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

County Hall
Topsham Road
Exeter
Devon
EX2 4QD

Date: 17 January 2024

Contact: Fiona Rutley
Email: fiona.rutley@devon.gov.uk

CORPORATE INFRASTRUCTURE AND REGULATORY SERVICES SCRUTINY COMMITTEE

Thursday, 25th January, 2024

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.

Donna Manson
Chief Executive

A G E N D A

PART I - OPEN COMMITTEE

1 Apologies

2 Minutes

Minutes of the meeting held on 16 November 2023 (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.

5 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.

MATTERS FOR CONSIDERATION OR REVIEW

6 Call In of Cabinet Member Decision - Community Safety Funding agreement between DCC and HM Prison and Probation Service (Pages 1 - 14)

In accordance with the Scrutiny Procedure Rules, the Chair of the Corporate, Infrastructure and Regulatory Services Committee (Councillor Dewhirst) has invoked the call-in procedure in relation to the decision of the Cabinet Member for Integrated Adult Social Care in relation to the decision not to renew or extend the Community Safety Funding agreement between Devon County Council and HM Prison and Probation Service when it expires on 31st March 2024.

The grounds for this call-in are below and this has been discussed with the Monitoring Officer, as required by the Scrutiny Procedure Rules.

> "The reason is that this facility is used by the charity Circles South West providing outstanding support for discharged prisoners and there is a risk that a decision by Devon County Council, to not extend or renew the Funding Agreement, could contribute to a decision by the Ministry of Justice to close the provision. This could have negative impacts for the people affected as they face substantial barriers to obtaining settled accommodation. The people affected may be recalled to prison, moved to approved premises outside of the Devon County Council geographical boundary."

If the Scrutiny Committee decide to not make any recommendations to Cabinet, then the Cabinet Members decision can be implemented immediately. If the Committee ask Cabinet to reconsider the decision or recommend another course of action, then this will be considered at the Cabinet meeting on 9 February 2024.

The Cabinet Member decision is held in abeyance until the call-in procedure has been concluded.

The three accompanying documents (i.e. Record of Decision, Proposal letter and Impact Assessment) are attached for Members and available at Decision - Approval not to extend or renew the Community Safety Funding Agreement - Democracy in Devon

7 Treasury Management and Investment Strategy 2024/25 (Pages 15 - 38)

Report of the Director of Finance and Public Value (DFP/24/06), attached.

8 Future Finance Project - Update on Progress and Recommendations - SOG Report (Pages 39 - 44)

Report of the Standing Overview Group, 29 November 2023, attached.

9 Plymouth and South Devon Freeport Update (Pages 45 - 52)

Report of the Head of Economy, Enterprise and Skills (EES/24/1), attached.

10 Election of a Scrutiny Domestic Sexual Violence and Abuse (DSVA) Champion

The Cabinet Member for Public Health, Communities and Equality has requested nominations for a Member Champion on each of the three Scrutiny Committees in order to support him to better understand the Council's responses from across its services.

STANDING ITEMS

MATTERS FOR INFORMATION

11 Items Previously Circulated

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

-Committee Risk Register (12 January 2024);

-Cabinet minute extracts to note, following Scrutiny references to Cabinet:-

Cabinet minute 436(a):
RESOLVED (a) that the Corporate, Infrastructure and Regulatory Services Scrutiny Committee be thanked for their consideration of the proposals for Community Self-Delivery of Highway Improvements;

Cabinet minute 442:
RESOLVED that the Corporate Infrastructure and Regulatory Services Scrutiny Committee be thanked for their review of the Mid-Year Stewardship Report for the 2023/24 financial year and it be further endorsed and welcomed;

Cabinet min 456:
RESOLVED (a) that the adoption of the Devon Electric Vehicle Charging Strategy, provided in Appendix I of the Report, be approved; and (b) that the Director of Climate Change, Environment and Transport be given delegated authority, in consultation with the Cabinet Member for Highway Management and the Cabinet Member for Climate Change, Environment and Transport to make minor amendments to the Strategy.

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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It is to be noted that Members of the Council must declare any interest they may have in any item to be considered at this meeting, prior to any discussion taking place on that item.

