA/TfWM and WMRE at an estimated total package cost of £56m based on the end of GRIP Stage 4 design. This cost is for the rail infrastructure only – track, signalling, overhead line equipment, platforms, car park and ancillary infrastructure. A package of complementary highway works is required to be developed in 2021/22 and delivered in 2022/23 by the council ahead of the stations opening in 2023. This highways investment represents the council contribution to these stations. Aldridge Station is entering GRIP Stage 3 and an ongoing Council commitment to scheme development is required.	1,500,000	1,500,000	0
	Yorks Bridge (Top Up)	Yorks Bridge has suffered over recent decades and the bridge is currently the subject of a 7.5 tonne weight limit. The replacement scheme will be funded using a combination of WMBC capital funding and the Department for Transport Maintenance Block.	0	750,000	750,000

	Regional Materials Recycling Facility Project	Cabinet on 4 September 2019 approved for the council to enter into a Joint Working Arrangement with 5 partner councils in order to facilitate the delivery stage of a local authority owned Materials Recycling Facility.	4,758,000	2,722,000	0
	Enterprise Zones	Required for the council to manage borrowing costs associated with capital investment into the Enterprise Zone. Financial modelling forecasts that these costs are expected to be recovered from future business rates generated from within the zone, although the Black Country LEP are the decision making body in relation to where business rates within the zone are invested. Therefore on the basis that the BCLEP approve that costs on Walsall sites can be recovered through the business rates mechanism, then the council will only be required to cash-flow these costs.	2,937,001	13,938,273	4,072,473



Directorate	Capital Scheme	Detail of Capital investment	2021/22 £	2022/23 £	2023/24 £
Resources & Transformation	Town Centre Strategic Acquisition for Third Sector Hub	Purchase of accommodation in Walsall Town Centre to support the formation of a third sector co-located hub and provide additional office accommodation for the Council to support its ongoing rationalisation of its operational estate. Year 3 of 3. As approved by Cabinet March 2019.	219,373	0	0
	Council House windows	Replace aged windows within the council house.	1,307,025	0	0
	Civic Centre Plumbing	Non – heating related - essential works of planned / programme maintenance given age of existing supply / parts.	66,600	0	0
	Council House general heating	Upgrading of council house heating systems.	1,085,000	0	0
	Upgrade of CCTV Cameras	Upgrade of cameras in Bloxwich, Leamore, Willenhall, Darlaston, Palfrey, and Caldmore. 10 x new re-deployable cameras plus costs for 5 years.	200,000	0	0
	Council House Roof Repairs	Replace roof as it is at the end of its life, plus timber repairs.	750,000	750,000	0
	Replacement of 'tablet' technology	A 'tablet rollout' programme was completed during 2019 enabling agile working and the adoption of Office 365, with replacement starting in 2022.	0	2,250,000	2,250,000
	Smartphones	Current mobile phone devices will require replacement beginning in 2021/22. Out of life devices will not receive security patches nor upgrades to the android operating system - will result in 'apps' not being updated, including 'outlook app' used to receive email.	200,000	200,000	0
	Card payments, digital website etc)	To ensure the council remains PCI compliant and allows for citizens to pay for services on line.	250,000	250,000	0
	Maintaining a safe and secure environment	Hardware & software upgrades to maintain compliance for current standards e.g. BACS software & open banking compliance.	100,000	200,000	200,000
Children's Services	School Estate Condition Survey	Ongoing provision to cover school conditions. Part allocation from 2020/21 proposed to be carried forward to 2021/22.	79,300	250,000	250,000
	School Temporary Classrooms	Ongoing provision for improving / replacing permanent mobile classrooms when they reach a state of disrepair. This has been held corporately to fund emergency costs arising.	250,000	250,000	250,000
<b>Total Prior Year Approvals</b>			<b>14,234,299</b>	<b>23,930,273</b>	<b>7,992,473</b>
<b>Current Year Approvals (2020/21)</b>					
Economy, Environment & Communities	Waste Management Strategy	Strategic acquisition of property to support the future delivery of the council's waste management strategies.	8,890,338	3,004,788	0
	Allotment boundary improvement works	21 sites requiring boundary improvement works as approved by Cabinet on 9 December 2020.	260,000	0	0

<b>Total Current Year Approvals</b>			<b>9,150,338</b>	<b>3,004,788</b>	<b>0</b>
<b>Directorate</b>	<b>Capital Scheme</b>	<b>Detail of Capital investment</b>	<b>2021/22 £</b>	<b>2022/23 £</b>	<b>2023/24 £</b>
<b>Proud investment</b>					
<b>Economy, Environment &amp; Communities</b>	Bloxwich Active Living Centre landing development	Development of landing and office space to extend fitness suite, create bespoke indoor cycle studio, and install virtual instructor will deliver c£90k per annum additional income.	0	170,000	0
<b>Resources &amp; Transformation</b>	Webcasting and hybrid council meetings	To make the Council Chamber and Conference Room 2 functional for hybrid meetings.	20,000	0	0
<b>Total Proud investment</b>			<b>20,000</b>	<b>170,000</b>	<b>0</b>
<b>New Capital Schemes – Health and Safety</b>					
<b>Economy, Environment &amp; Communities</b>	Walsall Gala pool filters	Filters clean the pool water, with all of the 1.4 million litres of water passing through them every 6 hours. Project proposal is to replace current failing system with ceramic filters (new technology) which offer efficiency savings, energy savings, and are fully portable.	104,000	0	0
	Brine pool air handling	The air handling system supplying the brine pool has been recommended for replacement.	65,000	0	0
<b>Council Wide</b>	Health and Safety	Additional funding to support new health and safety works / security measures / social distancing measures during Covid-19.	332,000	0	0
<b>Total Capital Schemes – Health and Safety</b>			<b>501,000</b>	<b>0</b>	<b>0</b>

<b>New Capital Schemes – Council Infrastructure</b>					
<b>Council Wide</b>	Pipeline investment	Funding for pipeline investment opportunities. This to include additional match funding costs if required to support the Future High Streets Fund; Willenhall Garden City; Walsall Town Centre Masterplan; Regional Materials Recycling Facility Project; and major capital schemes as they arise, subject to approval of a full business case by Cabinet to access these funds.	28,000,000	8,000,000	4,000,000
<b>Resources &amp; Transformation</b>	Computer Aided Facilities management system	To provide a comprehensive computer based integrated system to manage repairs, minor and major works, stock condition, financial modelling, asset and new build evaluation, contract management, DLO module for staff allocation such as direct labour and soft FM caretaking and cleaning, asset management property records, valuation toll, gis integration, finance loading of invoicing, statutory compliance, asbestos etc.	250,000	100,000	0
	One Source	Additional infrastructure requirements for the implementation of integrated Oracle payroll system.	500,000	0	0
	High Streets Fund	To invest in Walsall to deliver a much-needed boost to our high street at this challenging time, match funding to external funding announced by MHCLG on 26 December 2020,	100,000	4,240,000	18,682,252
<b>Total Capital Schemes – Council Infrastructure</b>			<b>28,850,000</b>	<b>12,340,000</b>	<b>14,682,252</b>
<b>Total Draft Capital Programme – Council Funded Schemes</b>			<b>57,050,637</b>	<b>43,740,061</b>	<b>30,969,726</b>

## B: Draft Capital Programme 2021/22 to 2023/24 – Externally Funded Schemes

Directorate	Capital Scheme	Detail of Capital investment	2021/22 £	2022/23 £	2023/24 £
Economy, Environment & Communities	Growth Deal	The Black Country Growth Deal, 'Made in the Black Country, Sold around the World', was agreed with Government in July 2014. The Growth Deal will create the skills, connections and locations for further high value manufacturing success and support growth in the Black Country's automotive, aerospace and construction sectors. To date the programme has committed c£148m and received claims c£77m. It has contracted 3,532 jobs excluding apprenticeships and over 6,000 including them (Dep't of Communities & Local Gov). In January 2019 the Black Country Joint Committee appointed Walsall Council as its Single Accountable Body, as a result the balance of the Growing Places Fund (£5.4m) was transferred from Sandwell Council, with the funds to be used to over-programme Growth Deal.	0	5,439,498	0
	LTP Highway Maintenance Programme	This capital funding, known as the maintenance block, is distributed by the Integrated Transport Authority (ITA).As the Highway Authority we have an extremely high profile duty to maintain our highway network. This money is provided, by DfT as a capital grant via the ITA with the condition that it should be spent on the classified road network. (Department for Transport via ITA).	1,943,000	1,943,000	1,943,000
	Pothole Fund	This capital funding, known as Pothole Action fund, is distributed by the Integrated Transport Authority (ITA), specifically to repair pothole or to prevent them forming in the first place. Funding is based upon a formula using road length data.	154,600	154,600	154,600
	West Midlands Strategic Transport Plan (STP) 'Movement for Growth'	The Government provides each locality with grant funding to help implement the Local Transport Plan in their area. The grant is used for the implementation of small scale capital schemes; development of major capital schemes and to part fund major schemes implementation costs. The programme is designed to address road safety issues, progress the Council's major scheme aspirations; and resource the required 'local contributions' to approved major schemes. (Department for Transport / West Midlands ITA).	1,276,300	1,276,300	1,276,300
	Land and Property Investment Fund	In January 2019 the Black Country Joint Committee appointed Walsall Council as its Single Accountable Body, as a result the Land and Property Investment Fund transferred from Wolverhampton Council. This is a grant which is part of the Investment Programme of the West Midlands Combined Authority for Black Country brownfield sites, and is drawn down in arrears. The Black Country LEP has agreed to deliver 1,860 new jobs, 1,600 new houses and 126,000 sqm of commercial floor space through deployment of the first tranche (£53m) of the total fund allocated to the Black Country LEP (£150m in total).	8,548,000	0	0

Directorate	Capital Scheme	Detail of Capital investment	2021/22 £	2022/23 £	2023/24 £
Resources & Transformation	Get Britain Building Fund	Funding of £66m was awarded to the WMCA by the Secretary of State for Housing, Communities and Local Government, from what is now known as the 'Get Britain Building Fund'. This fund is seen as one of many platforms to enable the Covid-19 recovery plan across the country and boost local economies. Projects submitted must be deemed Value for Money (VfM) with a strong Benefit Cost Ratio (BCR), 'Shovel Ready' with planning permission approved and able to deliver within an 18-month timescale. Two of these projects were Black Country projects, and the WMCA are passporting the funds for these two projects (NBI and VLR) to Walsall Council as the Single Accountable Body for the BCLEP. £13m in 2020/21.	17,447,800	0	0
	High Streets Fund	To invest in Walsall to deliver a much-needed boost to our high street at this challenging time, as announced by MHCLG on 26 December 2020,	8,894,325	2,550,642	0
Children's Services	Disabled Facilities Grant	This project directly supports the council's statutory requirement to provide disabled facility grants (DFGs). It is based on the delivery of the ring fenced award of grant money from government. The project has a direct positive impact on the number and subsequent varied costs to the council from the increasing level of demand for home adaptations.	2,894,013	2,894,013	2,894,013
	Integrated Community Equipment Store (ICES)	Supplies equipment to people with both a social care and a health need on an assessed needs basis. This is a pooled budget between the CCG and the council, this capital funding will be used to purchase this equipment which will enable people to return home or continue to remain at home. This now forms part of the Better Care Fund (BCF) for which the council is host. (Department of Health).	810,000	810,000	810,000
	Basic Need	Paid to LAs to support the capital requirement for providing new pupil places by expanding existing maintained schools, free schools or academies, and establishing new schools.	1,319,871	1,319,871	1,319,871
	Devolved Formula Capital	Received by the LA then allocated out to individual schools as per allocations defined by the DfE. It is intended to provide schools with capital funding for improvement to buildings and other facilities, including ICT, or capital repairs / refurbishments and minor works. (Department for Education).	514,854	514,854	514,854
	Capital Maintenance	Allocated to the LA on an annual basis to improve and maintain the condition of the school estate (buildings and grounds). Investment is prioritised on keeping school buildings safe and in good working order by tackling poor building condition, building compliance, energy efficiency, and health and safety issues. (Dept for Education).	1,917,799	1,917,799	1,917,799
	School Nursery Capital Fund – Goldsmith	The Project: A new build, Option 2 creating 16 additional full time nursery places and holiday provision on the Goldsmith Primary Academy site, Goldsmith Road, Walsall WS3 1DI. Approved by Cabinet 20/03/2019 and 18/03/2020.	991,550	0	0
<b>Total Draft Capital Programme - Externally Funded Schemes</b>			<b>46,712,112</b>	<b>18,820,577</b>	<b>10,830,437</b>

**Part 1 Annex 10 : Forecast Capital Carry Forwards from 2020/21 to 2021/22 (Council funded schemes only)**

Capital project	2020/21 Budget £	Estimated Outturn £	Forecast Variance to carry forward to 2021/22 £
<b>Children's, Education and Customer Services</b>			
School estate condition survey	250,000	79,300	170,700
<b>Children's, Education and Customer Services</b>	<b>250,000</b>	<b>79,300</b>	<b>170,700</b>
<b>Economy, Environment and Communities</b>			
New homes bonus	76,999	10,000	66,999
Regenerating Walsall	230,006	20,000	210,006
Town and district centres public realm	770,500	0	770,500
Walsall market	40,516	0	40,516
Town centre masterplan	250,000	0	250,000
Broadway west playing fields	92,000	0	92,000
St Peter church repairs to surrounding wall	32,784	0	32,784
District town centre's public realm improvements	736,580	354,424	382,156
Hatherton Road car park	225,187	13,731	211,456
Promotion of community health & safety	360,000	60,000	300,000
Replacement of obsolete analogue weather stations	30,000	0	30,000
Replacement of obsolete traffic signal control equipment	200,000	50,000	150,000
Replacement of speed enforcement camera	145,316	4,593	140,723
Hatherton road multi-story car park structural maintenance	200,000	0	200,000
Enterprise zones	4,185,088	300,000	3,885,088
CCTV	432,000	265,000	167,000
Open plus in libraries	205,542	78,542	127,000
Single library management system	39,757	0	39,757
Strategic acquisition of property to support the waste management strategy	8,545,500	0	8,545,500
Workshop breakdown van.	65,442	0	65,442
Regional materials recycling facility	2,782,381	782,381	2,000,000
<b>Total Economy, Environment and Communities</b>	<b>19,645,598</b>	<b>1,938,671</b>	<b>17,706,927</b>
<b>Resources and Transformation</b>			
Planned property maintenance	250,000	125,000	125,000
Civic centre heating	1,146,646	3,500	1,143,146
Council house rewiring	972,794	872,794	100,000
Council house smoke & heat detection fire alarm	326,920	0	326,920
Council house general heating	1,091,360	0	1,091,360
Schools projects	159,419	12,446	146,973
Council house internal decoration	55,500	16,000	39,500
Willenhall lane travellers site pumping station	44,400	0	44,400
Council chamber refurbishment	187,002	27,110	159,892
Data backup system replacement	50,000	0	50,000
Essential Microsoft upgrades & foundation for office 365	145,830	87,488	58,342
ICT-safe and secure environment	3,402,645	1,166,437	2,236,208
Single mobile devices for use within the new in-tune platform	34,820	0	34,820
Proud - ICT	200,000	132,000	68,000
Enabling technology	11,700,000	1,385,000	10,315,000
Telephony cloud based system	500,000	75,000	425,000
Proud card payments digital website	500,000	50,000	450,000
Security arrangements to Corporate Buildings	125,000	0	125,000
MYCIMS - Paperless Meetings	29,500	11,000	18,500
<b>Total Resources and Transformation</b>	<b>20,921,836</b>	<b>3,963,775</b>	<b>16,958,061</b>
<b>Total draft capital carry forward from 2020/21 to 2021/22 (council funded schemes only)</b>	<b>40,817,434</b>	<b>5,981,746</b>	<b>34,835,688</b>

## **Part 1 Annex 11 – Flexible Use of Capital Receipts Strategy**

### **Background**

The 2015 Autumn Statement announced a new flexibility for local authorities to use new capital receipts to fund expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs or demand for services in future years. The flexibility was initially made available until March 2019, but in December 2017, the Secretary of State announced, alongside the provisional local government finance settlement, the continuation of the capital receipts flexibility programme for a further 3 years to March 2022.

