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Devon County Council

To: The Chair and Members of the Corporate Infrastructure and Regulatory Services Scrutiny Committee

County Hall
Topsham Road
Exeter
Devon
EX2 4QD

Date: 20 January 2023

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CORPORATE INFRASTRUCTURE AND REGULATORY SERVICES SCRUTINY COMMITTEE

Monday, 30th January, 2023

A meeting of the Corporate Infrastructure and Regulatory Services Scrutiny Committee is to be held on the above date at 2.15 pm at Committee Suite, County Hall to consider the following matters.

Jan Spicer
Interim Chief Executive

A G E N D A

PART I - OPEN COMMITTEE

1 Apologies

2 Minutes

Minutes of the meeting held on 24 November 2022 (previously circulated).

3 Items Requiring Urgent Attention

Items which in the opinion of the Chair should be considered at the meeting as matters of urgency.

4 Public Participation

Members of the public may make representations/presentations on any substantive matter listed in the published agenda for this meeting, as set out hereunder, relating to a specific matter or an examination of services or facilities provided or to be provided.

MATTERS FOR CONSIDERATION OR REVIEW

5 Covid Update

Director of Public Health, Communities and Prosperity to report

6 Scrutiny Work Programme

In accordance with previous practice, Scrutiny Committees are requested to review the list of forthcoming business and determine which items are to be included in the Work Programme.

The Committee may also wish to review the content of the Cabinet Forward Plan and the Corporate Infrastructure and Regulatory Services Risk Register to see if there are any specific items therein it might wish to explore further.

7 Food Insecurity and Response to Household Support (Pages 1 - 10)

Report of the Head of Communities (SC/23/1), attached

8 Treasury Management and Investment Strategy 2023/24 (Pages 11 - 34)

Director of Finance and Public Value (DF/23/06), attached

9 Report of the Standing Overview Group: Farming/Waste Management (Pages 35 - 38)

Report of the Standing Overview Group meeting held on 25 October 2022, attached.

MATTERS FOR INFORMATION

10 Items Previously Circulated

Below is a list of information previously circulated to Members since the last meeting, relating to topical developments which have been or are currently being considered by this Scrutiny Committee:

(a) Information following a Masterclass on Active Travel;

(b) Risk Registers for the respective Scrutiny Committees.

(c) Highways Performance Dashboard – Briefing Note

PART II - ITEMS WHICH MAY BE TAKEN IN THE ABSENCE OF PRESS AND PUBLIC ON THE GROUNDS THAT EXEMPT INFORMATION MAY BE DISCLOSED

Nil

Members are reminded that Part II Reports contain exempt information and should therefore be treated accordingly. They should not be disclosed or passed on to any other person(s). They need to be disposed of carefully and should be returned to the Democratic Services Officer at the conclusion of the meeting for disposal.

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Induction Loop available

SC/23/1
Corporate Infrastructure and Regulatory Services Scrutiny Committee
30 January 2022

Food Insecurity and Response to Household Support

Report of the Head of Communities

1) Introduction

Over the last 12 months, the symptoms of poverty have manifested themselves well beyond food insecurity, which itself has worsened, as the cost of living crisis has continued to emerge and impact the whole of society.

Since the last full report on this issue to this Committee from the Head of Communities (November 2021), the Council, as part of its Strategic Plan 2021-25, has highlighted the need to work in partnership to help tackle poverty and support people that are experiencing hardship. This paper updates this Scrutiny Committee on progress made to date in this arena.

What is food insecurity?

As a reminder and for the purposes of this paper, household food security is assured when members of the household are confident of having economic and physical access to sufficient, acceptable food for a healthy life (Defra, 2014). Conversely, food insecurity was defined in the Low-Income Diet and Nutrition Survey, commissioned by the Food Standards Agency, and conducted across the UK between 2003 and 2005, as:

Limited or uncertain availability of nutritionally adequate and safe foods or limited or uncertain ability to acquire acceptable foods in socially acceptable ways.

So, food security is impacted by many factors including household income, and the supply, quality, variety, and desirability of diet. It relates to every part of the entire food system, and the County Council's strategy and response covers each aspect.

2) Understanding and Learning in Partnership

Quantitative Research

In 2021, and conducted again this autumn (2022), DCC funded quantitative research on food insecurity in Devon. The report shows that food insecurity has grown in Devon over the last year. The high level headlines from the research can be viewed in **Appendix A.**

In Devon, levels of food insecurity have risen from 17% overall (Spring 2021) to around 29% in October 2022. These levels are considerably higher in households on low income and combined with other factors:
• where household income is less than £16,190 and with children (70%).

• single adult households with children (60%).
• households where the main respondent is long-term sick or disabled (58%).

In addition, fuel insecurity is a huge issue in Devon. Overall, 79% of Devon households said they were planning to reduce their energy usage, with 36% saying they were planning to switch their heating off altogether; and 15% said they were planning to spend time somewhere else to keep warm.

Qualitative Research

Specialist Hubs - Food Insecurity

A key part of the development of a new Devon, Plymouth & Torbay VCSE (Voluntary, Community & Social Enterprise) Assembly is to pilot and develop new ways of working that benefit communities. One approach, seed funded by the Devon Recovery Coordination Group, is for the Assembly to create specialist hubs, bringing together insight, intelligence, innovation and lived experience on a broad range of community issues. In this way, the Assembly will develop coordination in the sector and act as a 'known' place to go to find out what is happening across VCSE organisations in Devon, Plymouth & Torbay.
One of the specialist hubs is focussing on food insecurity and is convened and led by Devon Community Foundation (DCF). This builds on the collaborative work begun last year between VCSE partners and Devon County Council exploring the district-level organisational landscape relating to food support. As a result of the quantitative research (2021 & 2022) on food insecurity, the hub has a clearer picture of relevant stakeholders, and of potential areas for focus.

The food insecurity hub has implemented plans for targeted learning and pilot working, as indicated by the results of the quantitative research in 2021 and 2022. This will help to delve deeper into the complex issues facing people in food insecurity. The pilot projects, for example, look into the correlation between certain cohorts, such as Asian, Black and other ethnic minorities and food insecurity, and what this means for food support provision, or the fact that a large proportion of people reporting food insecurity in Devon do not currently access food support. The hub will, by building on this evidence base, pilot projects and emerging collaborative working practices, propose model(s) for collective cross-sectoral working, focused on tackling food insecurity in the county. The understanding and learning from the hub will inform the work of the new VCSE Assembly and wider partnerships. The hub findings will be reported no later than March 2023.

Complementary Qualitative Research

Tackling food insecurity and the wider cost of living issues requires a whole systems partnership approach – no one organisation on its own can understand, learn, and respond adequately to the issues being faced. In addition to the quantitative research repeated this autumn, and with a small amount of DCC funding, DCF will also conduct additional qualitative research to further inform understanding of food insecurity amongst partners; ensuring user led experience and 'expertise by experience' intelligence is captured. This will inform understanding, learning and follow on discussions surrounding partnership approaches, collaborative opportunities, and future practice.

Food Insecurity Summit - Spring 2023

DCF is seeking to convene a Food Insecurity Summit in Spring 2023, via the Devon Food Partnership of which DCF is a steering group member. The Summit will connect a range of partner organisations with an interest in Food Insecurity and in tackling it in a collaborative way. This initial connection will bring together the research and understanding gathered by partners to date (many outlined above), so they can experience and identify joint learning, whilst also seeking better connections and discuss possible future partnership approaches.

3) Household Support Fund (HSF): A much needed short-term sticking plaster

To help to meet some of the challenges highlighted so far from the research, DCC has worked with and across multiple partners to distribute around £15m of HSF. The funding has been made available from the Department of Work and Pensions (DWP) through a series of short-term HSF schemes (around £5m per scheme); each announced at relatively short-notice and with its own specific guidance, priorities, restrictions, and tight timescales.

The HSF's support is targeted at those most in immediate need and to help to address the significantly rising cost of living. The total value of awards split by household composition, under the DWP Guidance relating to the first and second HSFs, can be seen in **Appendix B.**

For the HSF, a range of support gateways have been established including, free school meal holiday vouchers, funded Team Devon district/city council hardship schemes, a Citizen Advice Devon Energy relief scheme, a minor rapid energy efficiency pilot (via Sustainable Warmth), an Early Help family support scheme, as well as a Devon Community Foundation delivered grant scheme for the voluntary and community sector.

Details of these gateways and of the wider support available can be found on the Council's website **Help with the cost of living in Devon – Devon County Council**.

The need for support continues to rise; evidenced by eligibility for free school meals, which has risen from around 10,000 children in 2018 in Devon; to 18,900 in January 2021, to now over 20,000 children locally.

A further commitment to implement HSF schemes over 2023/24 has been made by the UK Government, via the recent Autumn Statement. However, scheme details and requirements, priorities, timescales and budget have yet to be confirmed. The current and third scheme HSF is well underway and the initial funding allocations can be viewed in **Appendix B**.