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Induction Loop available

RECORD OF DECISION TAKEN BY CABINET MEMBER This form must be completed by or on behalf of the relevant Cabinet Member immediately after any decision has been made and sent to the Chief Executive for publication in accordance with the Council's Constitution.	
Summary of Matter or Issue Requiring Decision	To not extend or renew the Community Safety Funding Agreement between Devon County Council and HM Prison and Probation Service (formally Devon and Cornwall Probation Trust) when it expires on 31st March 2024.
Decision Taken (i.e. approved/not approved together with any caveats)	Approve
Summary of Reason(s) for Decision Taken (alternatively, attach copy of any report or other document setting out reasons)	We have appended the letter setting out the context and rationale for the proposal.
Summary of Alternatives or Options considered and rejected (alternatively, attach copy of any report or other document setting out alternatives/options)	We have appended the letter setting out the context and rationale for the proposal. We are also publishing an Impact Assessment of the proposal.
Details of any personal interest or conflict of interest and dispensation granted to the Cabinet Member(s) involved in or consulted upon this decision	
Contact for enquiries/further information	Solveig Wright (solveig.wright@devon.gov.uk)
Notice of this Decision will be published on the Council's website and any supporting documentation considered by the individual taking this decision and relevant to the matter shall also be made available for inspection by the public	

Signature of Cabinet Member	*James McInnes (signed)*	**Date: 7 Nov 2023**

Director of Integrated Adult Social Care

Councillor James McInnes
County Hall
Topsham Road
EXETER
EX2 4QD

Letter sent by email

Tandra Forster
County Hall
Topsham Road
EXETER
EX2 4QD

Tel: 01392 385463

Email: tandra.forster@devon.gov.uk

2 October 2023

Dear Councillor McInnes

Re: Community Safety Funding Agreement between Devon County Council and HM Prison and Probation Service (formally Devon and Cornwall Probation Trust).

I am writing to ask if you will make a decision in accordance with Paragraph 11 of the County Council's Scheme of Delegation by approving:

The proposal to not extend or renew the Community Safety Funding Agreement between Devon County Council and HM Prison and Probation Service (formally Devon and Cornwall Probation Trust) when it expires on 31st March 2024.

Devon County Council entered into a 10-year funding agreement on1st April 2014, which is used by Devon and Cornwall Probation Trust to commission a specialist accommodation service in Exeter (Howell Road) to support a range of offenders, aged 18+. The value of the Funding Agreement is £223,181 per annum and comes from the Integrated Adult Social Care budget.

Much has changed over the ten years since this Funding Agreement was put in place. The Government's 'Ending Rough Sleeping for Good' strategy (September 2022) sets out its ambition that 'no-one is released from a public institution to the streets' with actions to roll out transitional accommodation upon release, and the expansion of Approved Premises to be led by the Ministry of Justice. Funding for this element of community safety is not a statutory responsibility of the Council - it is best delivered by the Ministry of Justice and its Agencies.

Devon County Council has engaged with the Ministry of Justice and the local Probation Service since January 2022, knowing that the current 10-year agreement was nearing its end. Discussions have been positive and have covered the historical nature of the arrangement, statutory responsibilities of probation accommodation services, and the financial challenge of Devon County Council.

The Ministry of Justice (MoJ) is aware of Devon County Council's position. The MoJ is undertaking an impact assessment and will take a policy decision on the future of the service.

Exeter City Council Housing Officers were made aware in December 2022 that the Funding Agreement expires on 31st March 2024. Further conversations have taken place with Exeter City Council in recent weeks to share our proposals for this Funding Agreement.

Should the decision be made to implement this proposal, officers will continue to work with the Ministry of Justice and let them, the Probation Service and Exeter City Council formally know of the decision and rationale. Devon County Council will publish an Impact Assessment on the proposal.

Please find appended to this letter a copy of the Cabinet Member Decision form, to enable you to formally advise me of your decision and in so doing confirm that the entry in the 'interests' box is accurate or amend it accordingly. I would be pleased if you could advise me of your decision as soon as possible by returning the decision form to me.

If you require any further information, please contact Solveig Wright, solveig.wright@devon.gov.uk

In accordance with procedures a copy of this letter has been sent to Councillor Sara Randall Johnson, Chair of Health and Adult Care Scrutiny Committee.

No action will be taken until all Members of the County Council have been advised of your decision and five working days have elapsed to enable Members to request that the decision be referred to the full Cabinet for consideration or called in by a Scrutiny Committee for consideration.

Yours sincerely

Tandra Forster (signed)

Tandra Forster
Director of Integrated Adult Social Care

cc Councillor Sara Randall Johnson, Chair of Health and Adult Care Scrutiny Committee

Impact Assessment

Assessment of: Non-renewal of the Community Safety Funding Agreement between Devon County Council and HM Prison and Probation Service.
Service: Integrated Adult Social Care
Head of Service: Solveig Wright (Deputy Director of Integrated Adult Social Care)
Version / date of sign off by Head of Service: 7th November 2023
Assessment carried out by (job title): Commissioning Development Officer

1. Description of project / service / activity / policy under review

This is an impact assessment of the proposal to not extend or renew a Funding Agreement between Devon County Council and HM Prison & Probation Service.