Councils can only use sale proceeds realised over that period (1 April 2016 to 31 March 2022), but not existing receipts. Local authorities are required to publish their plans for the flexible use of capital receipts in a Strategy which must be approved by Full Council.

The Strategy should be approved before the beginning of each financial year. If changes are proposed to the Strategy during the course of the financial year, for example if a project is identified which can be funded using this flexibility, then the revised Strategy will require the approval of Full Council. Any revisions to the Strategy in-year must also be reported to the Ministry of Housing, Communities and Local Government.

### **Qualifying Expenditure**

Qualifying expenditure is that which is forecast to generate on-going savings to an authority's and/or to another public sector body's net service expenditure, or to transform service delivery.

Capital receipts can only be applied to fund set up and implementation costs and not on-going revenue costs. Examples include:

- Funding the cost of service restructuring or rationalisation where this leads to ongoing efficiency savings or service transformation;
- Digital investment;
- Improving systems to tackle fraud and corruption;
- Setting up commercial or alternative delivery models;
- Investment in service reform – setting up pilot schemes;
- Sharing back-office and administrative functions with other councils/public sector bodies;
- Integrating public facing services across two or more public sector bodies.

### **Summary of planned receipts**

Capital receipts performance across the qualifying period has now been reviewed. This has confirmed that up to £4m of Capital receipts which have been realised during this period have not yet been utilised within the capital programme undertaken over that time and are therefore currently available.

The council's Capital programme for 2020/21 anticipated that new capital receipts of £1.5m would be generated to support the capital programme. This therefore meant that £4m of existing capital receipts that have been realised during the qualifying period were available

to fund qualifying expenditure as detailed in the Flexible Use of Capital Receipts Strategy, without any increase to existing assumptions regarding borrowing required to support the capital programme. This £4m was approved to be included in 2020/21 however as it has not been utilised approval is being sought to roll this use forward to 2021/22.

### **Summary of Planned Use**

The Strategy is required to list each project that plans to make use of the capital receipts flexibility.

It is intended that the available capital receipts balance of up to £4m will be utilised to fund investment in the Proud Programme (including the Enabling Technology work stream where the capital programme highlights that this expenditure will be funded through a mixture of borrowing and/or capital receipts), and that authority is delegated to the Section 151 Officer, in consultation with the Leader, to allocate capital receipts of up to £4m to support the revenue costs of these transformation projects.

This utilisation will release revenue costs currently set aside to fund these projects. Additionally the Proud Programme is expected to deliver a benefit ratio of 1:2.5 (for every one off £1 invested, this will deliver £2.50 recurring benefit which can be used to support the council's financial position or be reinvested into services).

### **Impact on Prudential Indicators**

The Strategy is also required to identify the prudential indicators that will be impacted by this investment. This impact is set out below:

- Pr11a. - Capital expenditure – Council Resources – increased by £4m

No other prudential indicators are impacted, as these capital receipts were not already assumed to support schemes within the existing capital programme that would now need to be financed through an increase in borrowing.

The above impact on prudential indicators shows that this Strategy is affordable and will not impact on the Council's operational and authorised borrowing limits. Further details on the council's Prudential Indicators can be found within the Treasury Management & Investment Strategy.

### **Monitoring**

The Strategy will be monitored throughout the financial year and may be updated and replaced as proposals are developed and expenditure incurred.



## **Part 1 Annex 12 – Chief Finance Officer (S151 Officer) Section 25 Report on the Adequacy of Proposed Reserves and Robustness of the Budget Estimates**

### **Context**

In accordance with Section 25 of the Local Government Act 2003 (“the Act”) and to comply with CIPFA guidance on local authority reserves and balances, the Chief Finance Officer is required to formally report to members on the robustness of the estimates used for the purpose of calculating the budget and the adequacy of proposed reserves needed for meeting future expenditure requirements. The Chief Finance Officer (Under S151 of the Local Government Act 1972) is appropriately qualified under the terms of Section 113 of the Local Government Finance Act 1988. In signing off this overall revenue budget report, the signature of the Interim Executive Director for Resources and Transformation who holds the position of Chief Finance Officer/S151 Officer, constitutes the formal declaration required under the Act that these conditions are met (based on the available information at the time of signing).

### **Reserves**

It is prudent for councils to maintain an adequate level of general reserves (or working balance). They provide a buffer and mitigate against risks, such as unavoidable and unknown demand and other service cost pressures which may arise in the year; cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing; and support the management of the impact of any unexpected events or emergencies. Earmarked reserves are also set to meet known or predicted requirements, for example, self-insured liabilities, grant reserves, contingent and potential liabilities. Reserves allow the council to manage the impact of these and to manage change without the need for immediate reductions in services. In the current financial climate arising primarily from a global pandemic, but also in the context of the United Kingdom’s exit from the European Union, the importance of good financial management, including maintaining a prudent level of reserves and contingencies, cannot be over-estimated.

There is no overall formula for calculating what an appropriate level of reserves should be. Whilst the medium term financial strategy (MTFS) sets out a guide as to what should be a minimum level, the actual level is based on best practice guidance, best professional judgement, the strategic, operational and financial risks facing the council, including an assessment of known and potential risks and an understanding of national and local factors.

A minimum level of reserves is specified in the Budget. The Council’s (MTFS) sets a range of between 1% of gross revenue expenditure for the year in question (£6.58m) and 2.5% (£16.45m). However, Section 25 of the Act requires the Chief Finance Officer (CFO) to report on the adequacy of proposed reserves and to determine the minimum level which the Council is required to have regard to in setting the overall budget envelope.

The MTFS also sets out the authority's financial framework including, as the first of ten themes of operational principles, calls on reserves and contingencies. A key principle is that reserves should not be considered to be or used as a budget and any in-year calls on the working balance should be replenished. Services cannot approve unbudgeted

expenditure on the assumption that it will be met from the working balance. This matter is reserved to the CFO, in consultation with the portfolio holder for finance.

### **Adequacy of reserves**

The CFO assesses and determines the appropriate level of reserves (including school's reserves), provisions and contingencies using a variety of mechanisms, including;

- Being significantly involved in the budget setting process, the annual financial cycle, and engaged in the strategic leadership of the organisation (through regular meetings with the Chief Executive and corporate management team);
- The annual refresh of the medium term financial strategy (MTFS) and outlook;
- Challenging the budget at various stages of construction, including the reasonableness of the key budget assumptions, such as estimates of financial pressures, realism of income targets, robustness of plans to deliver savings, and the extent to which known trends and liabilities are provided for;
- Review of financial risk assessments, including in relation to Covid-19 and Brexit;
- Review of the movements, trends and availability of contingency, provisions and earmarked reserves to meet unforeseen cost pressures in the context of future pressures and issues;
- The use of professional experience and best professional judgement;
- The use of appropriate professional, technical guidance and local frameworks (CIPFA guidance, LAAP99, Local Government Act 73, Localism Act 2011);
- Knowledge and involvement of colleagues involved in the process, including Directors and budget holders, along with finance business partners;
- Consultation with Members as appropriate, including the Portfolio Holder for Finance;
- Review of the strength of financial management and reporting arrangements, including internal control and governance arrangements;
- Review of the current year's financial performance in services, actions to address areas of pressure, known future service delivery changes, the level of schools reserves and the financial performance of schools;
- Review of national and local economic, market, legislative and financial conditions.

A risk assessed approach is used to determine the required level of reserves and contingencies. This includes external risks; including Covid-19, Brexit, national policy changes, legislation, national funding arrangements and levels of support available, changes in market and economic conditions, service user behaviours (e.g. impact on income projections); and internal risks such as the ability to deliver planned savings. The MTFS is annually updated and approved by Cabinet to reflect the changing environment in which we work – the latest being approved by Cabinet on 15 July 2020. Reserves and contingencies are addressed within the Strategy.

In the current climate, there continues to be significant uncertainties around funding, particularly in light of the global pandemic, the impact of lockdown arrangements on our communities and finances, impact of Brexit, proposed changes to central funding (Fair Funding), including in relation to business rates retention, treatment of public health budget, and funding of adults and children's social care.

The continued need to make savings whilst driving improvements in customer and employee satisfaction over the medium term through the Proud transformation programme, and maintaining the organisational capacity to deliver this at the required scale and pace also creates risk. It is therefore prudent to consider contingency plans

should in year reporting arrangements identify that planned savings may be delayed. Alongside the national Fair Funding policy changes being considered and any 'unknown' demographic and demand cost pressures, this increases organisational risk and therefore the need for adequate levels of reserves to be maintained in current and future years.

The level of opening balances for 2021/22 is partially dependent on the level of closing balances for 2020/21. The following details general reserves as at 31 March 2020, together with the proposed use of and transfer to reserves, and the resulting balance as at 1 April 2021, to secure the opening level of reserves recommended by the Chief Finance Officer.

Opening General Reserves	£m
Balance as at 1 April 2020	(14.41)
Falls prevention	0.04
Street Cleansing activities – Cabinet 18.03.20	0.71
Transfer of in year forecast underspends (as at December 2020)	(0.26)
<b>Estimated closing balance as at 31 March 2021</b>	<b>(13.92)</b>
<b>Transfers from earmarked reserves to meet forecast risks</b>	<b>(2.72)</b>
<b>Opening Balance as at 1 April 2021</b>	<b>(16.64)</b>

This level of balances is considered prudent for a number of reasons:

- Uncertainty over the level of funding going forward, particularly in light of Covid-19 , Brexit and the fundamental changes being undertaken in relation to central funding and business rate retention.
- Operational, strategic and financial risks facing the authority, as set out in this statement.
- The council is not permitted to budget for a level of general reserves below that determined by the MTFS and the S151 officer.
- Balances are predicated on total savings of c£28.90m being achieved in 2021/22. Whilst an assessment of plans has been undertaken, it is prudent to hold a contingency to manage any delay in delivery of savings, particularly in the light of Covid-19 and uncertainty as to the timing and extent of lifting of lockdown arrangements.
- Uncertainty around future demand led services, specifically within Adult and Children's Services.

The CFO has assessed the current year's financial performance and actions taken to address underlying pressures. In considering this, alongside the financial risk assessment, the previous financial year's financial performance, and the potential risks and pressures facing the organisation, the CFO recommends that opening reserves are set at a minimum of £16.64m. This is based on the following assessed categories of financial risk:

<b>Financial Risk Assessment</b>	<b>£m</b>
Funding risks – fall out of grant, council tax changes, etc	1.79
Cost / Demand Pressures	6.30
Delivery of Proud Savings - continuing impact of Covid-19 on delivery plans	5.06
Covid-19 - additional cost risk over confirmed funds	1.46
National and legislative impact i.e. Brexit	0.82
Loss of Income / Investments	1.21
<b>Assessed General Reserve Requirement</b>	<b>16.64</b>

## Earmarked Reserves

The council maintains a number of reserves, earmarked for specific purposes, all of which are set at the levels required to meet future commitments. These cover:

- Council liabilities - These reserves cover expenditure where the council has a legal obligation to pay costs, however the timing of which is not yet known, such as redundancies, legal costs, business rate appeals, insurance claims, pension costs. Once the timing and liability is known, the liability becomes a provision within the financial statements;
- Grants received in advance (where the council has received money in advance of the next accounting period or money that covers more than one accounting period), which will be spent in line with the grant conditions;
- Covid-19 reserves such as the Local Tax Income Guarantee to be used to support the impact of Covid-19 on the collection fund;
- Treasury reserves - These reserves are to minimise the impact of interest rate changes and finance early redemption of loans to reduce the council's future exposure to interest rates;
- Demand - These reserves are primarily to provide short term additional funding for Children's and Adult Social Care where a spike in demand may create overspends, but the likelihood is still uncertain. Additionally, an amount is provided for Housing Benefits;
- Projects - These reserves are to finance service transformation, major capital projects, and regeneration of the borough;
- Schools reserves held by but not controlled by the council.

An annual review of earmarked reserves is undertaken and funds adjusted as required or released where liability is assessed as ceased.

The expected level of earmarked reserves as at 1 April 2021 is as follows and is considered reasonable and prudent.

Earmarked Reserves	£m
Balance as at 1 April 2020	(148.52)
Created in year – including Covid-19 collection fund reliefs and grants	(34.34)
Expected to be used in year	48.79
Replenishment in year	(33.20)
Released in year	5.03
<b>Estimated closing balance as at 31 March 2021</b>	<b>(162.24)</b>

## Central Contingency

As well as general and earmarked reserves, the council holds a small revenue contingency to manage unforeseen but recurring expenditure. The contingency is held centrally and is calculated between 0.1% and 0.15% of the year's gross revenue budget. For 2021/22 this is to be set at the higher level at £987k.

A prudent central capital contingency is also held, not exceeding 10% of the annual council funded element of the capital programme requirement, to accommodate unforeseen / unbudgeted expenditure (i.e. where, due to the level of uncertainty, the financial impact is not certain at the time of setting the programme). The exact level is set by the CFO. The

contingency will be funded either from drawing down the earmarked capital reserve or from an annual revenue contribution to capital outlay from the project reserve (subject to there being sufficient funds to replenish this at year end). For 2021/22 this is to be set at £500k, which is considered adequate based on past requirements.

### Schools Reserves

The CFO, as part of this statement, is required to confirm that school's balances are adequate. In 2006/07, DfES introduced expectations on local authorities with regard to their schemes of financial management. Part of this legislation required schools to agree a balance control mechanism. This mandatory requirement was subsequently removed. The council and Walsall Schools Forum considered the options around balance control and given the authority powers to investigate and claw back balances in excess of a specified percentage of the school budget share. The council notes that the latest Academies handbook has removed the need for balance control for many academies.

Schools Forum is mindful of value for money in all that schools do, looks for medium term financial planning and encourages an adequate working balance as part of that process. This is supported by regular reports to the Schools Forum on medium term funding and more recently linking value for money and performance.

The adequacy of balances is reviewed annually by the CFO. For the current financial year, 3 schools are operating licenced deficits. However, the first of these schools has requested a licenced deficit for 2020/21 only, the second has already implemented actions required to return to a surplus from 2022/23. The remaining school is being provided with support by the authority to help it manage its financial pressures and return to surplus within the timescales required within the scheme for financing schools.

The overall levels of schools reserves is kept under regular review, along with any exceptional balances, and based on school budget plans for 2020/21 the level of schools reserves are forecast to move from an opening balance of £8.00m to a closing balance of £4.20m, a planned reduction of £3.80m which is mainly linked to the three schools with licenced deficits detailed above along with investment plans within individual schools. The council and Schools Forum has identified that the implementation of a new National Fair Funding Formula continues to pose a financial risk to individual schools, and options to manage this risk continue to be identified as part of the process to set the local schools funding formula each year.

### Overall Assessment of Reserves

An opening level of general reserves of £16.64m is considered to be sufficient for most possible events, over the short-term i.e. for 2021/22. The council will continue to face real and present financial challenges beyond this. In the context of this funding environment, wherever possible reserves will be at least maintained during 2021/22 and beyond.

In recommending an adequate level of reserves, the CFO considers and monitors the opportunity costs of maintaining particular levels of reserves and balances and compares these to the benefits accrued from having such reserves. The opportunity cost of maintaining a specific level of reserves is the 'lost' opportunity for example, of investing elsewhere to generate additional investment income, or using the funds to invest in service improvements. In assessing this it is important to consider that reserves can only be used once. Therefore, any use of general reserves above the lower minimum threshold is only

ever used on one-off items of expenditure. The level of reserves is also determined by use of a comprehensive risk assessment to ensure they represent an appropriately robust "safety net" which adequately protects the council (a complex and multi-disciplinary metropolitan district local authority) against potential unforeseen and therefore unbudgeted costs.