4) Community Resilience (Capacity & Capability Building)

Growing Communities Fund (GCF)

To further help communities and people needing to build self/community resilience, improve mental health, wellbeing support and wider connection, the Council launched its Growing Communities Fund in April 2022. Grants of £500 - £3,000 are available. Already this year 160 awards have been made with a value of over £285,000. A further £150,000 remains available. Given the current cost of living crisis, funding has been further targeted towards reducing food/fuel inequalities, and by supporting warm space and service provision.

The fund can support projects that:

- address hardship such as food or fuel insecurity, for example offering warm safe spaces, something to eat and drink, and a place to work, learn or socialise.
- build greater degrees of self-reliance and community resilience for example offering advice, peer support or guidance on budgeting, cooking low-cost nutritional meals.
- tackle loneliness and isolation and build self-esteem.
- have a clear and direct community benefit whilst aiming to respond to the climate emergency

Further details can be found on the Council's website **Growing Communities Fund – Communities (devon.gov.uk).**

Locality Budget

In addition, elected Members may use their Locality Budget to help nurture community resilience, in terms of building community capacity and capability to meet local needs and priorities and to reduce issues such as hardship and poverty, loneliness and isolation.

Other Community Resilience Grant Schemes

Likewise, and for short periods of time, other community resilience funds are available (via **DCC Funding News**) to help in this regard, such as the current:

- **Connecting You** grant scheme (a consortium of partners including DCC secured this funding) that seeks to tackle loneliness and isolation through community transport offers and initiatives.
- **Open Up to Skills** (a DCC Economy initiative) which provides additional training opportunities for members of the hospitality, tourism, and retail sectors, including VCSE organisations.

5) Wider Strategic Work

There are numerous DCC-led and DCC partnership initiatives underway to tackle food insecurity, poverty, and hardship. A few examples of note follow:
The Devon Food Partnership

Established as a strategic food partnership for Devon, Plymouth, and Torbay, enabling collaboration and open communications with food stakeholders across the county. The partnership connects the County Council together with other key organisations and partners via an Interim Steering Group. It also facilitates smaller task groups to complete discreet projects and actions. The scope of the partnership's work is guided by the six Sustainable Places principles and goes far beyond the current food insecurity issue, as defined earlier:

Healthy Food For all: Tackling food poverty, diet related ill-health and access to affordable healthy food.
Food for the Planet: Tackling the climate and nature emergency through sustainable food and farming and an end to food waste.
Food Governance and Strategy: Taking a strategic and collaborative approach to good food governance and action.
Sustainable Food Economy: Creating a vibrant, prosperous, and diverse sustainable food economy.
Catering and Procurement: Transforming catering and procurement and revitalizing local and sustainable food supply chains.
Good Food Movement: Building public awareness, active food citizenship and a local good food movement.

The Interim Steering Group is nearing completion of a draft strategy for the partnership, informed by consultation with stakeholders in the food system. The outputs of this activity will be important to inform (e.g., at the Food Insecurity Summit) the development of strategic direction for interested partners, including DCC, around food and fuel insecurity more specifically

The HAF (Holiday Activity & Food) Programme

The aim of the Holiday Activity and Food (HAF) programme is to support children to eat more healthily, be more active over the school holidays and have a greater knowledge of health and nutrition as well as be more engaged with school and other local services.
In November 2020, the government announced that the Holiday Activities and Food (HAF) programme would be expanded across the whole of England in 2021. Following on from this, the Department of Education has agreed a further three years of funding, starting 2022. The programme, coordinated locally by DCC, has provided healthy food and enriching activities to disadvantaged children since 2018.

Integrated Care Partnership

Whilst relatively early in their journey, and using one-off NHS England funding, the Integrated Care System Partnership Board has awarded £300k to the VCSE Assembly to tackle priority issues around the cost of living crisis in terms of building and coordinating its capacity and capability. The fund is available for VCSE organisations covering Devon, Plymouth, and Torbay. As with Covid, the VCSE sector continues to lead the response to tackling immediate and burning issues faced by people and communities, and so a grant scheme developed by the VCSE sector (via the Assembly) for the VCSE sector is being developed over the coming months.

6) Conclusion

The Council continues to work with a range of partners on the long-term opportunities to understand, learn and develop practice and approaches, alongside the equally important short-term immediate distribution of direct support from funds such as the Household Support Grant and community resilience building enablers, such as the GCF. Over the next 12 months the County Council will continue to:

- Deliver the Household Support Fund from DWP to families across Devon to 31 March 2024 (following the Government's Autumn Statement)
- Work in partnership to develop an understanding and learning phase; building on the experiences around food insecurity to link with wider hardship/welfare issues and inform approaches
- Work in partnership (where possible) with Team Devon and other partners to develop community resilience building that responds to the needs of communities, including food insecurity
- Agree common Team Devon principles for welfare/hardship/support and wider poverty, informed by the understanding and learning phase, where appropriate and helpful.

Simon Kitchen
Head of Communities

Electoral Divisions: All

Cabinet Member for Public Health, Communities and Prosperity: Councillor Roger Croad
Director of Public Health, Communities and Prosperity: Steve Brown

Local Government Act 1972: List of background papers

Nil

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Appendix A to SC/23/1 - Devon Food and Fuel Insecurity Research (Autumn 2022)

Draft Headline findings from the survey of 1,206 Devon households (Data is subject to verification and finalising):

Food insecurity

- Overall, **food insecurity levels** (Devon households with low or very low food insecurity) have increased from 17% in March/April 2021 to 29% now (September/October 2022).
- The overall increase of c.+12% is not consistent across all household types in Devon, although it is broadly consistent with increases being reported nationally across the same time period by the Food Foundation, etc.
- The types of households experiencing the highest rates of food insecurity currently are the same groups of vulnerable, low-income households identified in 2021, although the individual rates are higher now for each:
    - Income of less than £16,190 *and* children (70%)
    - Single adult household with children (60%)
    - Households where the main respondent is long-term sick or disabled (58%)
    - 1+ household member with a mental health condition (55%)
    - Households where the main respondent is unemployed (55%)
- The proportion of Devon households who have accessed **emergency food support** in the past 30 days has increased from 2% in 2021 to 5% now. This increased use of support is greater among the same sets of vulnerable households above. Of particular concern are the points that, among these households who have accessed emergency food support in the last 30 days:
    - 70% have very low food security: and
    - 84% are in receipt of means tested benefits
- Uptake of **free school meals** among households with children has increased from 14% in 2021 to 34% now.

Fuel insecurity

- Overall, 79% of Devon households said they were planning to reduce their energy usage.
- 36% said they were planning to switch their heating off altogether
- 15% said they were planning to spend time somewhere else to keep warm
- 13% said that they won't be able to afford to pay increased energy prices, even with cutbacks and savings
- 16% said they would have to borrow to pay/use a credit card for their increased bills
- The following types of households were all found to be significantly more likely to be planning to switch their heating off altogether and/or spend time somewhere else warm. They were also more likely to say that they could not afford to pay for the increased energy prices and that they would have to borrow/use a credit card to do so:
    - Lone parent households
    - Households with income <£16,190 pa and children
    - Households where the main respondent was long-term sick or disabled
    - Households with 1+ member with a mental/physical health condition
    - Households where the main respondent was unemployed
    - Households renting from the council/social housing

Food and fuel insecurity correlation

- This is something that we are working on, but it looks like, unsurprisingly, 80%-90% of households experiencing food insecurity are also experiencing fuel insecurity, either with not being able to pay energy/fuel bills and/or needing to borrow money to do so. This was very evident from the clear overlap in the types of households experiencing the two types of insecurities.
- Given that these households are already the most vulnerable, the combination of food insecurity and concerns over the impact of reductions in energy use on their home environment (increased cold, damp, etc), gives rise to great concern for the potential negative effects on their health and that of their children in particular.

Appendix B to SC/23/1

Household Support Fund 1

Total Value of Awards split by Household Composition

Household Composition		Spend (£s)
a) Households with Children		3,847,613
b) Households without Children		547,113
c) Total (a + b)		4,394,725

Household Support Fund 2

Total Value of Awards split by Household Composition

Household Composition	Spend (£s)
a) Households with Children	2,817,833.66
b) Households with Pensioners	1,925,509.87
c) Other households	279,622.39
d) Total amount provided to vulnerable households (a + b + c)	5,022,965.92

HSF3 Delivery Plan and Initial (Notional) Funding Allocations

Total Allocated Notional Fund for the DCC Administrative Area	**£5,064,876.12**
Team Devon District/City Council Hardship Schemes. Proactive and targeted contact and support to those identified as struggling, utilising local datasets	**£2,000,000.00**
Citizens Advice Devon: Energy Relief Scheme **Devon Community Foundation**: Targeted grant support scheme for VCSE organisations providing direct support to specific cohorts who are struggling financially, and which research indicates do not seek help and support. **Sustainable Warmth (Cosy Devon)** Rapid Minor Energy Improvement Pilot	**£500,000.00**
Eligible cohort for **Free School Meal (FSM) Holiday Lunch Vouchers** (6 weeks holiday@£15/week/child) **Early Help** - Household Support Scheme	**£1,756,056** **£200,000.00**
Figures are estimated and subject to ongoing MI review. On receipt of regular MI returns from each support gateway, spend patterns will be reviewed and appropriate corrective action taken. Any further notional funding will be allocated and agreed based on such performance reviews. DWP Payment will be in arrears and subject to receipt of satisfactory/accurate MI returns. FSM figure estimated with an 93% uptake.	