Devon County Council's Funding Agreement contributes to community safety by providing the Recipient, HM Prison and Probation Service, with funding to meet the following objective:

'The enhancement of community safety in relation to the rehabilitation of complex service users with a high criminogenic profile also including higher risk offenders following release from prison and move-on accommodation from Approves Premises, within the Devon County Council area'.

From 1st April 2014, Devon and Cornwall Probation Trust has commissioned its own specialist accommodation service which provides both accommodation and support to a range of offenders who may be on licence or other forms of statutory supervision. The people supported pay rent (with the help of Housing Benefit), and support is commissioned utilising the monies received through the Funding Agreement. The support hours provided through the specialist accommodation service assist service users in addressing issues that may prevent them fully re-integrating into society and assist in protecting the local community by reducing the likelihood of harm caused by repeat offending. The service has capacity to support a maximum of 19 people overall, with around 12 places purchased by the Probation Service at any one time.

The value of the Funding Agreement is £223,182.00 per year and sits within the Integrated Adult Social Care budget.

2. Proposal, aims and objectives, and reason for change or review

The proposal is to not extend or renew a Funding Agreement between Devon County Council and HM Prison & Probation Service.

A decision was taken by Devon County Council to enter into this 10-year Funding Agreement at a time of change for the Ministry of Justice and its Agencies with the publication in 2013 of the 'Transforming Rehabilitation – Strategy for Reform. The 10-year Funding Agreement began on 1st April 2014 and expires on 31st March 2024. The funding originated from the Supporting People Programme under which the Probation Accommodation Grants were merged into the Supporting People Programme funding in 2003; Devon County Council was in receipt of the Supporting People Grant. From 2010/11 Supporting People monies were subsumed into the overall Formula Grant paid to Local Authorities at a time when funding from central government was reducing as part of wider fiscal cuts.

Much has changed over the ten years since this Funding Agreement was put in place. The Government's 'Ending Rough Sleeping for Good' strategy (September 2022) sets out its ambition that 'no-one is released from a public institution to the streets' with actions to roll out transitional accommodation upon release, and the expansion of Approved Premises to be led by the Ministry of Justice. Funding for this element of community safety is not a statutory responsibility of the Council, it is a statutory responsibility of the Ministry of Justice and its Agencies. Housing Authorities are responsible for housing and homelessness, and the Probation Service (formally National Probation Service) manage high risk offenders.

3. Risk assessment, limitations and options explored (summary)

The decision to not extend or enter into a new Funding Agreement is not a decision to close the provision. If the Ministry of Justice are unable to find alternative funding or commission alternative arrangements, there is a risk that a decision by Devon County Council, to not extend or renew the Funding Agreement, could contribute to a decision by the Ministry of Justice to close the provision. This could have negative impacts for the people affected as they face substantial barriers to obtaining settled accommodation. The people affected may be recalled to prison, moved to approved premises outside of the Devon County Council geographical boundary, or alternative accommodation sought.

There are potential negative impacts on agencies for whom this is one of the resources available within the overall system, and members of the public for whom the system provides a degree of protection from these offenders.

A continuation of this funding would reduce the social care budget available to fund statutory support the County Council must provide to vulnerable people with eligible social care needs.

Should the decision be made to implement this proposal, Devon County Council will give as much notice of the non-renewal of this Funding Agreement as possible to enable planning by the Ministry of Justice and Probation Service who have the legal responsibility for this service, as well as the District and City Councils who have the responsibility for Housing and Homelessness.

The impacts of the proposal would be monitored as follows:

Integrated Adult Social Care Commissioners have established Local Housing Forums where Devon County Council commissioners meet with housing leads in each of Devon's 8 District/City Councils, and where the proposal to not extend or renew the Funding Agreement can be discussed. Alongside this, there is a regular meeting where system leaders come together: 'Team Devon' – Leaders and Chief Executive, this is Devon County Council Leader of the Council and Chief Executive, and the Leaders and Chief Executives of the Devon's 8 District/City Councils.

In addition, the Ministry of Justice, and HM Prison & Probation Service will consider impacts as part of their decision making about the provision.

4. People affected, diversity profile and analysis of needs

The needs of people that the Funding Agreement has provided for are individuals aged 18 years and over. At the point the Funding Agreement commenced, this included people who were prolific offenders, had committed sexual offences, had committed arson and were a high risk of violence. The service has capacity to support a maximum of 19 people overall, with around 12 places purchased by the Probation Service at any one time. The sensitive nature of the service users means their diversity profile can only be accessed by the Probation Service and Ministry of Justice as the service commissioners with responsibility to ensure protection of the public and people on licence.