In this context, it is considered that a level of reserves set at £16.64m presents an optimum balance between risk management and opportunity cost. The CFO is satisfied that the benefits accrued in maintaining these at the recommended level outweigh the potential lost opportunity from investing these reserves in other ways. This maintains a suitable and sustainable level of reserves, which include ensuring sound governance and financial stability in the short and longer term.

The above assessment concludes that general reserves, if set at £16.64m, will be at an appropriate level; as determined in accordance with the MTFs and the CFO's Officer's professional advice. The budget is predicated on delivery of £28.90m of cashable benefit. A savings tracker in relation to delivery of 2021/22 savings has been instigated and at this point, whilst uncertainty remains about the ongoing impact of Covid-19 on savings, our current assessment is that the combination of known Covid-19 grants and our financial risk assessment of potential impact, which has resulted in the CFO Officer recommending a higher level of general reserves than that currently set out within the MTFs (as a direct result of Covid-19) should be sufficient, *based on our current knowledge*, to manage further short term impact. Any longer term impact is likely to require further actions, including identification of alternative actions to address any shortfalls and replenish any in year use of general reserves.

### **Robustness of the Estimates included within the Budget**

The CFO has been involved throughout the entire budget process, including input to the drafting of the budget, the ongoing financial monitoring and reporting process, evaluation of investments and savings, engagement with Members of the Executive and Overview and Scrutiny, advising colleagues, challenge and evaluation activities, and the scrutiny and approval of various reports.

As stated, the budget is risk assessed to ensure adequate funding for all known liabilities and to provide sufficient resources to enable service change and transformation. It covers an assessment of current year's performance, an assessment of income targets, estimates of future cost and potential unavoidable demand pressures.

### **Key assumptions**

The cost assumptions and prices used in the budget are derived from current intelligence and are considered appropriate. Demand changes have been identified and are reflected in budget increases identified in the appendices where appropriate, on a risk assessed basis. Areas of identified pressure within 2021/22 are planned to be covered by a combination of base budget alignments to recognise the agreed ongoing management of corrective action undertaken during 2020/21 or base budget adjustments, where growth/investment is included within the 2021/22 budget to cover the cost pressure (or income/grant shortfall). Fees and charges have been reviewed and changes are reflected in the overall budget. Contingency has been built in (inflationary / contractual) for uncertainty concerning the impact of Brexit on supply and prices.

Capital receipts and the borrowing requirement to be used for the capital programme are

based on professional estimates both of timing and value. Assumptions on funding, including government funding, business rate and council tax levels, inflation, income assumptions, increases in costs arising from demographics and demand, borrowing requirements, balances and contingencies, are set out within the main budget report and are considered appropriate.

Significant investment has been included to cover those areas of most demand and volatility, particularly in adult and children's social care.

### Proud Savings

The Proud Programme has been created to change how we do things, as well as what we do, to improve customer and employee satisfaction, whilst achieving financial benefits in a more considered and sustainable way. The programme is organised as work streams and benefits are aligned to these – for example, Customer Access and Management improvement, Commissioning (third party spend), income generation and cost recovery, etc rather than on a more traditional (Directorate/Service) basis. Given this and the size and scale of the programme, this inevitably creates uncertainty. Work, however, has developed in 2020/21 to translate the work stream benefits into services via service transformation plans (STP's), allowing c£66m of savings to be incorporated into the 2021/22 to 2023/24 budget report. Whilst Covid-19 has impacted on delivery of approx. £8.02m of the approved £8.77m of savings for 2020/21, traction is now taking place in relation to delivery.

Finance, the joint programme management team, and Proud work stream leads, have reviewed the Proud work stream plans, benefits realisation and the anticipated level of cashable savings in relation to 2021/22. Actions to address gaps between planned activity and realisation of benefit have been discussed and agreed as appropriate with CMT. Work is progressing on a revised programme implementation plan covering a 3 year delivery horizon aligned to the budget.

These include;

- Resource requirements being identified and funding aligned (within the overall funding envelope approved by Cabinet), including; organisational (i.e. work stream and implementation leads) and specialist capacity and capability where required (i.e. IT, commercial, support services and change management) to deliver the change required to realise the benefits;
- A re-scoped Programme Implementation Plan is in development to support clarity of dependencies and sequencing of activity between work streams to deliver benefits identified and actions identified to support delivery.
- There is an agreed governance structure applied to the programme to ensure accountability and for assurance to be provided to the overall Walsall Proud Programme Board
- Programme risks will be managed through the governance arrangements and escalated appropriately.

A benefits based change approach has been agreed, such that benefits milestones will be fixed in time; planned changes must adapt to meet the benefits not the other way around and benefits will be realised by being taken from budgets (or agreed by Cabinet for reinvestment. Provided all actions are taken within the agreed timescales then cashable savings of c£28.90m for 2021/22 as required by the MTFO are deemed achievable. The financial risk assessment which has informed the CFO's recommendation on an adequate level of opening general reserves, does contain a contingency, included in the table above, to

manage any ongoing impact of the current lockdown or any new restrictions.

Responsibility and accountability for delivery of Proud savings rests with the relevant CMT sponsor and work stream implementation leads for delivery of work stream capabilities and with Directors for delivery of STP's, and progress will be monitored and reported throughout the forthcoming year.

Activity in relation to the overall plan for the full life of the programme is currently being developed, and a regular assessment of the plan of activity will be undertaken and reported throughout 2021/22 to ensure assurance can be provided in relation to benefits realisation and that delivery of savings over the MTFO period is in line with that required.

### Risks, including Strategic, Operational and Financial

In the budget, due regard is made to the strategic and operational risks facing the council. Some of these relate to the current economic condition, others to potential regulatory or national issues (Brexit related and none), which may have a local impact. Estimates and forecasts include all known significant financial risks over the next year and medium term to inform spending decisions. The council continues to use an embedded good practice risk assessment approach both when setting the budget and in validating estimated outturns. This continues for the 2020/21 outturn and the 2021/22 to 2023/24 budget.

The risk assessment has highlighted the following areas of financial risk:

- Current impact of Covid-19 and uncertainty around future impact;
- Potential economic impact of Brexit, now we have left the EU;
- Demand – the risk of further demand, specifically in children's' and adult social care, above the levels incorporated into the budget;
- New Burdens / national policy implications on local budgets – the risk that Government changes in policy will lead to a transfer of responsibility / new burdens, without the transfer of funding to support those activities; or potential costs arising from inspections arising after the budget was set;
- Fair Funding and uncertainty around central funding of local authority services beyond 2021/22;
- Grant reductions not published or known about at the time the budget is set;
- Unbudgeted further income shortfalls during the financial year;
- Unknown liabilities that may arise after the budget is set, for example from changes in legislation or statutory guidance;
- Cost pressures – i.e. inflationary pressures, pressures arising from a severe winter (i.e. gritting, road maintenance, gully cleaning), pressures from economic changes;
- Delays in delivery of Proud savings, for example, arising from implementing organisational change, renegotiating or tendering for third party contracts, Covid-19, etc;

These have been assessed, and a risk value assigned. Professional and best estimates have been made of the scope of the financial risk. Sensitivity analysis has been used where appropriate, to determine an appropriate risk value. The assessment confirms that a reserve value at the higher end of the MTFS guidelines is appropriate.



## **The Budget in Context**

The budget includes the allocation of financial resources to different services and projects, proposed reserves and contingency funds, setting the council tax and council tax base, and decisions relating to the control of the councils borrowing requirement, the control of its capital expenditure and the setting of virement limits. The budget has been constructed in accordance with the principles and direction set out in the MTFS.

All cost pressures, efficiencies and savings have been appraised to ensure accuracy of costings and deliverability. Individual officers are identified as accountable for their implementation. The council is working to improve performance outcomes on a range of activities which are monitored throughout the year. Budget provision has been identified for the priorities outlined in the council's Corporate Plan.

## **Summary**

Best endeavours have been made to ensure that the budget and reserves are adequate using the information available at this date. The budget has been constructed within a professional policy-led medium term strategic framework, using appropriate assumptions, linking investment and spending to key priorities and having undertaken a comprehensive assessment of risk.

In summary, I can confirm that, taking into account the information known at this time;

(a) the estimates made for the purposes of the calculation of the Council's budget requirement under Section 32 of the Local Government Finance Act 1992, contained in the budget report, are robust;

(b) the financial reserves available to the Council as a result of agreeing the proposals contained within the Budget report are adequate to enable the setting of a lawful budget for 2021/22.

Deborah Hindson  
Interim Executive Director, Resources and Transformation,  
Chief Finance Officer (s151 Officer)

## Section B - Part 2 – Treasury Management

### A: Treasury Management and Investment Strategy for 2021/22 Onwards

#### 1 INTRODUCTION

##### 1.1 Background

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 counterparties or instruments with an appropriate level of risk (as defined within the council's Treasury Management Policies), providing adequate liquidity initially before considering investment return.

The other main function of the treasury management service is to ensure appropriate arrangements are in place to fund the council's approved 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 any debt previously drawn may be restructured to meet council risk or cost objectives.

CIPFA defines treasury management as:

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

#### Reporting requirements

Full Council is required to receive and approve, as a minimum, four main reports each year, which incorporate a variety of policies, estimates and actuals.

**Prudential and treasury indicators and treasury strategy** - This covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure i.e. that funded from borrowing, is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters that set out how investments are to be made and managed).

**A Mid-Year Treasury Management report** – This will update members on the progress of the capital plans, amending prudential indicators as necessary, and identify whether any policies require revision.

**An Annual Treasury report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates included within the strategy.

**A Capital Strategy report** – This is intended to provide the following: -

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

The aim of this report is to ensure that all elected members on the Full Council fully understand the overall strategy, governance procedures and risk appetite entailed by this Strategy.

### **Scrutiny**

The above reports are required to be adequately scrutinised before being recommended to Full Council. For Walsall Council the Cabinet undertakes this role.

## **1.2 Treasury Management Strategy for 2021/22**

The Strategy for 2021/22 covers two main areas:

### **Capital issues**

- capital plans and the prudential indicators;
- the minimum revenue provision (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;
- policy on use of external service providers

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, Ministry for Housing, Communities and Local Government (MHCLG) MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

## **1.3 Training**

The CIPFA 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. A treasury management e-learning course is available to all members and further specific training is then arranged as when required.

#### **1.4 Treasury management consultants**

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

The council recognises that the responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

#### **1.5 Treasury management Monitoring**

Local and Prudential indicators are used to monitor treasury management activities which are produced monthly and reported at least quarterly to the treasury management panel. The indicators monitored during the year are detailed in **Annex 1**.

## 2 THE CAPITAL PRUDENTIAL INDICATORS 2021/22 – 2023/24

The council's capital expenditure plans are the key driver of treasury management activity. The output of these plans is reflected in the prudential indicators, designed to assist Members' overview and confirm capital expenditure plans.

### 2.1 Capital Expenditure - Prudential Indicator 1

This prudential indicator is a summary of the council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are recommended to approve the capital expenditure forecasts. The financing need below excludes other long term liabilities, such as Private Finance Initiative and leasing arrangements which already include borrowing instruments within them. The current capital plans which this strategy supports are detailed in Table 1 below.

<b>Table 1 : Current Capital Programme</b>					
	<b>2019/20 Actual £m</b>	<b>2020/21 Forecast £m</b>	<b>2021/22 Estimated £m</b>	<b>2022/23 Estimated £m</b>	<b>2023/24 Estimated £m</b>
<b>Total Capital Expenditure</b>	<b>69.78</b>	<b>98.36</b>	<b>103.76</b>	<b>62.56</b>	<b>41.80</b>
Resourced by:					
Capital receipts	2.78	5.65	1.50	1.50	1.50
Capital grants	53.06	67.04	46.71	18.82	10.83
Capital reserves	0.00	0.00	0.00	0.00	0.00
Revenue	1.59	0.04	0.02	0.02	0.02
Borrowing	12.35	25.63	55.53	42.22	29.45
<b>Total resources available</b>	<b>69.78</b>	<b>98.36</b>	<b>103.76</b>	<b>62.56</b>	<b>41.80</b>

### 2.2 Affordability Indicators

The previous prudential code required the authority to prepare indicators (prudential indicator 2 and 3) so that the council could assess the affordability of its capital investment plans. Although these are no longer required under the Code, the authority still prepares these former prudential indicators as they provide an indication of the impact of the capital investment plans on the council's overall finances. Council is recommended to approve the following indicators:

#### **Ratio of financing costs to net revenue stream – Former Prudential Indicator 2**

This indicator identifies the trend in the cost of capital financing (borrowing and other long-term obligation costs net of investment income) against the council's net revenue stream.

<b>Table 2 : Former Prudential Indicator 2</b>					
	<b>2019/20 Actual</b>	<b>2020/21 Forecast</b>	<b>2021/22 Estimated</b>	<b>2022/23 Estimated</b>	<b>2023/24 Estimated</b>
Ratio	4.31%	3.78%	8.71%	9.03%	7.74%

## 2.3 The council's borrowing need (the Capital Financing Requirement) – Prudential Indicator 4

Prudential indicator 4 is the council's Capital Financing Requirement (CFR). The CFR is 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 underlying borrowing need. Any capital expenditure not immediately paid will increase the CFR. The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge, which broadly reduces the borrowing need in line with each assets estimated life.

The CFR does include other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the council's borrowing requirement, these types of schemes include a borrowing facility within them and so the council is not required to separately borrow for these schemes. The council currently has £5.44m of such schemes within the CFR. Council is asked to approve the CFR projections in Table 3 which shows that the council's net borrowing need for the period 2020/21 to 2022/24 is estimated to see an increase of £120.81m. The council's borrowing strategy is set out in section 4.

<b>Table 3 : Analysis of CFR</b>				
	<b>2020/21 Forecast £m</b>	<b>2021/22 Estimated £m</b>	<b>2022/23 Estimated £m</b>	<b>2023/24 Estimated £m</b>
Opening Capital Financing Requirement	<b>357.16</b>	<b>377.65</b>	<b>417.36</b>	<b>459.44</b>
<i>Net financing need for the year</i>				
Less MRP and other financing movements	-8.04	-11.73	-13.34	-15.26
Additional borrowing	28.53	51.44	55.42	33.79
<b>Movement in CFR</b>	<b>20.49</b>	<b>39.71</b>	<b>42.08</b>	<b>18.53</b>
<b>Closing Capital Financing Requirement</b>	<b>377.65</b>	<b>417.36</b>	<b>459.44</b>	<b>477.97</b>

The council has maintained an under-borrowed position, which means that the capital borrowing need (the CFR), has not been fully funded with loan debt as cash supporting the council's reserves, balances and cash flow has been used as a temporary measure. This strategy has been prudent whilst investment returns have remained low and counterparty risk is relatively high compared to the historical position.

### **3. MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT**

The MRP policy (see **Annex 2**) details the council's policies for calculating the annual amount charged to revenue for the repayment of debt.

#### **3.1 Background to Annual MRP Policy Review**

A local authority shall determine each financial year an amount, it considers to be prudent, to be set aside for the repayment of accumulated borrowing relating to capital expenditure. This is known as the minimum revenue provision (MRP). There are four ready-made options available for calculating MRP, however authorities do also have discretion to determine their own MRP, other approaches are not ruled out, as long as the authority is properly reasoned and justified utilising them.

#### **3.2 MRP Policy Objectives**

- The council shall determine for each financial year an amount of revenue provision for the future repayment of debt that it considers prudent.
- To set aside funds at a rate such that future generations who benefit from the assets are contributing to the associated debt and avoiding the situation of future generations paying for the debt on assets that are no longer useable.

#### **3.3 MRP Policy Review 2020/21**

Full Council is required to approve an MRP Statement each year. A review of MRP has been undertaken during 2020/21 in conjunction with Link Asset Services to ensure the Council is continuing to charge an appropriate and prudent MRP following its last review in 2015/16. This review identified that using an annuity basis for calculation from 1 April 2020 is considered an appropriate and prudent approach for the council.