DF/23/06
Corporate Infrastructure & Regulatory Services Scrutiny Committee
30 January 2023

TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2022/23

Report of the Director of Finance and Public Value

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

1) Recommendation

That the Committee be asked to:

Consider whether it wishes to draw to the attention of the Cabinet any observations on the proposals contained within the Treasury Management and Investment Strategy.

2) Introduction

2.1 In December 2021, the Chartered Institute of Public Finance and Accountancy (CIPFA) published a revised Code of Practice for Treasury Management and a revised Prudential Code. As a result, a revised Treasury Management Policy Statement together with a revised statement of 'Treasury Management Practices' (TMPs) was agreed by the Council in February 2022. No changes are proposed to these policies for 2023/24.

2.2 The policy requires the Council to consider a treasury strategy report, setting out the strategy and plans to be followed in the coming year, as part of the budget process. The Treasury Management Strategy for 2023/24 is set out at Appendix 1.

3) Treasury Management Strategy

3.1 The Treasury Management and Investment Strategy sets out the minimum revenue provision (MRP) policy, capital expenditure funding, prudential indicators, the current treasury position, debt and investments; prospects for interest rates; the borrowing strategy; and the investment strategy.

3.2 The key issues for 2023/24 are set out in the Treasury Management and Investment Strategy Overview section. These include:

a) Consideration of the need for prudent management of the Council's cash resources in order to support the capital strategy and meet the Council's strategic priorities.

b) The inclusion of external borrowing to fund the proposed South Devon Freeport development.
c) The pressure on the Council's cash resources and continued uncertainty around the Safety Valve in relation to Special Education Needs and Disability (SEND), which may result in a further requirement for external borrowing.
d) The potential for higher investment income resulting from the increased level of interest rates.

3.3 In general, the investment strategy remains broadly similar to that for 2022/23, with no changes, for example, to the approved counterparty criteria.

3.4 The MRP policy with respect to the Vehicle and Equipment Loans Pool has been amended such that the amount charged reflects the loan repayments. No other changes have been made to the MRP policy.

4) Conclusion

4.1 The Treasury Management and Investment Strategy will be considered by Cabinet along with the draft budget for 2023/24 on 10 February, and will become part of the budget book to be approved by Council at its budget meeting on 16 February.

4.2 The Committee is invited to make observations on these proposals prior to their consideration by the Cabinet on 10 February.

Angie Sinclair
Director of Finance and Public Value

Electoral Divisions: All

Local Government Act 1972: List of background papers

Nil

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Treasury Management Strategy 2023/24 – 2026/27 and Prudential Indicators 2023/24 - 2027/28

Introduction

The County Council has adopted the CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management in the Public Services. A revised Code of Practice was published by CIPFA in December 2021 and requires the Council to approve a Treasury Management Policy Statement together with a statement of its 'Treasury Management Practices' (TMPs). No changes are proposed to these policies for 2023/24

The policy requires the Council to consider a treasury strategy report, setting out the strategy and plans to be followed in the coming year, as part of the budget process.

The Treasury Management Strategy sets out the County Council's policies in relation to:

- the management of the Council's cashflows, its banking, money market and capital market transactions;
- borrowing and investment strategies;
- monitoring of the level of debt and funding of the capital programme.

The Treasury Management Strategy should be read in conjunction with the Capital Strategy.

The County Council is required to monitor its overall level of debt in line with the national code of practice drawn up by CIPFA. Part of this code requires consideration of a set of "prudential indicators" in order to form a judgement about the affordable, prudent and sustainable level of debt.

The prudential indicators, treasury management strategy and the annual investment strategy have been reviewed in line with the Capital Programme 2023/24 – 2027/28, and the Capital Strategy.

This Treasury Management Strategy document sets out:

- Minimum revenue provision;
- Capital expenditure funding;
- Prudential indicators on the impact of capital financing and monitoring of the level and make-up of debt;
- The current treasury position, debt and investments;
- Prospects for interest rates;
- The borrowing strategy; and
- The investment strategy.

Appendix 1

Treasury Management and Investment Strategy Overview

The Treasury Management and Investment Strategy sets out the MRP policy, capital expenditure funding, prudential indicators, the current treasury position, debt and investments, prospects for interest rates, the borrowing strategy and the investment strategy.

External Borrowing

Since 2009 the Council has followed a policy of containing the capital programme, taking out no new external borrowing and repaying debt whenever this can be done without incurring a financial penalty. Capital expenditure new starts are limited to those that are financed from sources other than external borrowing. To meet the need for capital expenditure, the highest priority schemes across the Authority have been funded from corporate capital receipts and internal borrowing over the capital programme timescale.

The capital programme for 2023/24 requires borrowing of £7.1 million, which will be internal borrowing. This is offset by the MRP figure of £11.9 million which will leave the Council with total internal borrowing of £72.7 million, i.e. the Council will have borrowed £72.7 million from its cash balances, in addition to the external debt of £507.85 million, to fund the capital programme.

With the current financial pressures on the Council, it is projected that the balances available for internal borrowing will be significantly reduced as a result of:

- Budgeted use of earmarked reserves during 2022/23 and 2023/24.
- Continued unbudgeted expenditure on Special Educational Needs and Disability (SEND), charged to an unusable reserve.
- Spending of accumulated capital grants, for example Section 106 provision of infrastructure and major projects such as the North Devon Link Road.
- Spending of approved carry-forwards.

As a result the ability to use internal borrowing, as opposed to external borrowing, to fund the capital programme will become more limited.

The liability benchmark shown in table 6 and the following graph within the prudential indicators section of the Treasury Management Strategy show that the benchmark requirement for external debt from 2024/25 until around 2030 is higher than the current level of external debt, which indicates that further external borrowing may be required.

In April 2022, the Cabinet agreed to support proposals for the creation of the Plymouth and South Devon Freeport. The Business Case includes the requirement for the Council to externally borrow up to £15 million for the capital works needed. The borrowing will not be required until 2024/25, but at that point the Council's total external debt will increase. The additional external borrowing will be ringfenced to the Freeport, and all the associated capital financing costs will be funded by the excess business rate income derived from the scheme.

The Council continues to await the outcome of the Safety Valve Intervention programme with the Department for Education in relation to the deficit position on Special Educational Needs. At the end of 2021/22 the Dedicated Schools Grant High Needs Block reported a cumulative deficit of £86.5 million which was carried forward as a deficit reserve as per government guidance. When combined with the current year forecast the deficit is expected to be around £127 million by the end of 2022/23. The conclusion of the discussions with the Department of Education and any resulting agreement will be crucial to determining whether the Council requires further external borrowing to meet its capital priorities.

The current expectation is that while interest rates will rise further during the first half of 2023, they will then reduce in late 2023 and into 2024. Therefore the requirement for new external borrowing will be kept under review with the intention that loans will only be accessed as and when they are required.

Target Rates for Investment

For the 2023/24 financial year it has been assumed that the average interest rate earned on lending to banks and building societies will be **3.0%** p.a. The target rate takes into account the significant increases in the Bank of England's base rate during 2022, but also reflects existing investments at lower rates that will continue into the 2023/24 financial year and the forecast lower availability of cash to invest at higher rates.

The yield from investment in the CCLA Property Fund is assumed to be **3.8%**. The property market yield has dropped below the 4% achievable at the inception of the investment as a result of the current economic downturn. It is not proposed to make use of short-dated bond funds and multi-asset income funds during 2023/24, so these types of funds are not factored into the budget for investment income.

Minimum Revenue Provision

Minimum Revenue Provision (MRP) is a charge to the authority's revenue account to make provision for the repayment of the authority's external debt and internal borrowing. The authority has a statutory obligation to charge to the revenue account an annual amount of MRP.

The authority's MRP strategy is to charge all elements based on the period of benefit of the capital investment i.e. over the life of the asset.

All supported capital expenditure and unsupported borrowing up to 1st April 2008 will be charged over the life of the assets, calculated using the 'asset life: annuity' method. This approach was adopted by the authority in 2018/19 and delivered significant revenue savings. MRP is calculated by dividing the existing debt over the estimated life of the asset, but also reflects the fact that an asset's deterioration is slower in the early years of its life and accelerates towards the latter years. In order to calculate MRP under the asset life annuity method, an appropriate annuity rate needs to be selected. The percentage chosen corresponded with the Bank of England Monetary Policy Committee's inflation target rate in 2018/19 of 2.1%. MRP will increase by this percentage each year.