5. Stakeholders, their interest, and potential impacts

The key stakeholders are Devon County Council, HM Prison & Probation Service, the Ministry of Justice, Exeter City Council, the District Councils of Devon, and Home Group Ltd - providers of the service. Further stakeholders are Devon Partnership Trust and the Safer Devon Partnership - whose priorities include, prevent and tackle hidden and visible harm, including offending and reoffending.

6. Additional relevant research used to inform this assessment

- Department for Levelling Up, Housing and Communities (2022). Ending Rough Sleeping for Good. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1102408/20220903_Ending_rough_sleeping_for_good.pdf

- Devon County Council (n.d). Safer Devon Partnership - Communities

- House of Commons Library, (2012). The Supporting People Programme. Research Paper 12/40. Available at: Research Paper (parliament.uk)

- His Majesty's Inspectorate of Probation (2020). Accommodation and support for adult offenders in the community and on release from prison in England (justiceinspectorates.gov.uk)

- His Majesty's Inspectorate of Probation (2017). Probation Hostels' (Approved Premises) Contribution to Public Protection, Rehabilitation and Resettlement (justiceinspectorates.gov.uk)

- MAPPA (Multi Agency Public Protection Arrangements) National Guidance Multi-Agency Public Protection Arrangements - MAPPA (justice.gov.uk)

- Berman, G. and Dar, A., 2013. Prison Population Statistics. Social and General Statistics. [online] London: House Of Commons Library. Available online).

7. Description of consultation process and outcomes

We have engaged with the following stakeholders:

Devon County Council has engaged with the Ministry of Justice and the local Probation Service since January 2022. Discussions have covered the historical nature of the arrangement, statutory responsibilities of probation accommodation services, and the financial challenge facing the County Council, and in doing so, a proposal to not extend or renew the Funding Agreement was shared and risks discussed.

Exeter City Council Housing Officers were made aware, in December 2022, that the Funding Agreement expires on 31st March 2024 and were advised to contact the Ministry of Justice and local Probation Service. More recent conversations have taken place between Devon County Council and Exeter City Council about this proposal, and we understand that Exeter City Council have also spoken with the Ministry of Justice. We have also shared this proposal with Devon County Council members who have constituencies within the Exeter City Council geographical boundary.

Should a decision be made to implement this proposal, Devon County Council will give as much notice of the non-renewal of this Funding Agreement as possible to enable planning by the Ministry of Justice and Probation Service who have the legal responsibility for this service, with the relevant stakeholders, including Exeter City Council.

Despite the financial challenges facing Devon County Council - and while this is not a statutory responsibility of the County Council - Devon County Council will be honouring this financial commitment for the final year of the Funding Agreement.

Background information

8. Equality analysis

All residents by geographic area

This service funded by the Funding Agreement is only provided to a small number of people who meet its eligibility criteria, but it does form part of the overall community safety system.

If the Ministry of Justice are unable to find alternative funding, or an alternative approach, there could be a negative impact for those few people who use the service as they face substantial barriers to obtaining settled accommodation, they may be recalled to prison, moved to approved premises outside of the Devon County Council geographical boundary, or alternative accommodation sought.

There are also potential negative impacts on agencies for whom this is one of the resources available within the overall system, and members of the public for whom the system provides a degree of protection from these offenders.

The hostel plays a crucial role in being able to monitor high risk offenders within affordable costs due to the size and structure of the building. If the Ministry of Justice are unable to find alternative funding, or an alternative approach the lack of this hostel might stretch resources for surveillance, without which the person may be in unsuitable housing that does not facilitate close monitoring and management, reducing the rehabilitation of offenders.

Potential mitigations for identified negative impacts:

As Devon County Council has no statutory obligation to fund, or contribute to the funding of this service, the Local Authority will need to inform HM Prison and Probation Service, Ministry of Justice, and District/City Councils of Devon, of its decision with sufficient time for them to consider the mitigations of any negative impacts before the Funding Agreement expires.

A potential mitigation could be The Governments 'Ending Rough Sleeping for Good' strategy sets out the ambition that 'no-one should leave prison homeless or to sleep rough'. The strategy has assigned the Ministry of Justice to this commitment and accompanying policies.

These potential mitigations apply to all the protected characteristics outlined below.

Age

This service funded using the monies received through the Funding Agreement only applies to people aged 18 years and over.