The Policy Statement for 2020/21 is detailed in **Annex 2** containing these revisions.

The MRP policy is regularly monitored, and because the MRP policy has to be approved by Council each year there is an opportunity to revisit the policy, and the prudent approach utilised to set the policy, as required.

### **4 BORROWING**

The resourcing of the capital expenditure plans set out in **Section 2** provides details of the proposed capital expenditure that will be incurred in support of the service activity of the council. The treasury management function ensures that the council's cash is organised in accordance with the relevant professional codes so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

#### **4.1 Current portfolio position**

The council is expected to end 2020/21 with borrowing of over 1 year length of approximately £355m against an asset base of approximately £513m, and short term investments of approximately £185m. These will be proactively managed to minimise

borrowing costs and maximise investment returns within a robust risk management environment. In 2021/22 estimated annual interest payments are £11.86m (£11.39m budget for 2020/21), with the increase due to planned borrowing included within the budget to take account of capital expenditure. Net investment interest income for 2021/22 is estimated to be £1.82m (£2.74m budget for 2020/21), with the decrease mainly as a result of historically low interest rates. The net budget for capital financing in 2021/22 is £23.67m (£17.70m in 2020/21). By having a proactive approach to managing cash flows and investments it is estimated that investment income of £435k above the bank base rate will be generated.

The council's treasury portfolio position at 31<sup>st</sup> December 2020 is shown in Table 4; year end forward projections are summarised in Table 5. This shows that the actual external borrowing (the treasury management operations), against the capital borrowing need and operational debt, and highlights any over or under borrowing. It shows that the council's underborrowing position is expected to continue for the medium term.

<b>Table 4 : Borrowing and Investments</b>			
	<b>Borrowing £m</b>	<b>Investments £m</b>	<b>Net Borrowing £m</b>
31 March 2020	<b>361.61</b>	<b>(214.49)</b>	<b>147.12</b>
31 December 2020	<b>356.61</b>	<b>(254.60)</b>	<b>102.01</b>
Change in year	<b>(5.00)</b>	<b>(40.11)</b>	<b>(45.11)</b>

<b>Table 5 : Borrowing Forward Projections</b>			
<b>Borrowing profile</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>	<b>2023/24 £m</b>
Under 12 Months	<b>42.91</b>	<b>31.74</b>	<b>4.75</b>
12 Months to within 24 Months	<b>31.74</b>	<b>4.75</b>	<b>6.11</b>
24 Months to within 5 Years	<b>10.86</b>	<b>8.00</b>	<b>1.89</b>
5 Years to within 10 Years	<b>1.89</b>	<b>0.00</b>	<b>0.46</b>
10 Years and Above	<b>299.27</b>	<b>358.44</b>	<b>400.20</b>
<b>Total Borrowing</b>	<b>386.67</b>	<b>402.93</b>	<b>413.41</b>
<b>Operational Debt - Prudential Indicator 6</b>	<b>453.00</b>	<b>478.84</b>	<b>477.96</b>
<b>(Under) / Over Borrowed</b>	<b>(66.33)</b>	<b>(75.91)</b>	<b>(64.55)</b>

Within the prudential indicators, there are a number of key indicators to ensure that the council operates its activities within defined limits. **Prudential Indicator 7** relates to the councils need 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 2020/21 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The S151 Officer reports that the council complied with **Prudential Indicator 7** in the current year and does not envisage this indicator being breached in the future. This view takes into account current commitments, existing plans, and the proposals in this budget report. In accordance with **Prudential Indicator 8**, the council has adopted and complies with the CIPFA Code of Practice for Treasury Management.



## 4.2 Treasury Indicators: Limits to Borrowing Activity

### The Authorised Limit for External Debt - Prudential Indicator 5

This prudential indicator represents a control on the maximum level of borrowing. This represents a 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, whilst not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is based on the requirement to set 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 councils' plans, or those of a specific council, although this power has not yet been exercised.

Full Council is asked to approve the following authorised limit:

<b>Table 6 : Authorised Limit £m - Prudential Indicator 5</b>				
	<b>2020/21 Forecast £m</b>	<b>2021/22 Estimated £m</b>	<b>2022/23 Estimated £m</b>	<b>2023/24 Estimated £m</b>
<b>Total</b>	<b>458.39</b>	<b>498.30</b>	<b>526.72</b>	<b>525.75</b>

### The Operational Boundary - Prudential Indicator 6

This is the limit beyond which external debt is not normally expected to exceed. It has been calculated by deducting other local authority debt (totalling £8.78m in 2020/21) from the capital financing requirement (CFR) and then adding any expected in year cash-flow borrowing requirements.

<b>Table 7 : Operational Boundary £m - Prudential Indicator 6</b>				
	<b>2020/21 Forecast £m</b>	<b>2021/22 Estimated £m</b>	<b>2022/23 Estimated £m</b>	<b>2023/24 Estimated £m</b>
<b>Total</b>	<b>425.50</b>	<b>453.00</b>	<b>478.84</b>	<b>477.96</b>

## 4.3 Prospects for interest rates

The council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the council to formulate a view on interest rates. The following table gives their central view.

Link Group Interest Rate View		9.11.20													
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20															
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	
5 yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00	
10 yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30	
25 yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80	
50 yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60	

## Commentary from Link Asset Services as at December 2020

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 16th December, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected in the near-term as economic recovery is expected to be only gradual and, therefore, prolonged. These forecasts were based on an assumption that a Brexit trade deal would be agreed by 31 December 2020: as this has now occurred, these forecasts do not need to be revised.

### Gilt yields / PWLB rates

There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was a heightened expectation that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields.

While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years.

Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.

Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields spiked up during the

financial crisis in March, we have seen these yields fall sharply to unprecedented lows as investors panicked during March in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks took rapid action to deal with excessive stress in financial markets during March, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in “normal” times would have caused bond yields to rise sharply. Gilt yields and PWLB rates have been at remarkably low rates so far during 2020/21.

As the interest forecast table for PWLB certainty rates above shows, there is expected to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment, (as shown on 9th November when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

### **Investment and borrowing rates**

- Investment returns are likely to remain exceptionally low during 2021/22 with little increase in the following two years.
- Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were negative during most of the first half of 20/21. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. The unexpected increase of 100 bps in PWLB rates on top of the then current margin over gilt yields of 80 bps in October 2019, required an initial major rethink of local authority treasury management strategy and risk management. However, in March 2020, the Government started a consultation process for reviewing the margins over gilt rates for PWLB borrowing for different types of local authority capital expenditure. It also introduced the following rates for borrowing for different types of capital expenditure: -
  - PWLB Standard Rate is gilt plus 200 basis points (G+200bps)
  - PWLB Certainty Rate is gilt plus 180 basis points (G+180bps)
  - Local Infrastructure Rate is gilt plus 60bps (G+60bps)
- As a consequence of these increases in margins, many local authorities decided to refrain from PWLB borrowing unless it was for local infrastructure financing, until such time as the review of margins was concluded.
- On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows: -

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
  - PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
  - Local Infrastructure Rate is gilt plus 60bps (G+60bps)
- **Borrowing for capital expenditure.** As Link's long-term forecast for Bank Rate is 2.00%, and all PWLB rates are under 2.00%, there is now value in borrowing from the PWLB for all types of capital expenditure for all maturity periods, especially as current rates are at historic lows. However, greater value can be obtained in borrowing for shorter maturity periods so the Council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs. Longer-term borrowing could also be undertaken for the purpose of certainty, where that is desirable, or for flattening the profile of a heavily unbalanced maturity profile.
  - While this authority will not be able to avoid borrowing to finance new capital expenditure, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

#### 4.4 Borrowing Strategy

##### Our borrowing objectives are:

- To minimise the revenue costs of debt whilst maintaining an appropriate level of cash and a balanced loan portfolio;
- To manage the council's debt maturity profile, ensuring no single future year has a disproportionate level of repayments;
- To maintain a view on current and possible future interest rate movements and borrow accordingly;
- To monitor and review the balance between fixed and variable rate loans against the background of interest rate levels and prudential indicators.

##### Specific Borrowing Objectives

- L1. Full compliance with the Prudential Code - **No Change.**
- L2. Average maturity date between 15 and 25 years - **No Change.**
- L3a. Financing costs as % of council tax requirement 20% – **No Change.**
- L3b. Financing costs as % of tax revenues 12.5% - **No Change.**
- L4. Actual debt as a proportion of operational debt range is maintained in the range 65% - 85% - **No Change.**
- L5. Average interest rate for internally managed debt will reduce to **3.30%** - **Changed from 3.69% in view of planned borrowing.**
- L6. Average interest rate for total debt (including other local authority debt) will be equal to or less than **3.46%** - **Changed from 3.93% in view of planned Borrowing re-profiling.**
- L7. The gearing effect on capital financing estimates of 1% increase in interest rates must not be greater than 5% - **No Change.**

The capital borrowing need (CFR) has not been fully funded with loan debt and instead the council's cash which would normally be utilised to support the council's reserves, balances

and cash flow has been used to fund the borrowing need as a temporary measure. This strategy has proved prudent as investment returns have been low and current levels of counterparty risk are higher than those seen historically and as such this is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Interim Head of Finance – Corporate, responsible for Treasury Management will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. For example:

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

Any changes that are required will be reported to the treasury management panel at the next available opportunity.

#### 4.5 Treasury Management Limits on Activity

There are three debt related treasury activity limits. The purpose of these is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. These limits have been reviewed. The indicators the Council is asked to approve are in Table 8 below (please note there are no changes proposed to the targets approved for 2020/21):

<b>Table 8: Borrowing Limits</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
<b>Prudential Code Indicator 10</b>	95%	95%	95%
Upper limits on fixed interest rate exposures.			
Lower limits on fixed interest rate exposures	40%	40%	40%
<b>Prudential Code Indicator 11</b>	45%	45%	45%
Upper limits on variable interest rate exposures			
Lower limits on variable interest rate exposures	0%	0%	0%
<b>Prudential Code Indicator 12</b>			
Lower limits for the maturity structure of borrowings:			
Under 12 Months	0%	0%	0%
12 months and within 24 months	0%	0%	0%
24 months and within 5 years	0%	0%	0%
5 years and within 10 years	5%	5%	5%
10 years and above	30%	30%	30%

<b>Table 8 continued: Borrowing Limits</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
Upper limits for the maturity structure of borrowings:			
Under 12 Months	25%	25%	25%
12 months and within 24 months	25%	25%	25%
24 months and within 5 years	40%	40%	40%
5 years and within 10 years	50%	50%	50%
10 years and above	85%	85%	85%

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

#### **4.6 Debt rescheduling**

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred). The reasons for any rescheduling include:

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

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt. All potential rescheduling would require the approval of the treasury management panel.

### **5. ANNUAL INVESTMENT STRATEGY**

#### **5.1 Investment Policy**

The council's Investment Policy has regard to the Ministry for Housing, Communities and Local Government's Guidance on Local Government Investments ("the Guidance"), last updated in February 2018, and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The council's investment priorities will be security first, liquidity second, then return.

In accordance with the above guidance from the MHCLG and CIPFA and in order to minimise the risk to investments, the council applies minimum acceptable credit criteria 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.

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 this end the council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties. Counterparty limits are set through the council's treasury management practices – schedules. This year the TM policies have been reviewed to ensure that any Banking Regulation changes are appropriately reflected to make certain that the security of the council's deposits remain the highest priority whilst the council seeks a fair return for its investment. See TMP 1 section on Credit and Counterparty Risk Management paragraph h. TMP 1 also allows the undertaking of non-specified investments on the approval of the S151 Officer e.g. loans to housing associations, property funds and bond issues by other public sector projects etc. The use of property funds can be deemed to be capital expenditure, and as such in some instances will be an application (spending) of capital resources. This Authority will undertake due diligence and appropriate checks, and if required seek guidance, on the status of any fund it may consider using.

## **5.2 Creditworthiness Policy**

### **Approved Organisations for Investments**

Only organisations that are eligible to receive investments from local authorities may be used. The council's credit worthiness policy forms part of this document for review and approval.

## **5.3 The Monitoring of Investment Counterparties**

The credit rating and financial resilience of counter parties are monitored regularly. The council receives credit rating information from Link Asset Services as and when ratings change and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list by the Interim Head of Finance - Corporate and / or Finance Manager – Technical Accounting and Treasury management, and if required new counterparties which meet the criteria will be added to the list.

## **5.4 Investment strategy**

The general policy objective for this council is for the prudent investment of its treasury balances. The council's investment priorities are:

- The security of capital;
- Liquidity of its investments;
- All investments will be in sterling;
- The council will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity.

**In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for interest rates.

**Investment returns expectations.**

Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it may be best to assume that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future.

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 (the long term forecast is for periods over 10 years in the future):

Average earnings in each year	
2020/21	0.10%
2021/22	0.10%
2022/23	0.10%
2023/24	0.10%
2024/25	0.25%
Long term later years	2.00%

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population. It may also be affected by what, if any, deal the UK agrees as part of Brexit.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, or a return of investor confidence in equities, could impact gilt yields, (and so PWLB rates), in the UK.

**Negative investment rates**

While the Bank of England said in August / September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, and in November omitted any mention of negative rates in the minutes of the meeting of the Monetary Policy Committee, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

As for money market funds (MMFs), yields have continued to drift lower. Some managers have already resorted to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a surfeit of money swilling around at the very short end of the market. This has



seen a number of market operators, now including the DMADF, offer nil or negative rates for very short term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions for investments at the very short end of the yield curve.

Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

## 5.5 Specific Investment Objectives

Specific investment objectives are set out below.

- L8.** Difference between average interest rate received on short-term interest (STI) versus at call interest rate on main bank account – comparing investment performance of proactively managing cash balances against doing nothing – 50% - **no change**
- L9.** Average interest rate received on:
  - At call investments – 0.05% - **a change from 0.60%**
  - Short-term investments – 0.25% - **a change from 1.10%**
  - Long-term investments – 0.80%% - **a change from 1.65%**
  - Property Funds – 3.82% - **a change from 3.90%**
- L10** Average rate on at call and short-term investments will be equal to or greater than 0.24% - **a change from 1.04%**
- L11** Average interest rate received on all investments:
  - Including Property Funds – 0.68% - **a change from 1.59%**
  - Excluding Property Funds – 0.27% - **a change from 1.11%**
- L12** % daily bank balances within a target range of 99% - **no change.**

Should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk i.e. Bank Rate increases occur earlier and / or at a quicker pace.

**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.

The Council is asked to approve Prudential Indicator 13. Treasury indicator and limit:

<b>Prudential Indicator 13 Maximum principal sums invested &gt; 365 days</b>			
<b>£m</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
Principal sums invested > 365 days	£55m	£55m	£55m

## 5.6 Additional disclosures required within the statutory guidance on local government investments

The updated statutory guidance on local government investments, which was issued in February 2018, identifies specific disclosures that the authority should identify

within its Investment Strategy for all investments that it holds. The required disclosures for investments held by the authority are set out at Annex 3.