Any unsupported (internal) borrowing post 1 April 2008 will be charged over the life of the asset, on a straight-line basis. The annuity method will not be applied to projects financed from internal borrowing, as this source of financing is applied to a wider range of projects with differing lives. Therefore, the 'asset life: equal instalment' method is a more appropriate method of calculating MRP. In respect of the Schools Vehicle and Equipment Loans Pool, MRP is derived as equal to the loan repayment.

We will not provide for MRP in circumstances where the relevant expenditure is intended to be financed from external contingent income, where it has not yet been received but where we conclude that it is more probable than not that the income will be collected, for example when forward funding S106 contributions.

Capital financing costs are also affected by PFI/PPP contracts and finance leases coming 'on Balance Sheet'. The MRP policy for PFI/PPP contracts will remain unchanged, with MRP being charged over the period of benefit of the capital investment i.e. over the life of the asset.

The main Prudential Indicator to measure the acceptable level of borrowing remains the ratio of financing costs to total revenue stream. The figures for MRP shown in table 6 reflect the adoption of this strategy.

Capital Expenditure

Table 1 shown below, summarises the Capital Programme and liabilities from capital projects that will appear on the balance sheet in future years. The Capital Programme has been tested for value for money via option appraisal and for prudence, affordability and sustainability by looking at the impact that the proposed Capital Programme has on the revenue budget and through the Prudential Indicators.

Table 1 – Capital Expenditure

	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Total Capital programme	**172,483**	**125,171**	**83,222**	**80,273**	**67,806**
Funded by:					
Gross borrowing	7,066	11,809	7,362	6,640	0
Other capital resources	165,417	113,362	75,860	73,633	67,806
Total capital programme funding	**172,483**	**125,171**	**83,222**	**80,273**	**67,806**

Prudential Indicators

Capital Financing Requirement

The Capital Financing Requirement represents the Council's underlying debt position. It shows the previous and future spend for capital purposes that has been or will be financed by borrowing or entering into other long-term liabilities. Other long-term liabilities include contracts under the Private Finance Initiative (PFI) and as from April 2022 is now required to include liabilities related to any leases of more than 12 months that the Council has entered into.

The Capital Financing Requirement and debt limits will be higher than the Council's external debt, as they will be partly met by internal borrowing from the Council's internal cash resources. This reduces the cost of the required borrowing, but the Council also needs to ensure that a prudent level of cash is retained.

The forecast Capital Finance Requirement for 2023/24 and the following four years are shown in table 2 below.

Table 2 – Capital Financing Requirement

	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Underlying borrowing requirement	580,556	579,663	574,026	567,478	554,079
Other long-term liabilities	129,456	124,175	119,117	114,637	109,443
Capital financing requirement	**710,012**	**703,838**	**693,143**	**682,115**	**663,522**

Limits to Debt

The Authorised Limit represents the level at which the Council is able to borrow and enter into other long-term liabilities. Additional borrowing beyond this level is prohibited unless the limit is revised by the Council. Table 3 details the recommended Authorised Limits for 2023/24 – 2027/28.

Table 3 – Authorised Limits

	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Authorised Limits:					
Borrowing	740,979	658,929	647,851	640,294	626,148
Other long-term liabilities	129,456	124,175	119,117	114,637	109,443
Authorised limit for external debt	**870,435**	**783,104**	**766,968**	**754,931**	**735,591**

The Operational Boundary is based on the anticipated level of external debt needed during the year. Variations in cash flow may lead to occasional, short term breaches of the Operational Boundary that are acceptable. Sustained breaches would be an indication that there may be a danger of exceeding the Authorised Limits. Table 4 details the recommended Operational Boundaries for 2023/24 and following years.

Table 4 - Operational Limits

	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Operational Limits:					
Borrowing	645,979	633,929	622,851	615,294	601,148
Other long-term liabilities	129,456	124,175	119,117	114,637	109,443
Operational limit for external debt	**775,435**	**758,104**	**741,968**	**729,931**	**710,591**

The forecast opening balance for External Borrowing at 1 April 2023 is £507.85 million and remains unchanged at 31 March 2024.

The Council also needs to ensure that its gross debt does not, except in the short term, exceed the total of the Capital Financing Requirement. Table 5 details the Capital Financing Requirement against the total gross debt plus other long-term liabilities. The level of under borrowing reflects the use of internal borrowing from the Council's internal cash resources.

Table 5 – Underlying Borrowing Requirement to Gross Debt

	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Capital financing requirement	710,012	703,838	693,143	682,115	663,522
Gross borrowing and other long-term liabilities	637,306	639,695	636,967	603,657	592,683
Under/ (over) borrowing	**72,706**	**64,143**	**56,176**	**78,458**	**70,839**

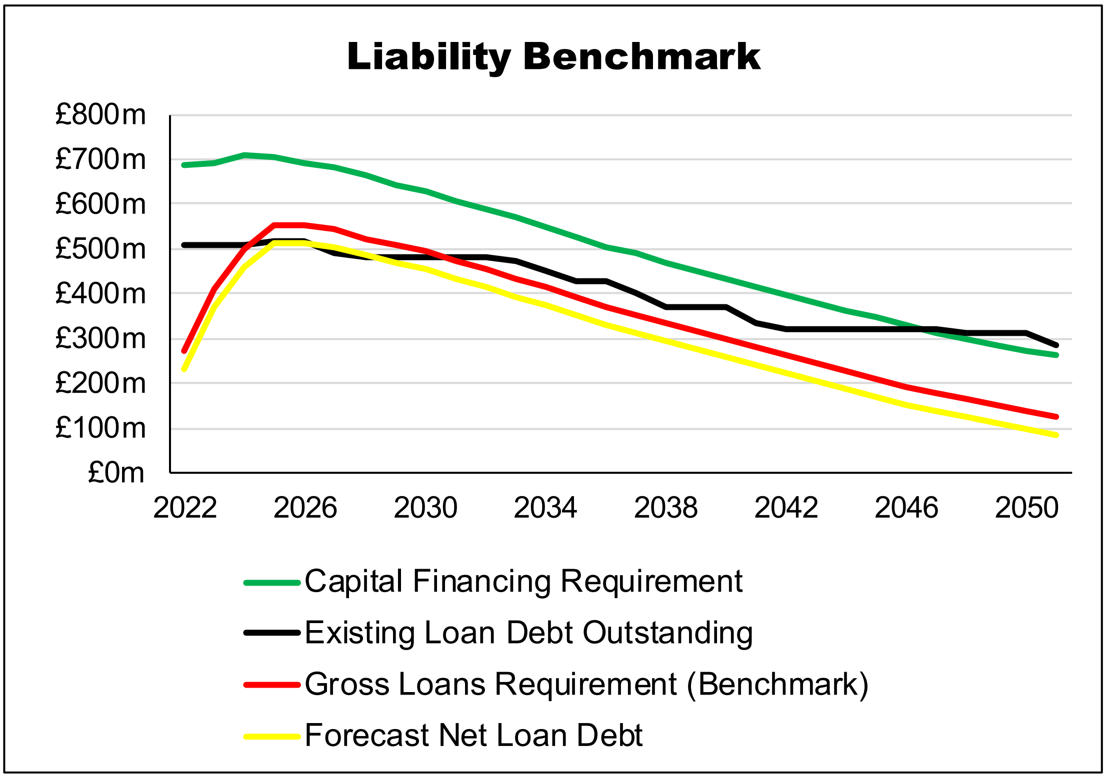
The debt management strategy and borrowing limits for the period 2023/24 to 2027/28 have been set to ensure that over the medium-term net borrowing will only be for capital purposes.

Liability Benchmark

To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This takes the capital financing requirement, and the forecast level of reserves and balances, and assumes that cash and investment balances should be kept to a minimum level of £40 million at each year end to maintain sufficient liquidity but minimise credit risk. This is illustrated in Table 6 below, and in the following chart.

Table 6 – Liability Benchmark

	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Capital financing requirement	710,012	703,838	693,143	682,115	663,522
Less: total reserves and provisions	(252,518)	(192,728)	(180,742)	(179,816)	(179,617)
Plus: minimum liquidity requirement	40,000	40,000	40,000	40,000	40,000
Liability Benchmark	**497,494**	**551,110**	**552,401**	**542,299**	**523,905**
External Debt Matuity Profile	507,849	515,518	517,849	489,020	483,239
Net Requirement for additional External Debt	**(10,355)**	**35,592**	**34,552**	**53,279**	**40,666**



The increase in the gross loans requirement at the beginning of the period shown is a result of the reduction in the Council's reserves and balances available for internal borrowing.

For periods beyond the current extent of the Council's capital programme, there is no further planned capital expenditure and the budgeted MRP for the repayment of debt therefore reduces the gross loans requirement resulting in the downward trajectory shown in the graph from 2026 onwards.

Ratio of Financing Cost to Net Revenue Stream

Table 7 below shows the relationship between Capital Financing Costs and the Net Revenue Stream for 2023/24 and future years. Financing cost is affected by Minimum Revenue Provision (MRP), interest receivable and payable and reductions in other long term liabilities.