## **5.7 End of year investment report**

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

**IN YEAR TREASURY MANAGEMENT INDICATORS TO BE MONITORED**

<b>No.</b>	<b>Indicator</b>	<b>2020/21 Forecast</b>	<b>2021/22 Estimated</b>	<b>2022/23 Estimated</b>	<b>2023/24 Estimated</b>
PRL 1	a. Capital expenditure - Council Resources - £m	67.04	59.51	26.82	14.83
	b. Capital expenditure - External Resources - £m	31.32	44.25	35.74	26.97
Former PRL 2	Estimates of the ratio of financing costs to the net revenue stream	3.78%	8.71%	9.03%	7.74%
Former PRL 3	Incremental impact of capital investment decisions on council tax	£ 0.28	£ 52.43	£ 39.86	£ 27.80
L. 3	a. Financing costs as % of Council Tax Requirement	7%	20%	20%	20%
	b. Financing costs as % of Tax Revenues	4.50%	12.50%	12.50%	12.50%
L. 4	Actual debt v operational debt within the following range	83.08%	85.00%	85.00%	85.00%
L. 5	Average interest rate of debt excluding other local authority debt	3.40%	3.30%	3.37%	3.40%
L. 6	Average interest rate of debt including other local authority debt	3.49%	3.46%	3.50%	3.50%
L. 9	Average interest rate received on:				
	a. At Call Investments	0.12%	0.05%	0.05%	0.05%
	b. Short Term Investments	0.79%	0.25%	0.25%	0.25%
	c. Long Term Investments	1.71%	0.80%	0.80%	0.80%
	d. Property Fund	3.82%	3.82%	3.82%	3.82%
L. 10	Average interest rate on all ST investments (ST and At Call)	0.51%	0.24%	0.24%	0.24%
L. 11	a. Average interest rate on all investments (excluding property fund)	0.65%	0.27%	0.27%	0.27%
	b. Average interest rate on all investments (including property fund)	1.03%	0.68%	0.66%	0.67%
L. 12	% daily bank balances within target range	100%	99%	99%	99%

**The Minimum Revenue Provision (MRP) Policy applied from 2015/16 until 2019/20 was as follows:**

Under the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2010, local authorities have a duty to produce an annual statement on its policy for making a minimum revenue provision (MRP).

For the financial years **2008/09** onwards the authority will be adopting the following policies in determining the MRP:

1. For any capital expenditure carried out prior to 31 March 2008 or financed by supported borrowing capital expenditure, the authority will be charging MRP at 2% of the balance at 31 March 2013 (which has been adjusted as per the 2003 regulations, i.e. net of Adjustment A), fixed at the same cash value so that the whole debt is repaid after 50 years.
2. For any capital expenditure carried out after 1 April 2008 being financed by borrowing the authority will be adopting the asset life method (option 3). This is where MRP will be based on the capital expenditure divided by a determined asset life or profile of benefits to give annual instalments. The annual instalment may be calculated by the equal instalment method, annuity method or other methods as justified by the circumstances of the case at the discretion of the S151 Officer.
3. The authority will treat the asset life as commencing in the year in which the asset first becomes operationally available. Noting that in accordance with the regulations the authority may postpone the beginning of the associated MRP until the financial year following the one in which the asset becomes operational, there will be an annual adjustment for Assets Under Construction.
4. In all years, the CFR for the purposes of the MRP calculation will be adjusted for other local authority transferred debt.
5. The Section 151 officer shall on an annual basis review the level of MRP to be charged, as calculated as per paragraphs 1, 2 and 3 above to determine if this is at a level, which is considered prudent. Dependant on this review the Section 151 officer shall be able to adjust the MRP charge (the total cumulative adjustment will never exceed the calculated CFR variance of £24.6m identified when reviewing the current MRP policy during 2015/16). The amount of MRP charged shall not be less than zero in any financial year.

**It is proposed that the Minimum Revenue Provision from 2020/21 onwards will be:**

Under the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2018, local authorities have a duty to produce an annual statement on its policy for making a minimum revenue provision (MRP).

For the financial years **2020/21** onwards the authority will be adopting the following policies in determining the MRP:

1. For all existing capital expenditure balances within the Capital Financing Requirement (CFR) held as at 1 April 2020 MRP will be applied on an annuity basis with the write

down period determined by asset lives up to the maximum allowable by the regulations set out above.

2. For all capital expenditure incurred from 1 April 2020 MRP will be applied on an annuity basis with the write down period determined by asset lives up to the maximum allowable by the regulations set out above.
3. The authority will treat the asset life as commencing in the year in which the asset first becomes operationally available. Noting that in accordance with the regulations the authority may postpone the beginning of the associated MRP until the financial year following the one in which the asset becomes operational, there will be an annual adjustment for Assets Under Construction.
4. If determined by the S151 Officer the annual instalment may be calculated by the equal instalment method or other appropriate methods dependant up on the nature of the capital expenditure.
5. In all years, the CFR for the purposes of the MRP calculation will be adjusted for other local authority transferred debt, finance lease and Private Finance Initiative (PFI).
6. The S151 officer shall on an annual basis review the level of MRP to be charged, as calculated as per paragraphs 1, 2 and 3 above to determine if this is at a level, which is considered prudent. The amount of MRP charged shall not be less than zero in any financial year.

## ADDITIONAL DISCLOSURES REQUIRED WITHIN STATUTORY GUIDANCE ON LOCAL GOVERNMENT INVESTMENTS

The updated statutory guidance on local government investments, which was issued in February 2018, identifies specific disclosures that the authority should identify within its Investment Strategy for all investments that it holds.

The required disclosures for investments held by the authority are set out below.

### 1. Types of Investment

1.1 Investments made by local authorities can be classified into one of two main categories:

- Investments held for treasury management purposes;
- Other investments.

### 2. Contribution of investments toward the service delivery objectives and / or the place making role of the local authority

2.1 For each type of investment the disclosure guidelines require the authority to identify the contribution that the investments make. For Walsall's investments details of this contribution are set out below.

#### **Investments held for treasury management purposes**

The contribution that these investments make to the objectives of the local authority is to support effective treasury management activities, with the requirement to prioritise Security, Liquidity and Yield in that order of importance.

#### **Other Investments**

Details of all Other Investments that the authority holds, and the contribution that each makes to the service delivery objectives and / or the place making role of the local authority is set out below:

##### i. Investment Properties

The acquisition of the Saddlers Shopping Centre provided the council with an opportunity to add to an existing but small investment portfolio. It is intended that further investment opportunities will be considered in the future following the completion of the review of the investment portfolio as part of the asset management improvement plan (asset management planning).

The potential income generation from The Saddlers Centre will provide additional revenue (after the capital is repaid) to the council. However the acquisition of the Saddlers Centre was not undertaken solely for the purposes of supporting the council's revenue position. The opportunity for the council to purchase a significant land interest in the middle of Walsall Town Centre and adjacent to Walsall Rail Station was of importance as the council

recognises that regeneration activity in the Town Centre and beyond may well have to be public sector led.

Likewise the redevelopment of the Old Square Shopping Centre represented significant movement towards the delivery of the Council's aspirations for the regeneration of St Matthew's Quarter. In particularly difficult market conditions for the retail sector, the redevelopment of the shopping centre improved Walsall's retail offer and helped to cement the town centre's position as an important sub-regional centre. The new retail floor space delivered through the first phase of the scheme provided over 4,100 sq metres/44,000 sq ft of floorspace for a new Primark store and over 900 sq metres/9,800 sq ft of floorspace for a new Co-op food store. These two new stores provided around 150 new jobs in the town centre, resulted annual business rate and rental income, and increased footfall and expenditure in the town centre, making it a more attractive destination for shoppers, retailers and other investors.

### 3. Use of Indicators

- 3.1 The disclosure guidelines require the authority to produce relevant indicators for investments to support the ability of the public to assess the level of risk exposure. These are provided below for Walsall's investments.

#### Investments held for treasury management purposes

These investments are funded through the council's cash balances. The authorities published Treasury Management and Investment Strategy already includes a range of Prudential and Local indicators that support the assessment of performance management and risk exposure in this area.

Additionally the disclosure guidelines recommend that the authority to also publish the following two indicators.

Indicator	Description	Ratio (2020/21 Forecast)	Ratio (2021/22 Estimate)
Debt to Net Service Expenditure (NSE) Ratio	Gross debt as a percentage of net service expenditure (where net service expenditure is a proxy for the size and financial strength of a local authority).	1.60:1	1.80:1
Commercial income to NSE Ratio	A measure of the authority's dependence on non-fees and charges income to deliver core services (where fees and charges are netted off gross expenditure to calculate NSE).	0.004:1	0.004:1

#### Other Investments

For Other Investments, the disclosure guidelines also require the authority to provide relevant indicators only where these investments are funded by borrowing – again to allow for assessment against the associated additional debt servicing costs taken on. As such, for any 'Other Investments' held by Walsall that are funded in this way, relevant indicators are provided below.

## Investment Property – Saddlers Centre

Indicator	Description	Ratio (2019/20 Actual)	Ratio (2020/21 Forecast)
Operating costs	The trend in operating costs of the non-financial investment portfolio over time, as the portfolio of non-financial investments expands.	£1.214m	£1.274m
Vacancy levels and Tenant exposures for non-financial investments	Monitoring vacancy levels (voids) ensure the property portfolio is being managed (including marketing and tenant relations) to ensure the portfolio is productive as possible.	10 Units	9 Units

### 4. Security, Liquidity and Yield

4.1 Prudent investments will consider security, liquidity and yield in that order with the underlying objectives being:

- **Security** – protecting the capital sum invested from loss
- **Liquidity** – ensuring the funds invested are available when needed
- **Yield** – once security and liquidity are determined it is then reasonable to consider what yield can be obtained

4.2 When entering into '**Investments held for treasury management purposes**' local authorities always consider security, liquidity and yield (in that order) and the authorities Treasury Management Policies clearly set out and support this requirement.

4.3 When entering into '**Other Investments**' local authorities should consider the balance between security, liquidity and yield based on their risk appetite and the contribution that the investment will make toward service delivery objectives and / or the place making role of the local authority.

#### 4.4 Security

##### **Investments held for treasury management purposes**

All investments that the authority currently holds for treasury management purposes are defined as financial investments, and the authorities Treasury Management policies clearly define how credit worthiness and high credit quality will be determined. The policies also set out procedures for determining which categories of investment may be used, those which have already been defined as suitable for use, and the upper limits for investment with each counterparty / investment area.

##### **Other Investments**

All 'Other Investments' that the authority currently holds are defined as non-financial investments, which are non-financial assets that the authority holds primarily or partially to generate a profit.



Where a local authority holds a non-financial investment, it will normally have a physical asset that can be realised to recoup the capital invested. As such the disclosure guidelines require authorities to consider whether the asset retains sufficient value to provide security of investment.

Therefore details for each of the 'Other Investments' held by the authority are set out below:

- i. Investment Property – Saddlers Centre  
A fair value assessment has been obtained within the past twelve months. Whilst this shows a reduction in valuation the authorities original investment decision anticipated a minimum investment period of 5 years, therefore the valuation will continue to be reviewed over the remainder of this period to inform a decision regarding any need for elongation of the investment period.
- ii. Investment Property – Primark / Co-Op Shopping Units Development  
A fair value assessment has been obtained within the past twelve months. This shows that the underlying assets provide security for capital investment.

## **Risk Assessment of Investments**

### **Investments held for treasury management purposes**

The authorities Treasury Management policies clearly define how risk for these types of investment will be assessed, including details of external advisors that may be used, the use of credit ratings and how often these are reviewed and additional sources of information that will support the underlying assessment of risk that may be attributable to the investment.

### **Other Investments**

Normally where the council enters into Other Investments it is using capital to invest in an asset to primarily or partially to generate a return / profit. This is normally in the form of an investment in an Investment Property that has a tenant / tenants who pay rents to the authority as owner of the property (the landlord).

As such the risk assessment for investments of this type need to ensure that the tenant is of good financial standing and the property and lease meet certain standards such as being in a commercially popular location and having a number of years remaining on the lease providing a certain and contractually secure rental income into the future.

Where the council funds the purchase of the property by borrowing money, to deliver a profit the rental income paid by the tenant must exceed the cost of repaying the borrowed money each year.

The annual surplus then supports the council's budget position, and enables the council to continue to provide services for local people.

Historically, property has proved to be one of, if not the best, investment in terms of capital growth over the last 50 years. If the council retains the ownership of the property for long term (20 years plus), and the property is managed and maintained

appropriately, it would normally expect to see an increase in the value of the property as well as a net annual surplus of revenue.

Acquisition of investment properties to generate an income stream can also support the council in delivering its other priorities, such as in its place making role or in the support of regeneration activities.

The reasons for buying and owning property investments are therefore primarily (and in this order):

- Economic development, place making and regeneration activity in Walsall;
- Market and economic opportunity – the right asset at the right time;
- Financial gain to fund / support wider council services to local people.

### Operating in the Property Investment Market

Investment property will usually have a commercial occupier, paying a rent to the landlord. The better the covenant of the occupier, the more secure the rental income, the better the investment value and the yield obtainable in the open market. A tenant with a strong covenant and a long lease (10 years plus) with no break clause and with responsibility for repairing and maintaining the property, is the best type of investment.

The UK commercial property investment market is very well established, attracts global investors and is defined as a 'mature asset class'. It has a wide range of new and established investors including institutions, pension funds, specialist property companies, charities, family trusts and individuals.

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines investment property as "...used solely to earn rentals or for capital appreciation or both...". Returns from property ownership can be both income driven (through the receipt of rent) and by way of appreciation of the underlying asset value (capital growth). The combination of these is a consideration in assessing the attractiveness of a property for acquisition.

Property prices and returns are a function of the property type, condition, use and location, together with the lease structure and covenant strength of the tenant (in the case of a let property). Lease contracts will reflect all liability and outgoings being the responsibility of the tenant.

What should be sought by the council are property investments which produce the best returns possible, whilst carrying an acceptable level of risk. The main mitigation measure in managing risk is to target investments which are let to 'blue chip' tenants, on relatively long leases with little or no landlord management involvement – typically the tenant is responsible for all property costs such as repair, maintenance and outgoings. In this way, the council will be primarily buying a secure income stream and the buildings themselves become almost secondary considerations.

Any property asset coming onto the market could be for a number of reasons. Investors seek to buy and sell in many different circumstances - rebalancing their portfolio, seeking cash to influence balance sheet or share price, requirement for a more "liquid" asset, short term investment taking advantage of small capital growth,

moving into different property classes, etc.

Following consultation during 2020, HM Treasury have now revised access requirements for local authorities seeking to access borrowing from the Public Works and Loans Board (PWLB). These revisions mean that Local Authorities will not be able to access PWLB borrowing to buy investment property with the primary aim of generating yield, and specifically to access PWLB funding authorities will need to submit three year capital plans to PWLB, with the S151 officer confirming that there is no intention to buy investment properties primarily for yield at any point within those three years.

If there are any intentions by the authority to buy investment properties primarily for yield within the three year capital programme then PWLB will not be able to lend to the authority for the period of that programme. HM Treasury have also confirmed that where local authorities do seek to pursue debt-for-yield projects which they finance in other ways, such as through the use of internal cash balances or borrowing from other financial institutions, they would then not be able to access PWLB borrowing to refinance this element of debt going forwards.

As interest rates on PWLB borrowing are normally more favourable than other forms of borrowing, being unable to access PWLB and having to seek borrowing from other financial institutions is therefore likely to increase the overall revenue costs required to fund the elements of the councils capital programme which are funded from borrowing – for example every 1% increase in interest costs on a three year capital programme including circa £120.00m of capital spending funded from borrowing (similar to the level included within this report) would add £1.20m of additional ongoing revenue costs per year by the end of the three year period.