Table 7 – Ratio of Financing Costs to Net Revenue Stream

	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Minimum revenue provision	11,948	12,701	12,999	13,187	13,399
Interest payable	26,017	26,017	26,017	26,017	26,017
Recharges and other adjustments	646	630	605	642	632
Interest receivable	(3,500)	(3,500)	(3,500)	(3,500)	(3,500)
Capital financing cost (excluding other long-term liabilities)	35,111	35,848	36,121	36,346	36,548
Capital financing costs of other long-term liabilities	14,428	13,262	12,427	12,523	12,723
Capital financing costs including other long-term liabilities	49,539	49,110	48,548	48,869	49,271
Estimated net revenue stream	**524,271**	**530,725**	**543,552**	**543,552**	**543,552**
Ratio of financing costs (excluding other long term liabilities) to net revenue stream	**6.70%**	**6.75%**	**6.65%**	**6.69%**	**6.72%**
Ratio of financing costs (including other long-term liabilities) to net revenue stream	9.45%	9.25%	8.93%	8.99%	9.06%

Treasury Management Prudential Indicators

Where external borrowing is required it can either be at fixed or variable rates of interest, and can be taken out for periods from a year to 50 years. The use of prudential indicators seeks to reduce the risks associated with fixed and variable interest rate loans and with borrowing for different loan periods.

Borrowing at fixed rates of interest for long periods can give the opportunity to lock into low rates and provide stability, but means that there is a risk of missing possible opportunities to borrow at even lower rates in the medium term. Variable rate borrowing can be advantageous when rates are falling, but also means that there is a risk of volatility and a vulnerability to unexpected rate rises.

Borrowing for short periods or having large amounts of debt maturing (and having to be re-borrowed) in one year increases the risk of being forced to borrow when rates are high.

The Council’s policy has been to borrow at fixed rates of interest when rates are considered attractive. However, in recent years no new external borrowing has been undertaken, and the maturity range of the Council’s longer-term borrowing has therefore reduced. A lower limit for long dated loans is therefore no longer appropriate.

The proposed Prudential Indicators for 2023/24 and beyond are set out in Table 7.

Table 8 – Treasury Management Prudential Indicators

Prudential Indicators	Upper Limit %	Lower Limit %
Limits on borrowing at fixed interest rates	100	70
Limits on borrowing at variable interest rates	30	0
Percentage of Fixed Rate Debt maturing in:		
Under 12 months	20	0
12 Months to within 24 months	25	0
24 Months to within 5 Years	30	0
5 years and within 10 Years	35	0
10 years and within 20 years	45	0
20 years and within 35 years	60	0
35 years and within 50 years	75	0

The limits have been set taking into account the CIPFA Code of Practice which requires that the maturity date for LOBO (Lender Option Borrower Option) loans is assumed to be the next call date, rather than the total term of the loan. This will apply to three of the Council's four Money Market loans.

Monitoring the Indicators

It is important to monitor performance against forward looking indicators and the requirement that borrowing should only be for capital purposes. The total level of borrowing will be monitored daily against both the operational boundary and the authorised limit. If monitoring indicates that the authorised limit will be breached, a report will be brought to the Cabinet outlining what action would be necessary to prevent borrowing exceeding the limit and the impact on the revenue budget of breaching the limit. It will be for the Cabinet to make recommendations to the County Council to raise the limit if it is felt appropriate to do so.

The indicators for capital expenditure, capital financing requirement, capital financing costs and the treasury management indicators will be monitored monthly. Any significant variations against these indicators will be reported to the Cabinet.

Analysis of Long Term Debt

The following Table 8 shows the County Council's fixed and variable rate debt as at 31 March 2022 and 31 December 2022 (current).

The interest rates shown do not include debt management costs or premiums /discounts on past debt rescheduling.

There has been no movement in the Council's external debt over the last financial year, as no new borrowing has been required and no further opportunities have arisen to repay debt.

Table 9 – Analysis of Long Term Debt

	Actual 31.03.22 £'m	Interest Rate %	Current 31.12.22 £'m	Interest Rate %
Fixed Rate Debt				
PWLB	436.35	4.99	436.35	4.99
Money Market	71.50	5.83	71.50	5.83
Variable Debt				
PWLB	0.00		0.00	
Money Market	0.00		0.00	
Total External Borrowing	**507.85**	**5.11**	**507.85**	**5.11**

Schedule of Investments

The following schedule shows the County Council's fixed and variable rate investments as at 31 March 2022 and as at 31 December 2022 (current).

Table 10 – Schedule of Investments

Maturing in:	Actual 31.03.22 £'m	Interest Rate %	Current 31.12.22 £'m	Interest Rate %
Bank, Building Society and MMF Deposits				
Fixed Rates				
Term Deposits < 365 days	127.50	0.48	126.00	2.34
365 days & >	31.00	0.86	10.00	0.57
Callable Deposits				
Variable Rate				
Call Accounts	49.01	0.58	0.00	
Notice Accounts	40.00	0.32	10.00	3.09
Money Market Funds	16.86	0.55	4.01	3.25
Property Fund	10.00	3.72	10.00	3.66
All Investments	**274.36**	**0.64**	**160.01**	**2.38**

The Council's cash balance available for investment varies during the year, with peaks when Government grants and Council Tax precepts are received, which then taper down as expenditure is incurred. The cash balance as at 31st December 2022 is lower than at the start of the year. It was anticipated that the cash balance would reduce by 31 March 2023, as a result of:

- The growing deficit on the provision for Special Educational Needs (SEND).
- Expenditure of balances carried forward from 2021/22.
- Use of reserves during 2022/23.
- Internal borrowing to fund the capital programme in excess of MRP.

The recent investment performance of the County Council's cash has improved as a result of rising interest rates, as the Bank of England has sought to contain inflation. The Bank of England has raised base rates from 0.25% at the beginning of 2022 to 3.5% in December, the highest level for 14 years.This has had an impact on the rates available for investment, which have gradually increased over the period since December 2021.

The average rate achieved on investments has therefore improved during the year as Term deposits carried forward from earlier periods have matured and been reinvested at higher rates, where cashflow has allowed.

Prospects for Interest Rates

Forecasting future interest rate movements even one year ahead is always difficult, and the current economic environment and recent volatility in rates has exacerbated this. The factors affecting interest rate movements are clearly outside the Council's control. Whilst short term rates are influenced by the Bank of England's Base Rate, long term rates are determined by other factors, e.g. the market in Gilts. Rates from overseas banks will be influenced by their national economic circumstances. The County Council retains an external advisor, Link Asset Services, who forecast future rates several years forward. Similar information is received from a number of other sources.

Global instability and rising inflation has resulted in a significant increase in interest rates during 2022. The Bank of England has increased the Bank Rate on 8 occasions during 2022 taking it from 0.25% at the beginning of the year to 3.5% in December.

Market expectations are that rates will continue to increase during 2023, with the Bank of England seeking to achieve a sustainable return of inflation to target levels. The expectation is that the base rate will peak at a level of between 4.5% and 5%. The Bank of England also forecasts negative growth of -1.5% in 2023 and -1% in 2024, representing a long and deep recession. Therefore, once inflation has been brought under control the expectation is that rates will then fall to encourage growth.

The following table outlines current expectations for movements in the base rate and PWLB (Public Works Loans Board) rates. These 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, particularly given the uncertain times we are currently experiencing. Such volatility could occur at any time during the forecast period.

Appendix 1

Table 11 – Base Rate Forecasts and PWLB Rates

Base Rate Forecasts	**Dec (act) 2022**	**March 2023**	**June 2023**	**Sep 2023**	**Dec 2023**	**March 2024**	**June 2024**	**Sep 2024**
Link Asset Services	3.50%	4.25%	4.50%	4.50%	4.50%	4.00%	3.75%	3.50%
Capital Economics	3.50%	4.50%	4.50%	4.50%	4.50%	4.25%	4.00%	3.50%

PWLB Rates	**Dec (act) 2022**	**March 2023**	**June 2023**	**Sep 2023**	**Dec 2023**	**March 2024**	**June 2024**	**Sep 2024**
Link Asset Services forecast								
10 Year	4.30%	4.40%	4.40%	4.30%	4.10%	4.00%	3.90%	3.80%
25 Year	4.60%	4.60%	4.60%	4.50%	4.40%	4.20%	4.10%	4.00%
50 Year	4.30%	4.30%	4.30%	4.20%	4.10%	3.90%	3.80%	3.70%

When budgeting for interest payments and receipts a prudent approach has been adopted to ensure that, as far as is possible, both budgets will be achieved.

Borrowing Strategy 2023/24 – 2026/27

The overall aims of the Council's borrowing strategy are to achieve:

- Borrowing at the lowest rates possible in the most appropriate periods;
- The minimum borrowing costs and expenses; and
- A reduction in the average interest rate of the debt portfolio.

The capital programme for 2023/24 requires borrowing of £7.1 million, which will be internal borrowing. This is offset by the MRP figure of £11.9 million which will leave the Council with total internal borrowing of £72.7 million, i.e. the Council has borrowed £72.7 million from its cash balances, in addition to the external debt of £507.85 million, to fund the capital programme.

Since 2009 the Council has followed a policy of containing the capital programme, taking out no new external borrowing and repaying debt whenever this can be done without incurring a financial penalty. The Council's external borrowing level has reduced by £102 million since 2008/09, resulting in reduced Capital Financing Charges.

The ability to fund capital expenditure through internal borrowing depends on the availability of cash balances to fund the borrowing. The Council's cash balances comprise the general balance, earmarked revenue reserves, accumulated capital receipts, unspent capital grants, revenue balances carried forward from previous years and other balances.

With the current financial pressures on the Council, it is projected that the available balances will be significantly reduced as a result of:

- Budgeted use of earmarked reserves during 2022/23 and 2023/24.
- Continued unbudgeted expenditure on Special Educational Needs and Disability (SEND), charged to an unusable reserve.
- Spending of accumulated capital grants, for example Section 106 provision of infrastructure and major projects such as the North Devon Link Road.
- Spending of approved carry-forwards.

As a result the ability to use internal borrowing, as opposed to external borrowing, to fund the capital programme may become more limited.

The new requirement for a liability benchmark is designed to demonstrate whether and when new external borrowing will be required, based on the Council's current capital programme and the call upon the Council's cash balances. Table 6 and the following graph included within the prudential indicators section of the Treasury Management Strategy show that the benchmark requirement for external debt from 2024/25 until around 2030 is higher than the current level of external debt, which indicates that further external borrowing may be required.

In April 2022, the Cabinet agreed to support proposals for the creation of the Plymouth and South Devon Freeport. The Business Case includes the requirement for the Council to externally borrow up to £15 million for the capital works needed. The borrowing will not be required until 2024/25, but at that point the Council's total external debt will increase. The additional external borrowing will be ringfenced to the Freeport, and all the associated capital financing costs will be funded by the excess business rate income derived from the scheme.

The Council continues to await the outcome of the Safety Valve Intervention programme with the Department for Education in relation to the deficit position on Special Educational Needs. At the end of 2021/22 the Dedicated Schools Grant High Needs Block reported a cumulative deficit of £86.5 million which was carried forward as a deficit reserve as per government guidance. When combined with the current year forecast the deficit is expected to be around £127 million by the end of 2022/23. The conclusion of the discussions with the Department of Education and any resulting agreement will be crucial to determining whether the Council requires further external borrowing to meet its capital priorities.

The current expectation is that while interest rates will rise further during 2023, they will then reduce in late 2023 and into 2024. Therefore the requirement for new external borrowing will be kept under review with the intention that loans will only be accessed as and when they are required.

In previous years the Council has looked for opportunities to reduce external debt. The PWLB sets premature repayment rates and, where the interest rate payable on a current loan is higher than the repayment rate, the PWLB policy imposes premium penalties for early repayment, which have meant that it has not been of financial benefit to repay debt before its maturity date.

The increases in interest rates since the start of 2022 have reduced the level of premiums now payable, and for a short period during early October 2022 it would have been possible to repay a proportion of the Council's external debt without incurring premiums. But given the significant uncertainty and the potential need for new external borrowing, as set out above, it would not make sense for the Council to repay existing debt and then have to take out new external borrowing at higher rates than the loans that have been repaid.

The earliest date on which any of the Council's current external debt matures is 31 March 2027, when the Council is due to repay a PWLB loan of £33.8 million, with a further £5.8 million to be repaid later in 2027. There will need to be careful management of capital requirements over the next four years if sufficient cash resources are to be available so that these loans can be repaid, otherwise there might be a future need to take out new external borrowing to re-finance the debt.

The following table 12 sets out the expected profile of external debt, based on the approved borrowing for the South Devon Freeport and the loans maturing in 2027.

Table 12 – Current Approved External Debt Profile

	Opening Balance £'m	**New Borrowing £'m**	**Debt Repayment £'m**	**Closing Balance £'m**
2023/24	507.85			507.85
2024/25	507.85	7.67		515.52
2025/26	515.52	2.33		517.85
2026/27	517.85	5.00	(33.83)	489.02
2027/28	489.02		(5.78)	483.24

Active treasury management and the maintenance of levels of liquidity aim to ensure that no short term borrowing is required to fund cashflow. Cash positions are monitored daily and modelled over the financial year to ensure that anticipated liquidity levels are forecast accurately. Given current low interest rates, if short-term borrowing is required to aid cashflow, this will be targeted at an average rate of **3.5%**.

Investment Strategy 2023/24 – 2026/27

The County Council continues to adopt a very prudent approach to its investments. The majority of investments will be "Specified Investments" as defined by the Department for Levelling Up, Housing and Communities (DLUHC), For such investments, only a small number of selected UK banks and building societies, money market funds and overseas banks in highly rated countries are being used, subject to strict criteria and the prudent management of deposits with them. The lending policy is kept under constant review with reference to strict criteria for inclusion in the counterparty list. In addition, non-specified investments are included in the strategy, including the potential to invest in property funds, short-dated bond funds and multi-asset income funds.

The Treasury Management Strategy will continue to be set to ensure a prudent and secure approach.

The full County Council is required under the guidance in the CIPFA Treasury Management Code of Practice to approve an Annual Investment Strategy.

The overall aims of the Council's strategy continue to be to:

- Limit the risk to the loss of capital;
- Ensure that funds are always available to meet cash flow requirements;
- Maximise investment returns, consistent with the first two aims; and
- Review new investment instruments as they come to the Local Authority market, and to assess whether they could be a useful part of our investment process.

The overriding objective will be to invest prudently, with priority being given to security and liquidity before yield.

Under the Markets in Financial Instruments (MiFID II) directive, local authorities are classed as retail clients by the Financial Conduct Authority (FCA). This has implications for the range of investments that are available to local authorities. While bank and building society deposits are generally unaffected by the regulations, some banks have determined that they will only take term deposits from professional clients, and a range of alternative forms of investments are only available to professional clients. However, if the local authority meets criteria set by the FCA, then it can apply to the financial institutions with which it wishes to invest to request that the institution concerned "opts up" the local authority to elective professional client status. The Council has made applications and been opted up to elective professional client status where required.

Those counterparties who have confirmed that they will treat the Council as a professional client under the MiFID II regulations are set out in Table 13 below.

Table 13 – Counterparties that have "opted up" the Council to elective professional client status

Counterparty	**Counterparty Type**
Standard Chartered	UK Bank
Commomwealth Bank of Australia	Overseas Bank
CCLA	Property Fund
Aberdeen Standard	Money Market Fund
Insight	Money Market Fund

In addition, brokers Tradition, Tullett Prebon and Imperial Treasury, and our treasury advisors, Link Asset Services, have opted up the Council to professional client status. The majority of bank and building society deposits are unaffected by the MiFID II regulations.

Subject to the MiFID II regulations, a variety of investment instruments are available to the Local Authority market. In addition to the notice accounts and fixed term deposits available from UK and overseas banks, it is also possible for the Council to invest, for example, in UK Government Gilts, bond funds and property funds. These alternative instruments would either require the Council to tie up its cash for significantly longer periods, thus reducing liquidity, or would carry a risk of loss of capital if markets go down. The Council has considered these alternatives and concluded that investment in a range of different funds should be permitted within the Treasury Management Strategy.

The Investment Strategy will be split between “Specified Investments”, which meet criteria specified in guidance issued by DLUHC, and a range of longer term “Non-specified Investments”.

Specified Investments

Specified Investments will be those that meet the criteria in the DLUHC Guidance, i.e. the investment:

- is sterling denominated;
- has a maximum maturity of 1 year;
- meets the “high credit quality” as determined by the Council or is made with the UK government or is made with a local authority in England, Wales, Scotland or Northern Ireland or a parish or community council; and
- the making of which is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

Specified Investments will include bank and building society deposits. Security is achieved by the creation of an ‘Approved List of Counterparties’. These are the banks, building societies, money market funds and other public bodies with whom we are prepared to deposit funds. In preparing the list, a number of criteria will be used not only to determine who is on the list, but also to set limits as to how much money can be placed with them, and how long that money can be placed for.

Banks are expected to have a high credit rating. The Council uses the ratings issued by all three of the major credit rating agencies, Fitch, Moody’s and Standard & Poor’s, made available to the Council through its external Treasury Advisors. These are monitored daily.

The lowest rating published by any of the agencies is used to decide whether an institution is eligible for inclusion. Where the counterparty is only rated by two of the major ratings agencies the lowest rating published by either of the two is used. This rating also determines the maximum amount which can be loaned to an individual counterparty. Overseas banks that meet the criteria are included from countries with an ‘AAA’ Sovereign rating.

The time length of all deposits with financial institutions will be managed prudently, taking account of the latest advice from the Council’s external advisors.

Money Market Funds have a portfolio comprised of short-term (less than one year) securities representing high-quality, liquid debt and monetary instruments. Many money market funds are now regarded as a more secure form of investment than bank deposits, as they diversify their investments across a range of financial institutions to spread the risk, and will therefore be used where appropriate.