### Priorities and Risk Assessment in Property Investment

The priorities for the council when acquiring property interests for investment purposes are (in order of importance):

- **Covenant Strength** - in the case of a let property, the quality of the tenant and, more importantly, their ability to pay the rent on time and in full. The council's primary reason and objective for this strategy is financial gain;
- **Lease length** - in the case of a let property, the unexpired length of the term of the lease or a tenant's break clause is of key importance in ensuring that the landlord's revenue stream is uninterrupted. The council will take into consideration the risks associated with a tenant vacating and the potential to attract good quality replacements tenants at acceptable rental levels. Generally occupiers are moving away from 25 year leases which were more common back in the late twentieth century with 10 to 15 years now becoming more acceptable unless some form of lease break provisions are included in favour of the tenant;
- **Rate of return** - the rate of return from the property (for example through annual rental incomes) will normally need to be equivalent or better to the returns that could be earned from alternate investments, such as placing monies on deposit, following adjustment for risks and potential growth. The property will also normally

need to produce an annual return in excess of the cost of PWLB borrowing (interest only);

- **Risk** – rate of return is one side of the coin; risk is the other. In general, the higher the sought level of return from an investment, the higher level of risk that it carries. For example, if a property is let at an attractive rent which would create a good return, it could still be risky if the tenant does not possess good covenant strength and could default at any time;
- **Lease Terms** – The terms of leases vary and even those held on an “Institutionally acceptable basis” can be very different in nature particularly as such leases have developed over time. The council is seeking to invest in modern leases with full repairing and insuring obligations on the Tenant and a full Service Charge recovery to include any management fees where applicable. This will ensure a certain income / return to the council;
- **Growth** - property has the potential for both revenue and capital growth. The council will consider that potential when assessing the strength of the investment opportunity. Property values can fall as well as rise and mechanisms to minimise revenue reductions should be identified. Generally the nature of standard, institutional leases is that rent review clauses are upward only which protects landlords from any downward pressure on rental income giving some security as to the level of income;
- **Location** - should a tenant default or vacate, the location of the property is the key factor in influencing the ability to re-let and find another tenant. Location is also important when considering future redevelopment or regeneration opportunities. Ideally the council will be able to undertake inspections and to deal with any management issues without the need to employ specialists or agents. Preference should be given to properties located within Walsall, then to the wider west midlands geographic location. This does not prevent investment outside of Walsall, subject to the appropriate justification and business case and correct governance procedure;
- **Sector** - information as to the sector of use of the property (e.g. office, retail, industrial, leisure) will assist in deciding on the risks associated with specific properties and the mix of sectors within the portfolio. Additionally the council, as a public body, may take the view that it does not wish to invest in properties where the occupiers are generally seen to be undertaking a business which is contrary to its corporate values;
- **Building Age and Specification** - in the case of a let property, whilst the council, as an investor, may be principally concerned with the characteristics of the tenant and lease, the age and specification of the property will also affect the ability of the council to let or sell the property in the future. It must also be taken into consideration in respect of the cost of protecting the investment. An example of this would be the undertaking of repairs and refurbishment if the cost cannot be fully recovered from the tenant;

- **Use of external advisors** – where required the Council will utilise appropriately qualified and experienced external advisors to support decisions regarding property investments.

In summary, the strategy for acquiring investment property assets is therefore to:

- Seek property let to tenants who are of strong covenant strength and sound financial standing with at least more than five years remaining on an FRI lease;
- Minimise risk;
- Maximise rental income and minimise management costs to ensure the best return is generated;
- Identify opportunities for future growth, redevelopment or regeneration via property in commercially popular or development areas;
- Prioritise Walsall and then the wider west Midlands geographic location;
- Pursue opportunities to increase returns and improve the investment value of commercial assets.

#### 4.5 Liquidity

##### **Investments held for treasury management purposes**

For the treasury management investments held by the authority, the Treasury Management Policies set out how the authority will determine the periods for which funds may be prudently committed and the maximum periods that will be utilised.

##### **Other Investments**

For the Other Investments held by the authority, these are all currently investment properties. The council recognises that if it requires access to its investment these assets can take a considerable period to sell in certain market conditions. Therefore these investments are all considered to be medium to long term, with a fair value assessment undertaken on an annual basis which is used to inform the point at which it may be prudent for the authority to consider selling assets and repaying any associated borrowing.

#### 5. Proportionality

- 5.1 The scale of the 'Other Investments' currently, or planned to be, held by the authority, and any assumed associated profit to be generated by these investments does not place the authority in a position where it is dependent on this activity to achieve a balanced revenue budget.

#### 6. Borrowing In Advance of Need

- 6.1 The councils Treasury Management Strategy clearly sets out that it will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved CFR estimates and will be considered carefully to ensure that value for money can be demonstrated and that the council can ensure the security of such funds.

## **7. Capacity, Skills and Culture**

### **Knowledge & Skills**

- 7.1 The authority's treasury management activity is managed by a team of professionally qualified accountants, who actively undertake Continuous Professional Development (CPD) on an ongoing basis to keep abreast of new developments and develop additional skills. They also have extensive Local Government finance experience between them.
- 7.2 The council's S151 Officer is the officer with overall responsibility for treasury activities. They too are a professionally qualified accountant undertaking an ongoing CPD programme.
- 7.3 Any commercial projects that the council seek to enter into will also be supported by teams from all required professional disciplines from across the council, and external professional advice will also be sought if needed.
- 7.4 Internal and external training is offered to members on an ongoing basis to ensure they have up to date skills to make commercial investment and treasury decisions.
- 7.5 The council's Treasury Management Panel meet regularly to discuss treasury management performance, development of policy and identification of potential new investment products and the detail relating to them.
- 7.6 The knowledge and skills of officers and members are commensurate with the council's risk appetite.

### **Commercial Activity and Governance**

- 7.7 The council has a strong governance framework that goes beyond the regulatory codes. This includes a Treasury Management Panel (TMP) in addition to the Audit Committee and reporting to Cabinet and Council. The TMP is made up of senior council finance officers who meet to discuss treasury management performance, development of policy and identification of potential new investment products and the detail relating to them.
- 7.8 Due diligence is of paramount importance. All of the council's commercial investments have individual business cases that are subject to thorough risk assessment. Where appropriate to the size and scale of the project independent technical and legal reviews will also be considered.
- 7.9 Ongoing performance monitoring for all commercial schemes is also undertaken and reported to relevant members and senior officers on a regular basis.
- 7.10 The Council also seeks to ensure that all commercial schemes are fully aligned with priority outcomes set out within the Corporate Plan.
- 7.11 Any decisions taken on commercial investments are supported by the approach to non-financial investments and risk assessment process set out within this Treasury Management and Investment Strategy, with any individuals involved in negotiation of

commercial deals being made aware of these principles and the prudential and regulatory regime within which local authorities operate.

### **Other Useful Information**

8. Links to other documents that provide useful information in relation to the disclosures set out within this annex are set out below:

Walsall Council 2019/20 Statement of Accounts

Walsall Council 2021/22 Capital Strategy

## ECONOMIC BACKGROUND

**This Economic Commentary is based upon information provided by our Treasury Management Advisors – Link Asset Services.**

- **UK.** The Bank of England’s Monetary Policy Committee (MPC) kept Bank Rate unchanged on 5<sup>th</sup> November. However, it revised its economic forecasts to take account of a second national lockdown from 5<sup>th</sup> November to 2<sup>nd</sup> December which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of quantitative easing (QE) of £150bn, to start in January when the current programme of £300bn of QE announced in March to June, runs out. It did this so that “announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target”.
- Its forecasts appeared, at the time, to be rather optimistic in terms of three areas:
  - The economy would recover to reach its pre-pandemic level in Q1 2022
  - The Bank also expects there to be excess demand in the economy by Q4 2022.
  - CPI inflation is therefore projected to be a bit above its 2% target by the start of 2023 and the “inflation risks were judged to be balanced”.
- Significantly, there was no mention of negative interest rates in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it “stands ready to adjust monetary policy”, the MPC this time said that it will take “whatever additional action was necessary to achieve its remit”. The latter seems stronger and wider and may indicate the Bank’s willingness to embrace new tools.
- One key addition to the Bank’s forward guidance in August was a new phrase in the policy statement, namely that “it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably”. That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years’ time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase, (or decrease), through to quarter 1 2024 but there could well be no increase during the next five years as it will take some years to eliminate spare capacity in the economy, and therefore for inflationary pressures to rise to cause the MPC concern. Inflation is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern.
- However, the minutes did contain several references to downside risks. The MPC reiterated that the “recovery would take time, and the risks around the GDP projection were judged to be skewed to the downside”. It also said “the risk of a more persistent period of elevated unemployment remained material”. Downside risks could well include severe restrictions remaining in place in some form during the rest of



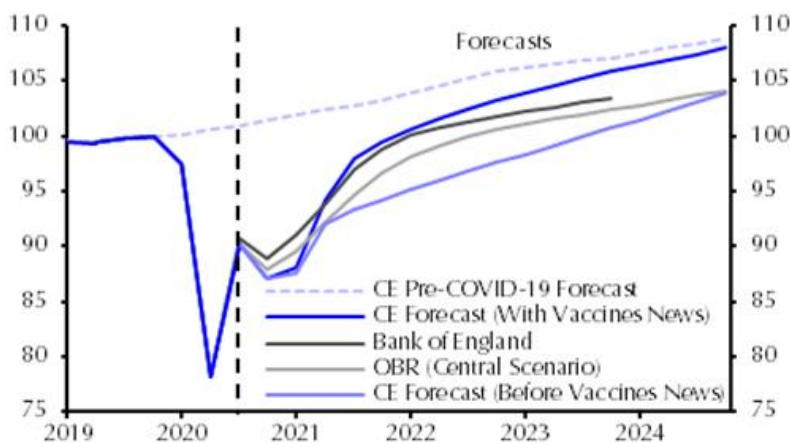
December and most of January too. Upside risks included the early roll out of effective vaccines.

- We had been waiting expectantly for news that various COVID-19 vaccines would be cleared as being safe and effective for administering to the general public. The Pfizer announcement on 9<sup>th</sup> November was very encouraging as its 90% effectiveness was much higher than the 50-60% rate of effectiveness of flu vaccines which might otherwise have been expected. However, this vaccine has demanding cold storage requirements of minus 70c that impairs the speed of application to the general population. It has therefore been particularly welcome that the Oxford University/AstraZeneca vaccine has now also been approved which is much cheaper and only requires fridge temperatures for storage. The Government has 60m doses on order and is aiming to vaccinate at a rate of 2m people per week starting in January, though this rate is currently restricted by a bottleneck on vaccine production; (a new UK production facility is due to be completed in June).
- These announcements, plus expected further announcements that other vaccines could be approved soon, have enormously boosted confidence that life could largely return to normal during the second half of 2021, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels; this would help to bring the unemployment rate down. With the household saving rate having been exceptionally high since the first lockdown in March, there is plenty of pent-up demand and purchasing power stored up for these services. A comprehensive roll-out of vaccines might take into late 2021 to fully complete; but if these vaccines prove to be highly effective, then there is a possibility that restrictions could start to be eased, beginning possibly in Q2 2021 once vulnerable people and front-line workers have been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% in 2021 instead of 9%.
- Public borrowing is now forecast by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PwLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.
- Overall, the pace of recovery was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp after quarter 1 saw growth at -3.0% followed by -18.8% in quarter 2 and then an upswing of

+16.0% in quarter 3; this still left the economy 8.6% smaller than in Q4 2019. It is likely that the one month national lockdown that started on 5<sup>th</sup> November, will have caused a further contraction of 8% m/m in November so the economy may have then been 14% below its pre-crisis level.

- December 2020 / January 2021. Since then, there has been rapid back-tracking on easing restrictions due to the spread of a new mutation of the virus, and severe restrictions were imposed across all four nations. These restrictions were changed on 5 January 2021 to national lockdowns of various initial lengths in each of the four nations as the NHS was under extreme pressure. It is now likely that wide swathes of the UK will remain under these new restrictions for some months; this means that the near-term outlook for the economy is grim. However, the distribution of vaccines and the expected consequent removal of COVID-19 restrictions, should allow GDP to rebound rapidly in the second half of 2021 so that the economy could climb back to its pre-pandemic peak as soon as late in 2022. Provided that both monetary and fiscal policy are kept loose for a few years yet, then it is still possible that in the second half of this decade, the economy may be no smaller than it would have been if COVID-19 never happened. The significant caveat is if another mutation of COVID-19 appears that defeats the current batch of vaccines. However, now that science and technology have caught up with understanding this virus, new vaccines ought to be able to be developed more quickly to counter such a development and vaccine production facilities are being ramped up around the world.

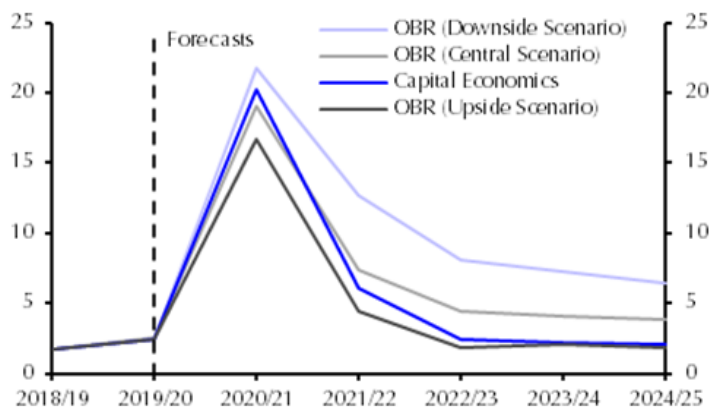
- Chart: Level of real GDP (Q4 2019 = 100)



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- This recovery of growth which eliminates the effects of the pandemic by about the middle of the decade would have major repercussions for public finances as it would be consistent with the government deficit falling to 2.5% of GDP without any tax increases. This would be in line with the OBR's most optimistic forecast in the graph below, rather than their current central scenario which predicts a 4% deficit due to assuming much slower growth. However, Capital Economics forecasts assume that there is a reasonable Brexit deal and also that politicians do not raise taxes or embark on major austerity measures and so, (perversely!), depress economic growth and recovery.

- Chart: Public Sector Net Borrowing (As a % of GDP)



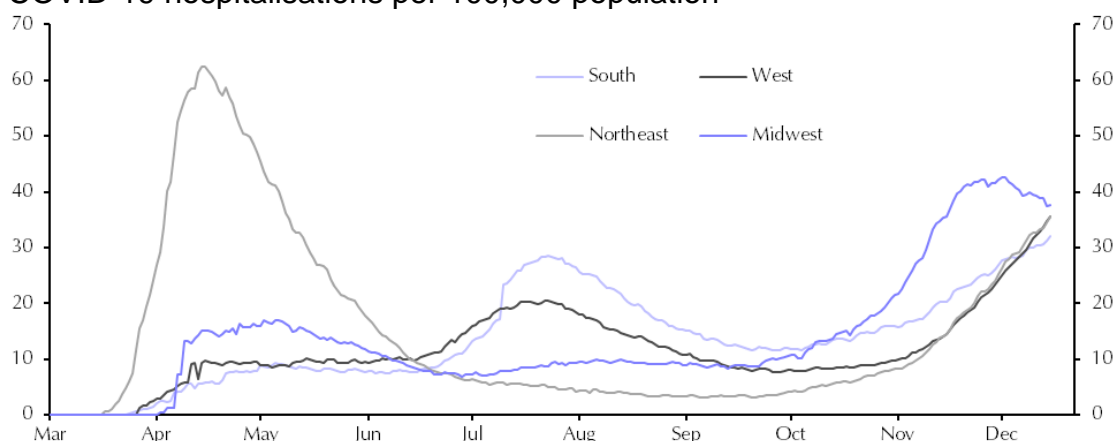
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- There will still be some painful longer term adjustments as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever, even if vaccines are fully successful in overcoming the current virus. There is also likely to be a reversal of globalisation as this crisis has exposed how vulnerable long-distance supply chains are. On the other hand, digital services are one area that has already seen huge growth.
- Brexit. While the UK has been gripped by the long running saga of whether or not a deal would be made by 31 December 2020, the final agreement on 24 December 2020, followed by ratification by Parliament and all 27 EU countries in the following week, has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. As the forecasts in this report were based on an assumption of a Brexit agreement being reached, there is no need to amend these forecasts.
- Monetary Policy Committee meeting of 17 December 2020. All nine Committee members voted to keep interest rates on hold at +0.10% and the Quantitative Easing (QE) target at £895bn. The MPC commented that the successful rollout of vaccines had reduced the downsides risks to the economy that it had highlighted in November. But this was caveated by it saying, “Although all members agreed that this would reduce downside risks, they placed different weights on the degree to which this was also expected to lead to stronger GDP growth in the central case.” So, while the vaccine is a positive development, in the eyes of the MPC at least, the economy is far from out of the woods. As a result of these continued concerns, the MPC voted to extend the availability of the Term Funding Scheme, (cheap borrowing), with additional incentives for small and medium size enterprises for six months from 30 April 2021 until 31 October 2021. (The MPC had assumed that a Brexit deal would be agreed.)