Money market funds must have an ‘AAA’ rating to be included on the counterparty list. They may be CNAV (Constant Net Asset Value), LVNAV (Low Volatility Net Asset Value) or VNAV (Variable Net Asset Value). Yields and prices will be monitored on a daily basis to ensure that there is minimal risk of loss of capital.

Other public sector bodies are principally arms of Government, or other local authorities, and although not rated are deemed suitable counterparties because of their inherent low risk.

The 'Approved List of Counterparties' specifies individual institutions and is formally reviewed at least monthly. Notification of credit rating downgrades (or other market intelligence) is acted upon immediately, resulting in any further lending being suspended.

Table 14 below summarises the current 'Approved List' criteria.

Table 14 – Specified Investments Counterparty Approved List Criteria

Counterparty Type	Fitch	Moody's	Standard & Poor's	Credit Limit
UK Banks				
not below	AA- & F1+	Aa3 & P-1	AA- & A-1+	£50 million
not below	A- & F1	A3 & P-1	A- & A-1	£30 million
UK Building Societies				
not below	AA- & F1+	Aa3 & P-1	AA- & A-1+	£50 million
not below	A- & F1	A3 & P-1	A- & A-1	£30 million
Overseas Banks				
Sovereign Rating of	AAA	Aaa	AAA	
and not below	AA- & F1+	Aa3 & P-1	AA- & A-1+	£50 million
and not below	A- & F1	A3 & P-1	A- & A-1	£30 million
UK Public Bodies				
Central Government				
– Debt Management Office				Unlimited
Local Government				
– County Councils				£10 million
– Metropolitan Authorities				£10 million
– London Boroughs				£10 million
– English Unitaries				£10 million
– Scottish Authorities				£10 million
– English Districts				£5 million
– Welsh Authorities				£5 million
Fire & Police Authorities				£5 million
Money Market Funds	AAA	Aaa	AAA	£30 million

Where the short term rating of a counterparty is one notch below the stated criteria, but the counterparty meets the long term rating criteria, they may still be used subject to the advice of our external advisors (Link Asset Services) who will take into account a range of other metrics in arriving at their advice.

The counterparty limits shown in the table also apply at a banking group level. This ensures that the Council is not exposed to the risk of having maximum sums invested in multiple institutions owned by a group that encounters financial difficulties.

The credit ratings shown in the table for banks and building societies allow for greater sensitivity in recognising counterparty risk. Liquidity in investments is the second key factor in determining our strategy. Funds may be earmarked for specific purposes or may be general balances, and this will be a consideration in determining the period over which the investment will be made.

The Council has a policy of ensuring that at least 15% of deposits will be realisable within one month.

The Council will look to invest in specified investments for a range of durations up to one year to ensure sufficient liquidity for cashflow purposes. Our treasury advisors, Link Asset Services, provide advice on the recommended maximum length of deposit for each of the counterparties that the Council uses, and their recommendations will be taken into account when determining the length of time that any deposit is placed for.

Non-Specified Investments

Non-specified investments are those that do not meet the criteria described above, but are intended to be a longer term investment, generating a higher yield, but with a slightly higher degree of risk.

The limit on non-specified investments will be set at no more than 25% of the total treasury investments at any time or £40m whichever is the lower.

The Council has previously decided that investment in a commercial property fund would be a prudent way to diversify risk and achieve a higher yield, as it would benefit from forecast growth in GDP. The CCLA Property Fund is therefore included as an approved counterparty, and an initial investment of £10 million was made in 2015. The counterparty limit for the Fund (as set out below) is £30 million, and further investments may be made up to that limit, subject to the approval of the Cabinet Member for Finance.

In addition, short-dated bond funds and multi-asset income funds are permitted. However, given the reduced level of cash, the uncertainty around the potential need for external borrowing and the requirement for liquidity it is unlikely that they would be used during 2023/24. Short dated bond funds will invest in high quality short dated government or corporate bonds. Multi-asset income funds will invest in a wider range of investments designed to produce a higher income yield, but will have a higher level of risk. If used, funds would be targeted where the total return is likely to be higher than the income yield, to reduce the risk of capital loss should the investment need to be realised.

The Council’s policy has been to only use funds that are subject to a statutory override to IFRS9. Under the IFRS9 accounting standard unrealised gains and losses arising from funds previously measured as Available for Sale would be classified as Fair Value through Profit and Loss and taken to the Comprehensive Income and Expenditure Account in the year they arise. As a result, any capital loss would impact on the yield gained from the investment.

Currently, Parliament has put in a statutory override for investments that fall under the following definitions:

- A money market fund;

- A collective investment scheme as defined in section 235 (1) of the Financial Services and Markets Act 2000;
- An investment scheme approved by the Treasury under section 11(1) of the Trustee Investments Act 1961 (local authority schemes)

The regulation (override) makes it clear that the revenue account should not be charged in respect of that fair value gain or loss and instead that amount should be charged to an account established, charged and used solely for the purpose of recognising fair value gains and losses in accordance with this regulation.

The statutory override applies from 1st April 2018 to 31st March 2023. This has reduced the risk to the Council of capital losses impacting on investment income, as any capital loss would only impact on the Council at the point that the investment is realised, or after the statutory override ends in March 2023.

During 2022 the Government issued a consultation on whether the statutory override should be extended beyond March 2023. The Government has yet to publish a response to the consultation but it is anticipated that the override is likely to be extended for a further time-limited period. The current value of the investment in the CCLA Property Fund is now higher than the original £10 million invested, so if the statutory override were removed the Council revenue budget would benefit from the capital gain in 2023/24, but would need to manage thr risk of losses in future years.

Non-specified investments can also include bank and building society deposits of over a year, in line with the criteria set out in the section on Specified Investments.

Table 15 below summarises the ‘Approved List’ criteria for non-specified investments.

Table 15 – Non-Specified Investments Counterparty Approved List Criteria

Counterparty Type	**Credit Limit**
CCLA Property Fund	£30 million
Short-dated bond funds	£20 million
Multi-asset income funds	£20 million
Bank and Building Society Deposits over 1 year (meeting credit rating criteria as per Specified Investments)	£30 million

Where a bank or building society is considered for an investment of over one year, the credit limit will be applied to the total investments with that institution, including specified and non-specified investments, i.e. deposits above and below one year.

Interest Rate Targets

For the 2023/24 financial year it has been assumed that the average interest rate earned on lending to banks and building societies will be **3.0%** p.a. The target rate takes into account the significant increases in the Bank of England’s base rate during 2022, but also reflects existing investments at lower rates that will continue into the 2023/24 financial year and the forecast lower availability of cash to invest at higher rates.

The yield from investment in the CCLA Property Fund is assumed to be **3.8%**. The property market yield has dropped below the 4% achievable at the inception of the investment as a result of the current economic downturn. As set out above, it is not proposed to make use of short-dated bond funds and multi-asset income funds during 2023/24, so these types of funds are not factored into the budget for investment income.

The targets we have set for 2023/24 are considered to be achievable.

The expectation is that interest rates are likely to increase further during 2023, but are then likely to fall back once inflation is under control. MTFS forecasts have been based on the average rates for lending to banks and building societies continuing to be 3.0% for 2024/25 and 2025/26. However, these will be reviewed in the light of updated interest rate forecasts and changes to the rates on offer from the Council's counterparties over the MTFS period.

Performance Targets

The primary targets of the Treasury Management Strategy are to minimise interest payments and maximise interest receipts over the long term whilst achieving annual budgets, without taking undue risk. Where there are comparative statistics available for individual aspects of the Strategy these will be used to monitor performance. The Council will continue to review best practice at other authorities and work with its treasury advisors (Link Asset Services) to assess performance.

Investments that are not part of treasury management

The revised Treasury Management Code also requires the authority to report on investments in financial assets and property that are not part of treasury management activity. This includes commercial investments, which are made primarily to achieve a financial return, and service investments which are made to support the provision of services to the community.

Commercial Investments

The Council's policy is not to make commercial investments outside of its treasury management activity for mainly financial reasons. All capital investments outside of treasury management activities are held explicitly for the purposes of operational services, including regeneration, and are monitored through existing control frameworks.

This will be important if at any stage the council decides to take out new external borrowing to fund its capital programme. The Government has been concerned for some time about the risk involved in local authorities taking out external debt to fund investments in commercial property to generate income. In November 2020, they announced a change in the PWLB's lending terms. This introduced a prohibition 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. Given the Council's policy, this should have no impact on our treasury management strategy.

Service Investments

The following table sets out the Council's current financial investments held for purposes related to the Council's provision of services to the local community, at the values included in the Statement of Accounts as at 31st March 2022. These investments are not held with the primary intention of gaining a financial return.