Fiscal policy. In the same week as the MPC meeting, the Chancellor made a series of announcements to provide further support to the economy: -

- An extension of the COVID-19 loan schemes from the end of January 2021 to the end of March.
  - The furlough scheme was lengthened from the end of March to the end of April.
  - The Budget on 3 March 2021 will lay out the “next phase of the plan to tackle the virus and protect jobs”. This does not sound like tax rises are imminent, (which could hold back the speed of economic recovery).
- The Financial Policy Committee (FPC) report on 6 August 2020 revised down their expected credit losses for the banking sector to “somewhat less than £80bn”. It stated that in its assessment “banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC’s central projection”. The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC’s projection, with unemployment rising to above 15%.
- US. The result of the November elections meant that while the Democrats gained the presidency and a majority in the House of Representatives, it looks as if the Republicans could retain their slim majority in the Senate provided they keep hold of two key seats in Georgia in elections in early January. If those two seats do swing to the Democrats, they will then control both Houses and President Biden will consequently have a free hand to determine policy and to implement his election manifesto.
- The economy had been recovering quite strongly from its contraction in 2020 of 10.2% due to the pandemic with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4, to the highest level since mid-August, suggests that the US could be in the early stages of a fourth wave. While the first wave in March and April was concentrated in the Northeast, and the second wave in the South and West, the third wave in the Midwest looks as if it now abating. However, it also looks as if the virus is rising again in the rest of the country. The latest upturn poses a threat that the recovery in the economy could stall. This is the single biggest downside risk to the shorter term outlook – a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, states might feel it necessary to return to more draconian lockdowns.

- COVID-19 hospitalisations per 100,000 population



- The restrictions imposed to control the spread of the virus are once again weighing on the economy with employment growth slowing sharply in November and retail sales dropping back. The economy is set for further weakness in December and into the spring. However, a \$900bn fiscal stimulus deal passed by Congress in late December will limit the downside through measures which included a second round of direct payments to households worth \$600 per person and a three-month extension of enhanced unemployment insurance (including a \$300 weekly top-up payment for all claimants). GDP growth is expected to rebound markedly from the second quarter of 2021 onwards as vaccines are rolled out on a widespread basis and restrictions are loosened.
- After Chair Jerome Powell unveiled the Fed's adoption of a flexible average inflation target in his Jackson Hole speech in late August 2020, the mid-September meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that *"it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time."* This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. The FOMC's updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.
- The Fed's meeting on 5 November 2020 was unremarkable - but at a politically sensitive time around the elections. At its 16 December 2020 meeting the Fed tweaked the guidance for its monthly asset quantitative easing purchases with the new language implying those purchases could continue for longer than previously believed. Nevertheless, with officials still projecting that inflation will only get back to 2.0% in 2023, the vast majority expect the fed funds rate to be still at near-zero until 2024 or later. Furthermore, officials think the balance of risks surrounding that median inflation forecast are firmly skewed to the downside. The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping Treasury yields low – which will also have an influence on gilt yields in this country.
- EU. In early December, the figures for Q3 GDP confirmed that the economy staged a rapid rebound from the first lockdowns. This provides grounds for optimism about growth prospects for next year. In Q2, GDP was 15% below its pre-pandemic level. But in Q3 the economy grew by 12.5% q/q leaving GDP down by "only" 4.4%. That was much better than had been expected earlier in the year. However, growth is likely to stagnate during Q4 and in Q1 of 2021, as a second wave of the virus has affected many countries: it is likely to hit hardest those countries more dependent on tourism. The €750bn fiscal support package eventually agreed by the EU after prolonged

disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the countries most affected by the first wave.

- With inflation expected to be unlikely to get much above 1% over the next two years, the ECB has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. The ECB's December meeting added a further €500bn to the PEPP scheme, (purchase of government and other bonds), and extended the duration of the programme to March 2022 and re-investing maturities for an additional year until December 2023. Three additional tranches of TLTRO, (cheap loans to banks), were approved, indicating that support will last beyond the impact of the pandemic, implying indirect yield curve control for government bonds for some time ahead. The Bank's forecast for a return to pre-virus activity levels was pushed back to the end of 2021, but stronger growth is projected in 2022. The total PEPP scheme of €1,850bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore unlikely to be a euro crisis while the ECB is able to maintain this level of support. However, as in the UK and the US, the advent of highly effective vaccines will be a game changer, although growth will struggle before later in quarter 2 of 2021.
- China. After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and then into Q3 and Q4; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns in the longer term. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.
- Japan. A third round of fiscal stimulus in early December took total fresh fiscal spending this year in response to the virus close to 12% of pre-virus GDP. That's huge by past standards, and one of the largest national fiscal responses. The budget deficit is now likely to reach 16% of GDP this year. Coupled with Japan's relative success in containing the virus without draconian measures so far, and the likelihood of effective vaccines being available in the coming months, the government's latest fiscal effort should help ensure a strong recovery and to get back to pre-virus levels by Q3 2021 – around the same time as the US and much sooner than the Eurozone.
- World growth. World growth will have been in recession in 2020. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.
- Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also

depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation.

## GLOSSARY OF TERMS

TERM	DEFINITION
Authorised Limit	Level of debt set by the council that must not be exceeded.
Bond	A government or public company's document undertaking to repay borrowed money usually with a fixed rate of interest.
Borrowing	Obtaining money for temporary use that has to be repaid.
Capital expenditure	Expenditure on major items e.g. land and buildings, which adds to and not merely maintains the value of existing fixed assets.
Capital grants	Specific targeted grants to cover capital expenditure.
Capital receipts	The proceeds from the disposal of land or other assets. Capital receipts can be used to fund new capital expenditure but cannot be used to finance revenue expenditure
Cash flow Management	The management of the authority's receipts and payments to ensure the authority can meet its financial obligations.
CIPFA	The chartered institute of public finance and accountancy
Counter party limits	Maximum amount that the council may lend to other institutions will vary according to size and credit rating of other intuitions.
Dividends	Sum to be payable as interest on loan.
ECB	European Central Bank
EU	European Union
GDP	Gross Domestic Product – the total market value of all final goods and services produced in a country in a given year, equal to total consumer investment and government spending, plus the value of exports minus the value of imports.
Investments	The employment of money with the aim of receiving a return.
Liquidity	How easily an asset including investments may be converted to cash.
Long Term Borrowing	Borrowing of money for a term greater than one year.
Long Term Liabilities	Amounts owed by the council greater than 12 months old.
Market convention	The rules and regulations by which all brokers and dealers should abide by. It includes standards of practice and calculation conventions for interest. They are defined in the London Code of Conduct ("The London Code") published by the Bank of England.



TERM	DEFINITION
MHCLG	The Ministry for Housing, Communities and Local Government
MPC	Monetary Policy Committee – group that sets the bank base rate for the Bank of England
OLA	Other Local Authorities
Temporary borrowing	Borrowing of money for a term of up to 365 days.
Treasury management	The management of the local authority’s cash flows, its borrowings and its investments, the management of associated risks, and the pursuit of the optimum performance or return consistent with those risks.
Treasury Policy Statement	A statement of key policies that an organisation follows in pursuit of effective treasury management, including borrowing limits and strategy.
Variable debt	This is money that has been borrowed at a variable interest rate, and as such is subject to interest rate changes.
Unsupported borrowing	Borrowing taken through the remit of the Prudential Code for which the council will not receive any government funding and will fund from own resources.

## **Section B - Part 2 – Treasury Management**

### **B: Treasury Management Policy Statement**

The CIPFA Code recommends that authorities should:

- i. Put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.
- ii. Policies and practices should make clear that the effective management of risk, having regard to return, is a prime objective of the treasury management activities.
- iii. Acknowledge that the pursuit of best value in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, the treasury management policies and practices should reflect this.

In order to do this, the council should once again adopt a Treasury Management Policy Statement as shown below and create and adopt Treasury Management Practices (TMPs):

- A Treasury Management Policy Statement, stating policies and objectives of its treasury management activities.
- Suitable TMPs, setting out the manner in which the council will seek to achieve those policies and objectives, prescribing how the council will manage and control those activities.
- The contents of the Policy Statement and TMPs will follow the recommendations contained in section 6 and 7 of the Code, subject only to amendment where necessary to reflect this council's particular circumstances.

There are amendments to the responsible posts under delegated powers which reflect changes to the staffing structure of the finance service.

# THE TREASURY MANAGEMENT PRACTICES 2020/21 & 2021/22 ONWARDS

## Treasury Management Policy

**Walsall Council** defines its treasury management activities as:  
“The management of the organisation’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.”

**Walsall Council** regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

**Walsall Council** acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principle of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

### TREASURY MANAGEMENT FUNCTION

The approved activities of the treasury management function are as follows:

**Activities:**

- Borrowing;
- Investment of temporary surplus funds and other balances;
- Setting and reviewing the Treasury Management Strategy;
- Cash flow management;
- Management of school investments;
- Management of debt and investments, including rescheduling, management of interest rate exposure and maturity profile management.

### High Level Policies for Borrowing and Investment

The Treasury Management Strategy sets out the detailed policies that the organisation will follow in operating its treasury management function. The high level policies set out within the Strategy that relate to borrowing (section 4.4 of the strategy) and investments (section 5.5 of the Strategy) are as follows:

#### Borrowing Strategy

Walsall Councils borrowing objectives are:

- To minimise the revenue costs of debt whilst maintaining a balanced loan portfolio;
- To manage the council’s debt maturity profile, ensuring no single future year has a disproportionate level of repayments;

- To maintain a view on current and possible future interest rate movements and borrow accordingly;
- To monitor and review the balance between fixed and variable rate loans against the background of interest rate levels and prudential indicators.

## Investment Strategy

The underlying policy objective for Walsall Council is for the prudent investment of its treasury balances. The council's investment priorities are:

- The security of capital;
- Liquidity of its investments;
- All investments will be in sterling;
- The council will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity.

## Treasury Management Practices

<b>TMP 1 – TREASURY RISK MANAGEMENT</b>
<p>The S151 Officer shall:</p> <ul style="list-style-type: none"> <li>• Ensure that appropriate arrangements are in place for the design; implementation and monitoring of all arrangements related to the identification, management and control of treasury management risk.</li> <li>• Report at least annually on the adequacy/suitability thereof, and report as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the council's objectives in this respect.</li> <li>• In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives will be set out in schedules.</li> </ul>
<p><b>Liquidity</b>  <u>Objective:</u> Adequate but not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable the council at all times to have the level of funds available which are necessary for the achievement of its service objectives.</p>
<p><b>Interest Rates</b>  <u>Objective:</u> Management of the council's exposure to fluctuations in interest rates with a view to containment of its net interest costs.</p>
<p><b>Exchange Rates</b>  <u>Objective:</u> Management of the council's exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.</p>
<p><b>Inflation</b>  <u>Objective:</u> Control of exposure to the effects of inflation, in so far as they can be identified as impacting on treasury management activities.</p>
<p><b>Credit and Counterparties</b>  <u>Objective:</u> To secure the principal sums invested over the period of the investment. A counterparty list will be maintained and the named organisations and limits will reflect a prudent attitude towards organisations with whom funds may be deposited.</p>

### **Rescheduling and Refinancing of Debt**

Objective: All borrowing, private financing and partnership arrangements will be negotiated, structured and documented. The maturity profile of debt will be managed with a view to obtaining terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

Relationships with counterparties in these transactions will be managed in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above.

### **Legal and Regulatory**

Objective: Compliance with statutory powers and regulatory requirements for all treasury management activities. The council will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities.

In framing its credit and counterparty policy under TMP1 - *Credit and Counterparty risk management*, the council will ensure that there is evidence of counterparties powers, authority and compliance in respect of the transactions they may affect with the organisation, particularly with regard to duty of care and fees charged.

The council will seek to minimise the impact of future legislative or regulatory changes on its treasury management activities so far as it is reasonably able to do so.

### **Fraud, Error and Corruption, and Contingency Management**

Objective: Identification of circumstances which may expose the council to the risk of loss through fraud, corruption or other eventualities in its treasury management dealings. Employ suitable systems and procedures and maintain effective contingency management arrangements.

### **Market Risk**

Objective: Protection from adverse market fluctuations in the value of the principal sums invested over the period of the investment.

### **Additional Level Risk / Reward**

Objective: - to ensure that the risk/ reward balance is appropriate and consistent with the risk appetite of the council the following aims are managed:-

- to have a large proportion of debt on fixed rates to provide stability;
- to have investments over a range of period lengths;
- to use UK highly rated banks or strong building societies;
- to obtain a fair return without any undue risk.

### **Credit and Counterparty Risk Management**

The Interim Head of Finance - Corporate will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 - Reporting Requirements and Management Information Arrangements.

Credit and counter-party risk is the risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital project or partnership

financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.

This organisation regards a key objective of its treasury management activities to be the security of the principal sums it invests over the period of the investment. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 - Approved Instruments Methods And Techniques. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements.

Policy on the use of credit risk analysis techniques.

- a. The council will use credit criteria in order to select creditworthy counterparties for placing investments with.
- b. Credit ratings will be used as supplied from rating agencies – Fitch, Moody's and S&P.
- c. Treasury management advisors will provide regular updates of changes to all ratings relevant to the council.
- d. The Interim Head of Finance - Corporate and Finance manager – Technical Accounting and Treasury Management, as responsible officers, will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising maturity periods, type, group, sector, country and counterparty limits.

The primary credit rating agencies Primary Credit Rating Scales, which are used, are shown below.

**Primary Credit Rating Agencies Credit Rating Scales**

	Moody's			S&P			Fitch		
	Long Term	Short Term		Long Term	Short Term		Long Term	Short Term	
Investment Grade	Aaa	P1		AAA	A-1+		AAA	F1+	
	Aa1			AA+			AA+		
	Aa2			AA			AA		
	Aa3			AA-			AA-		
	A1			A+			A+		
	A2	P2		A	A-1		A	F1	
	A3			A-		A-			
	Baa1			BBB+	A-2		BBB+		
	Baa2		P3		BBB		BBB	F2	
	Baa3				BBB-	A-3		BBB-	F3
Non-Investment Grade	Ba1	Not Prime		BB+	B		BB+	B	
	Ba2			BB			BB		
	Ba3			BB-			BB-		
	B1			B+	C		B+		
	B2			B			B		
	B3			B-			B-		
	Caa			CCC			CCC		
	Ca			CC		CC			C
	C			C		C			C
					D		D		

The minimum credit ratings within these scales that the authority would expect for individual counterparties are set out below.

Minimum ratings	Moody's	S&P	Fitch
Short term	P3	A-3	F2
Long term	A3	A-	A-

Credit ratings for individual counterparties can change at any time. The Interim Head of Finance - Corporate and the Finance manager – Technical Accounting and Treasury Management are responsible for applying approved credit rating criteria for selecting approved counterparties. Treasury management staff will add or delete counterparties to/from the approved counterparty list in line with the policy on the criteria for selection of counterparties, and with the approval of either the Interim Head of Finance - Corporate or Finance Manager – Technical Accounting and Treasury Management .

e. This organisation will not rely solely on credit ratings in order to select and monitor the creditworthiness of counterparties. In addition to credit ratings it will therefore use other sources of information including: -

- The quality financial press;
- Market data;
- Information on government support for banks and the credit ratings of that government support;
- The maximum maturity periods and investment amounts relating to Approved Investment Counterparties are set out below:

Organisation	Criteria	Max Amount	Max Period
Banks and Nationwide Building Society	Minimum Ratings as defined above in paragraph d above.	£25m in total with fixed term not exceeding £15m	3 years
Building Societies	Must be in Peer Group 1 of KPMG Building society Dashboard (based on total assets) and have a minimum Free Capital Ratio no lower than that set out by Common Equity Tier 1 (CET1).	£10m	3 years
	Other Building Societies must be in Peer Group 2 of KPMG Building Society Dashboard (based on total assets) and have a minimum Free Capital Ratio no lower than that set out by Common Equity Tier 1 (CET1).	£7m	3 years



Challenger Banks	Following an assessment must have a minimum Free Capital Ratio no lower than that set out by Common Equity Tier 1 (CET1), and must be a retail bank.	£15m	3 years
Money Market Funds	AAA long-term rating backed	£15m	3 years
Property Funds	Subject to individual financial assessment of each fund to identify the underlying financial strength	£30m	Review every 5 years
Multi-Asset Investment Funds	Subject to individual financial assessment of each fund to identify the underlying financial strength	£20m	5 years
Non UK Banks	Minimum Ratings as defined above in paragraph d.	£10m	1 year
Local Authorities	Subject to individual financial assessment of each fund to identify the underlying financial strength	£15m	3 years
Housing Associations	Subject to individual financial assessment of each fund to identify the underlying financial strength and credit ratings where available	£15m	3 years
Other	Subject to appropriate case by case review	£10m	N/A

- g. In defining the level and term of deposits significant regard is given to the proportion of the institution in government ownership;
- h. Following the changes to the Banking Regulation the council will consider when assessing the financial resilience of an institution key ratios e.g. common equity tier 1, leverage capital / exposure, liquidity coverage, net stable funding.