Table 16 - Service Investments

	Fair Value as at 31 March 2022 £'000
Norse South West Limited	85
Exeter Science Park Limited	885
Skypark	1,401
Total	**2,371**

Norse South West Ltd - Norse South West Ltd (NSW) commenced on 1st May 2022. The company took on the services previously provided by NPS (SW) Ltd which became inactive on 30th April 2022. The value in the table above reflects the previous value of NPS. As NSW, the new joint venture is structured into five delivery groups; Design, Estates and Asset Management, Facilities (including cleaning), Maintenance and Minor Works and Catering. Ownership remains 80% Norse Commercial Services Ltd (whose ultimate controlling party is Norfolk County Council) and 20% Devon County Council (2 x £1 shares, so minimal risk) Risk management, decision-making and performance management is reviewed quarterly by the Liaison Board which includes two Directors representing DCC. Day to day management of the service level agreement between DCC and NSW is the responsibility of the Digital Transformation and Business Support service. Performance reports will be made to Cabinet, and to the Corporate Infrastructure and Regulatory Services Scrutiny Committee as appropriate.

Exeter Science Park Ltd - The Council purchased shares in Exeter Science Park Ltd. at a cost of £1.965 million. The value of the shares has subsequently been revised to a value of £885,000, which is included as a financial asset in the Council's Statement of Accounts. The investment was to stimulate economic development to the East of Exeter through the creation of a high-tech business park. The Council along with the University of Exeter is also a guarantor to a loan from the Local Enterprise Partnership Growing Places Fund. Risk management, decision-making and performance management responsibility is shared between the Economy, Enterprise and Skills team Finance Services. Performance reports will be made to Cabinet, and to the Corporate

	Infrastructure and Regulatory Services Scrutiny Committee as appropriate.
Skypark -	The investment in Skypark is made in the form of a series of loans, which are held as a long-term debtor in the Statement of Accounts. The investment was to stimulate economic development to the East of Exeter through the creation of a high-tech business park. The Council is currently in the process of buying out St Modwen, partners in the project, and returning the park to the sole ownership of the Council. Risk management, decision-making and performance management responsibility is shared between the Economy, Enterprise and Skills team Finance Services. Performance reports will be made to Cabinet, and to the Corporate Infrastructure and Regulatory Services Scrutiny Committee as appropriate.
Further investments -	Any further financial investments will be subject to the approval of Cabinet. Reports to Cabinet will be required to set out the investment objectives, investment criteria, and the risk management, decision-making, reporting, performance measurement and management arrangements.

Report of the Corporate Infrastructure and Regulatory Services Climate Change Standing Overview Group of 25 October 2022

1. Introduction

The Standing Overview Group of the Corporate Infrastructure and Regulatory Services Scrutiny Committee meets regularly as an informal information sharing and member development session where issues are presented to the councillors to raise awareness and increase knowledge. The Standing Overview Group considers key updates and pertinent issues from across different services, with the aim of developing Members' knowledge, and bringing to the forefront any areas which may benefit from further scrutiny.

Any action points arising from the sessions are reported back to the next formal Committee meeting.

This report outlines the topic(s) covered at the meeting of 25 October 2022, highlights the key points raised during discussion and details any agreed actions.

2. Recommendation(s)

The Corporate Infrastructure and Regulatory Services Scrutiny Committee accepts this report as an accurate record of the meeting.

3. Attendance

Councillors: A Dewhirst (Chair), C Slade (Vice Chair), Y Atkinson, J Berry, M Asvachin, J Hodgson, I Roome

Officers: Dan Meek (Director of Estates and Valuation & County Land Agent), Annette Dentith (Principal Waste Manager, DCC), Wendy Barratt (County Waste Manager, DCC) and Doug Eltham (Environment and Sustainability Policy Officer)

Scrutiny Officer: Fred Whitehouse

4. Summary of Discussion

4.1 Socioeconomic impacts of climate change on the farming sector

Members received a presentation from Dan Meek on the socioeconomic impacts of climate change followed by discussion / Q&A.

Key points from the presentation included:

- agriculture alone accounts for around 9% of the total UK emissions, i.e. 46MtCO_2e (million tons CO2 equivalent). A large proportion of this is the production of methane by ruminant livestock; and the release of nitrous oxide due to high or inefficient fertiliser use.

- The impacts of climate change on the farming sector are varied, and include:

    - Flooding and droughts; namely changes in weather and increased occurrences of extreme weather events risking crops, including reducing the amount of time per year that crops can be grown. This could contribute to food shortages or limit the range of food that can be grown for much of the year.

    - Pests and diseases; for instance, the continued prevalence of avian flu in the UK (previously considered a seasonal biosecurity risk) has been linked with changes to the climate. Warmer weather is also likely to increase the survivability of pests and diseases in winter and negatively impact livestock, including causing heat stress and therefore reducing milk production, as an example.

    - Accelerated changes in food consumption behaviour; with the UK's Climate Change Committee (CCC) aiming to reduce consumption of meat and dairy, and more investment going into meat and dairy replacement products, there is likely to be less demand for these foodstuffs which may force farmers to diversify more. Since 2008 meat and dairy production has reduced by 36%, a trend that is likely to continue.

    - Changes in, and competing for, land use; as more land is used for environmental projects such as solar farms and carbon offsetting via sequestration, this will reduce the amount of available land for farmers to use for more traditional agricultural purposes.

Discussion points after the presentation included:

- The potential role of hydroponics (growing plants without using soil, by feeding them on mineral nutrient salts dissolved in water) in agriculture. Members were advised that interest in the area was definitely growing and that future investment may well be seen in this area, where urban areas were already seeing an uptick in 'vertical farming' using this method. However, given the rural nature of Devon, demographic and population considerations, and the particular grade of most of Devon's land (being most suitable for animals and livestock), as well as hydroponics being very investment cost-heavy, this may not be a suitable route for the county.

- The use of pesticides. There was immense pressure on the Government to ban neonicotinoids; as well as pressure on the County Council to do the same with glyphosate.

- The importance of balancing climate considerations and sustainable farming alongside ensuring farmer livelihoods are protected. It was stressed to Members that it was not being advocated to get rid of all carbon emitters and that despite the focus on ensuring farms are as net-zero as possible, there is a recognition that a significant amount of carbon produced from agriculture would need to be offset.

- The Farms Estate is trying to procure funding to do a full carbon and natural capital assessment to inform how close it was to achieving net-zero and illuminate in more detail the actions required to get there.

4.2 Carbon impact of the Waste Management

Members received a briefing paper and presentation on the Carbon impact of the Waste Management Service, led by Annette Dentith and Wendy Barratt. This was followed by a discussion.

Key points from the presentation included:

- The carbon impact of Waste Management is small compared to other areas with the waste hierarchy (reduce, reuse, recycle, dispose) incorporating actions that naturally reduce carbon emissions.

- Devon is largely meeting the targets set by the CCC around the reduction of all waste including food and that going to landfill, an increase in recycling and using anaerobic digestion for food waste.

- Devon is the second-best performing county in England for recycling, having been at approximately 55% recycling since around 2010.

- The Devon Carbon Plan includes proposals for waste such as:
    - encouraging behaviour changes;
    - community projects such as repair cafés and community fridges;
    - embedding local social and environmental value into tendering procedures; and
    - creating a sustainability strategy for local policy makers to reduce, reuse, recycle and recover resources.

- The Waste Management team undertake lots of campaign work such as their most recent Halloween campaign work which aimed to encourage people to use, rather than dispose, of their pumpkin innards.

- Eunomia had been commissioned to undertake work to look at the carbon impact of the Devon districts; their results founds that ‘reuse’, ‘dry recyclables’ and ‘organics’ were all a net benefits to carbon (carbon-negative); and that when including HWRCs (Household Waste and Recycling Centres), the total net impact of consumption-based emissions is carbon-negative. However the measurements used must be of territorial-based emissions which means that any reuse and recycling done outside of Devon, which is the vast majority of it, cannot be included in calculations.

- Work had also been commissioned for the University of Exeter to look at the county's energy from waste plants and ascertain how emissions from these plants could be reduced. A number of suggestions were made including reducing the amount of plastics in residual waste which the Devon waste management service has been prioritising. Government policy such as the Plastic Tax should also help this.

- Waste analysis work is currently ongoing, the results of which will illuminate further the impact of the service's efforts to reduce recyclable materials such as plastic in residual waste.

In the discussion, key points that arose were:

- District heating, whereby areas are heated by residual energy / heat produced from the waste management system, and its current limitations. More specifically, more funding would help in developing the infrastructure as well as the Government implementing stronger policy that would mandate the use of district heating by developers.

- White goods; Members queried where these fit into the system. Large white goods are generally recycled at HWRCs, and smaller white goods were encompassed in WEEE (Waste Electrical and Electronic Equipment) recycling whereby these are collected and the metals inside extracted for reuse. This is a producer compliance scheme meaning that this does not come out of the public purse.

- Anaerobic digestion; sludge (sewage byproduct) is currently anaerobically digested by Southwest Water, where Devon primarily anaerobically digests slurry and food waste.

Councillor A Dewhirst
Chair, Corporate Infrastructure and Regulatory Services Scrutiny Committee

Electoral Divisions: All

Contact for Enquiries: Fred Whitehouse, fred.whitehouse@devon.gov.uk

Local Government Act 1972: List of Background Papers
Nil

The meeting began at 2.01pm and ended at 4.03pm.