Notes:

- The definition of 'high credit quality' is also used to determine what are specified investments as opposed to non specified investments. Specified investments are those that require minimum procedural formalities in terms of the placing of the investment by the treasury management team. Minimal procedural formalities means that the team is well experienced and knowledgeable in using these types of instruments and they pose minimal risk in their use.
- Other i.e. non-specified investments may be undertaken on the approval of the S151 Officer e.g. loans to other organisations and bond issues by other public sector projects and will be supported with appropriate rationale and due diligence to support investment security considerations. These may be for a duration longer than 3 years.

- For a credit rated bank to be on the council's counter party list the criteria must be passed for at least 2 of the credit ratings agencies.
- Full Individual Listings of Counterparties and Counterparty Limits are available on request and reported regularly to the Treasury Management Panel.

### **Local Authority Mortgage Scheme (LAMS)**

Cabinet agreed to adopt the LAMS scheme on 24 October 2012. It involved the council placing a matching five year deposit to the life of the indemnity. As of 31 July 2016 the LAMS scheme was closed to new applications following a slowdown in national activity, partly due to the introduction of the Help to Buy Guarantee scheme.

The LAMS deposit was repaid in February 2018, however there remains a residual risk of liability for the authority for a period of up to 5 years from the point of the last mortgage being taken out.

### **Authorisation of Payments**

In order to support and maintain strong controls for the release of payments. A payment releasers register is maintained. It includes the names and post titles of officers authorised to sign financial documents releasing payments including cheques requiring manual signature and bank mandates. The payments releasers register is reviewed regularly and is approved by the S151 Officer or Interim Director of Finance, Corporate Performance Management and Corporate Landlord.

The Invoice / Payments Authorisation process is regulated by the financial and contract rules. Limits and authorised officers are maintained in the authorised signatory's data base.

## **TMP 2 – BEST VALUE AND PERFORMANCE MEASUREMENT**

The council actively works to promote value for money and best value in its treasury management activities. The treasury management function will be the subject of regular reviews to identify scope for improvement. In addition annual benchmarking is undertaken to measure performance and to ensure that relative to other councils the council is achieving a fair investment return without any undue risk.

## **TMP 3 – DECISION- MAKING AND ANALYSIS**

Full records will be maintained of treasury management decisions, and of the processes and practices applied in reaching those decisions, to demonstrate that reasonable steps have been taken to ensure that all issues relevant to those decisions were taken into account.

## **TMP 4 – APPROVED INSTRUMENTS, METHODS AND TECHNIQUES**

Only approved instruments, methods and techniques will be used, within the limits defined in TMP1 - Risk Management.

### **Sources of Borrowing**

There shall be no restriction in principle on sources or methods of borrowing other than those imposed by law. The sources or methods of borrowing at any time will be determined by the current approved treasury management strategy.

### **Other Sources of Finance**

The S151 Officer shall arrange operating leases and similar arrangements for items of equipment, vehicles, etc. where the acquisition or use of such items has been approved in line with the council's contract and rules.

### **Approved Organisations for Investments**

The S151 Officer shall approve and revise from time to time, a list of organisations within the statutory definitions of approved investments, which would be eligible to receive investments from the council. Apart from the Government, and, in any emergency, the council's own bank, the maximum limit for investment with any single organisation shall be £25 million and the maximum period for investment shall be 3 years in accordance with each individual institution's credibility. The only exceptions to this are the approved investment in the LAMS scheme where the planned period of the investment was 7 years, and any investment in a Property Fund maximum limit shall be £30 million and will be reviewed on 5 year intervals. This should be reviewed at least monthly and incorporate any changes in ratings of counter parties.

### **Interest Rate Exposure**

The limits on temporary borrowing and the proportion of interest at variable rates are set by Council, in accordance with Section 45 of the Local Government & Housing Act 1989.

## **TMP 5 – ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES AND DEALING ARRANGEMENTS**

Treasury management activities will be properly structured in a clear and open fashion and a rigorous discipline of segregation of duties will be enforced to ensure effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions and audit of the treasury management function.

If and when the council intends, due to a lack of resources or other circumstance, to depart from these principles, the S151 Officer will ensure that the reasons are properly reported in accordance with **TMP6** - Reporting Requirements and Management Information Arrangements and the implications properly considered and evaluated.

- The S151 Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management and the arrangements for absence cover.
- The S151 Officer will ensure that there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

The delegations to the S151 Officer in respect of treasury management are set out in the Constitution. The S151 Officer will fulfil all such responsibilities in accordance with the Policy Statement and TMP's and the Standard of Professional Practice on Treasury Management. This includes, but not exclusively, the following activity.

<b>Activity</b>	<b>Prepared By</b>	<b>Delegation / Accountability</b>
Approval of Treasury Management and Investment Strategy.	Head of Finance / S151 Officer	Cabinet Council
Approval of Treasury Management Policies	Head of Finance / S151 Officer	Cabinet Council
Amendments to authorised officers and officer limits set out within the treasury management practices	Interim Head of Finance - Corporate / Finance Manager – Technical Accounting and Treasury Management	S151 Officer
Review the debt portfolio and reschedule loans when considered appropriate	Finance Manager – Technical Accounting and Treasury Management	S151 Officer
Updates to TM Practices	Interim Head of Finance - Corporate / Finance Manager – Technical Accounting and Treasury Management	S151 Officer
Undertake budget monitoring and initiate actions when necessary	Finance Manager – Technical Accounting and Treasury Management	Interim Director of Finance, Corporate Performance Management and Corporate Landlord
Authorisation of loan interest payments	Treasury Management Accountancy Assistant	Senior Accountancy Officer - Treasury
Approval of overnight investments	Treasury Management Accountancy Assistant	Senior Accountancy Officer - Treasury
Preparation of borrowings documentation	Treasury Management Accountancy Assistant	Senior Accountancy Officer - Treasury
To arrange borrowing from time to time for the council's purposes. Sources of funds will comprise temporary loans, loans from PWLB, other mortgages and bonds, money bills, bank overdraft and internal funds of the council, subject to any restrictions which may be made by statute, Council or Cabinet	Finance Manager – Technical Accounting and Treasury Management	S151 Officer or Interim Director of Finance, Corporate Performance Management and Corporate Landlord
Maintain Payment Releasers Register	Senior Accountancy Officer - Treasury	S151 Officer or Interim Director of Finance, Corporate Performance Management and Corporate Landlord
To arrange finance and operating leases as required in accordance with council's capital programme	Finance Manager – Technical Accounting and Treasury Management	S151 Officer or Interim Director of Finance, Corporate Performance Management and Corporate Landlord

To invest council funds temporarily not required in accordance with the statutory provisions regulating approved investments as defined in Section 66 of the Local Government and Housing Act 1989, subject to any restrictions which may be made by statute, by Council or by Cabinet	Treasury Management Accountancy Assistant	Senior Accountancy Officer - Treasury
To maintain a counter party list of approved organisations eligible to receive council investments, this involves; <ul style="list-style-type: none"> <li>- ongoing monitoring of ratings on investment products and institutions.</li> <li>- Investigation and appraisal of free capital ratio measures</li> <li>- signing off by the treasury manager as evidence of a monthly review and mid month changes if necessary.</li> <li>- if ratings change for an investment product or institution currently held then actions for a possible exit of that strategy are undertaken as approved by the Treasury Management Panel</li> </ul>	Senior Accountancy Officer - Treasury	Interim Head of Finance - Corporate / Finance Manager – Technical Accounting and Treasury Management  or  S151 Officer dependent on limits set by TMP on exit strategy
Daily cash flow forecast	Treasury Management Accountancy Assistant	Senior Accountancy Officer - Treasury
Update loan records	Treasury Management Accountancy Assistant	Senior Accountancy Officer - Treasury
Operational Cash Flow	Senior Accountancy Officer - Treasury	Interim Head of Finance - Corporate / Finance Manager – Technical Accounting and Treasury Management / Senior Accountancy Officer - Treasury
Audit and control review and improvements Recommendations implementations	Internal Audit / All	Senior Accountancy Officer - Treasury
Annual MRP Policy review	Senior Accountancy Officer – Financial Reporting	Interim Head of Finance - Corporate / Finance Manager – Technical Accounting and

		Treasury Management / Senior Accountancy Officer - Treasury
Maintain accurate up to date information on Treasury Management	Treasury Management Accountancy Assistant	Senior Accountancy Officer - Treasury

**TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS**

**Regular reports will be prepared for consideration by Council on:**

- Annual report on treasury management activities for the preceding year;
- Treasury management strategy for the year, reviewed at least once during the year.

Regular monitoring reports on prudential and local indicators are prepared for the Treasury Management Panel.

<b>Report</b>	<b>Frequency</b>	<b>When</b>	<b>Prepared By</b>	<b>To</b>
Review of Treasury Management Strategy (TMS)	Annual	February/ March	Interim Head of Finance - Corporate	Cabinet and Council
TMS - material changes	Immediately	As required	Interim Head of Finance - Corporate / Finance Manager – Technical Accounting and Treasury Management	Cabinet and Council
Treasury Management Annual Report	Annual	September	Interim Head of Finance - Corporate	Cabinet and Council
Review of Treasury Management Policy	Annual	November	Interim Head of Finance - Corporate	Cabinet and Council
Mid-year report	Annual	October	Interim Head of Finance - Corporate	Cabinet and Council
TM budget monitoring	Quarterly  Monthly	July, Oct, Jan, April	Senior Accountancy Officer – Treasury (reviewed by Finance Manager – Technical Accounting and Treasury Management)	S151 Officer Treasury Management Panel Interim Director of Finance, Corporate Performance Management and Corporate Landlord for

				inclusion in overall corporate financial monitoring reports to CMT and Cabinet which are first reviewed by the S151 Officer
TM performance indicators	Quarterly  Monthly	July, Oct, Jan, April	Senior Accountancy Officer – Treasury (reviewed by Finance Manager – Technical Accounting and Treasury Management)	S151 Officer Treasury Management Panel  Interim Director of Finance, Corporate Performance Management and Corporate Landlord
Cash flow summary	Monthly		Senior Accountancy Officer - Treasury	Finance Manager – Technical Accounting and Treasury Management
Borrowing transactions	Monthly		Senior Accountancy Officer - Treasury	Finance Manager – Technical Accounting and Treasury Management
Payment Releasers Register	Quarterly		Senior Accountancy Officer - Treasury	S151 Officer Interim Director of Finance, Corporate Performance Management and Corporate Landlord
Operational Investment strategy	Quarterly		Senior Accountancy Officer - Treasury	Finance Manager – Technical Accounting and Treasury Management
12 monthly Cash Flow	Quarterly		Senior Accountancy Officer - Treasury	Finance Manager – Technical Accounting and Treasury Management
Government statistical returns	Monthly		Finance Manager – Technical	Department for Communities and

			Accounting and Treasury Management / Senior Accountancy Officer - Treasury	Local Government
Daily cash balance forecast	Daily		Treasury Management Accountancy Assistant	Senior Accountancy Officer - Treasury

### **TMP 7 – BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

The S151 Officer will prepare an annual treasury management budget which will bring together all costs involved in running the treasury management function and associated income. This will be presented to Cabinet and Council and is approved as part of the Treasury Management and Investment Strategy.

The council will account for its treasury management activities in accordance with appropriate accounting practices, standards and statutory and regulatory requirements.

The council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

In line with market convention loans office staff, when dealing, are required to commit the council to terms of borrowing and investment transactions by telephone. Although these transactions are not legally binding until confirmed in writing, if subsequently dishonoured, this may damage the council's reputation. Electronic funds transfer requires the involvement of three officers, at least one of whom shall be on the payment releasers register.

### **TMP 8 – CASH AND CASH FLOW MANAGEMENT**

All council monies will be under the control of the S151 Officer. Funds that are available within all council monies to support treasury management purposes are identified and Cash flow projections in relation to these funds are prepared on a regular and timely basis and the S151 Officer will ensure that these are adequate for the purposes of monitoring compliance with **TMP1** Liquidity risk management.

### **TMP 9 – MONEY LAUNDERING**

Procedures will be enforced for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staffs involved in this area are properly trained.

As a responsible public body, they should employ policies and procedures which reflect the essence of the UK's anti-terrorist financing, and anti-money laundering, regimes. Accordingly the council undertakes a number of safeguards including the following: -

- a) evaluates the prospect of laundered monies being handled by them;



- b) determine the appropriate safeguards to be put in place;
- c) require every person engaged in treasury management to make themselves aware of their personal and legal responsibilities for money laundering awareness;
- d) make all its staff aware of their responsibilities under Proceeds of Crime Act (POCA) 2002

In respect of treasury management transactions, there is a need for due diligence. The Council will only invest with those counterparties that are on its approved lending list. These will be local authorities, the PWLB, Bank of England and authorised deposit takers under the Financial Services and Markets Act 2000. The register can be accessed through the Financial Conduct Authority website.

All transactions will be carried out by BACS or Chaps for making deposits or repaying loans.

The council does continue to manage a local bonds scheme, although it is no longer taking any new loans. When repaying these loans procedures would be followed to check the bank details of the recipient and the council will confirm the identity of the lender.

All loans are obtained from the PWLB, other local authorities or from authorised institutions under the Financial Services and Markets Act 2000.

#### **TMP 10 – STAFF TRAINING AND QUALIFICATIONS**

The council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. An annual review of treasury staff capacity, training needs and experience will be undertaken and reported to the Treasury Management Panel. Specific training for councillors will be provided and undertaken as required.

#### **TMP 11 – USE OF EXTERNAL SERVICE PROVIDERS**

When external service providers are employed, the S151 Officer will ensure it does so for reasons which have been subjected to a full evaluation of the costs and benefits. The terms of appointment and the methods by which service providers' value will be assessed will be properly agreed and documented.

The council does not currently require external investment managers, but recognises it may do so in the future for general or specific advice on a range of matters. These future services would be procured using the council's prevailing regulations relating to obtaining supplies and services. The council employs external treasury advisors to provide economic outlooks and information relevant to making robust investment and borrowing decisions.

#### **TMP 12 – CORPORATE GOVERNANCE**

This authority is committed to the pursuit and achievement of proper corporate governance throughout its business and services and to establish principles and practices by which this can be achieved. Accordingly the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The council has adopted and has implemented the key recommendations of the CIPFA Code. The S151 Officer will monitor and when necessary, report upon the effectiveness of these arrangements to Cabinet.

A forum for the monitoring of Governance arrangements is the Treasury Management Panel. The Treasury Management Panel meets quarterly chaired by the S151 Officer or (in the absence of the S151 Officer) the Interim Director of Finance, Corporate Performance Management and Corporate Landlord (deputy S151 Officer). It will receive reports on the monitoring of Prudential and Local Indicators and approve drafts of strategy and policy cabinet/council reports. It will also initiate work and projects to further ensure strong compliance of internal controls and effective treasury performance.