Care Leaver/Care Experienced

Children in care and care leavers are overrepresented in the Criminal Justice System; it is estimated that over 24 per cent of the adult prison population has previously been in care, (Berman et al. 2013). Although not all of these adults will be care-leavers age 18-25 and open to their local authority. For care leavers leaving custody they may also be more likely to require transitional accommodation, as they may be more likely than other young people of the same age not to have family or friends that they can safely return to live with. Care Experienced Young People with offending history are at the highest risk of homelessness and related challenges.

Disability (includes sensory, mobility, mental health, learning disability, neurodiversity, long term ill health) and carers of disabled people

The funding doesn't directly support people with a disability, but disability may be part of the service user profile, in which case this would need to be considered by the service Provider and Ministry of Justice.

Race and culture: nationality/national origin, ethnic origin, skin colour, religion and belief, asylum seeker and refugee status, language needs

This funding doesn't directly support people of different ethnic backgrounds and cultural needs, but they may be part of the service user profile. The Provider and Ministry of Justice would need to take this into account within the service provision.

Sex and gender identity and reassignment (including men, women, non-binary and transgender people), and pregnancy and maternity (including women's right to breastfeed)

The funding doesn't directly support this protected characteristic, but sex, gender and gender identity will form part of the service user profile, The service this Funding Agreement contributes to is likely to support more men than women as many hostels are single-sex accommodation, mainly supporting men. The Provider and Ministry of Justice would need to take this into account within the service provision.

Sexual orientation, and marriage/civil partnership if work related

This funding received through this Funding Agreement doesn't directly support this protected characteristic, but due to the nature of the secure accommodation the service is likely to support single people. The Provider and Ministry of Justice would need to take this into account within the service provision.

Other relevant socio-economic factors and intersectionality

There is a clear correlation between socio-economic factors and levels of offending. Ex-offenders face significant barriers to settled accommodation and to accessing employment, the absence of one or both can increase the persons likelihood to re-offend.

9. Human rights considerations:

This Funding Agreement is Devon County Council's adult social care contribution to the wider local authority system for community safety. Whilst the non-renewal of this Funding Agreement is not a decision on the future of the service, to not extend or renew the Funding Agreement may constitute a negative impact in terms of Human Rights, for which the mitigation is to provide a reasonable, fair and proportionate period of notice of the Council's decision to the agencies who have this statutory responsibility, so they can plan accordingly.

This funding delivered through the Funding Agreement supports individuals to be more independent and empowered by supporting their integration back into communities after being in prison. There is a clear correlation between health, wellbeing, protection from harm and criminal behaviour, and this Funding Agreement was contributing to community safety and good health and wellbeing. Criminal behaviour often results in people being disconnected from communities and this Funding Agreement counteracted that, supporting integration back to the community. If the Ministry of Justice are unable to find alternative funding or an alternative approach, there may be a negative impact on: people's connections and involvement in community activities, in keeping people safe, protected from harm and with good health and wellbeing, and in terms of the promotion of independence, wellbeing, and resilience.

10. Environmental analysis

Devon County Council's Environmental Review Process	N/A
Planning Permission	N/A
Environmental Impact Assessment	N/A
Strategic Environmental Assessment	N/A

Reduce, reuse, recycle and compost
N/A

Conserve and enhance wildlife
N/A

Safeguard the distinctive characteristics, features and special qualities of Devon's landscape
N/A

Conserve and enhance Devon's cultural and historic heritage
N/A

Minimise greenhouse gas emissions
N/A

Minimise pollution (including air, land, water, light and noise)
N/A

Contribute to reducing water consumption
N/A

Ensure resilience to the future effects of climate change (warmer, wetter winters; drier, hotter summers; more intense storms; and rising sea level)
N/A

Other (please state below)
N/A

11. Economic analysis

Criminal behaviour sits at the core of the intersection between economic, social, and environmental considerations, which this Funding Agreement was one way of addressing.

If the Ministry of Justice is unable to secure funding to continue the service, or unable to commission a different approach to supporting the individuals affected, there is a risk that the expiry or non-renewal of the Funding Agreement may not improve the economic, social and environment well-being of the Devon County Council area.

Impact on knowledge and skills

The decision to not extend or enter a new Funding Agreement is not a decision to close the provision. This decision rests with the provider and the Ministry of Justice. If the people employed to deliver this service are made redundant then the knowledge and skills, they have may be lost with a resulting negative impact. A potential mitigation is redeployment by their employer.

Impact on employment levels

The decision to not extend or enter a new Funding Agreement is not a decision to close the provision. The staff employed to deliver this service by the Provider may be at risk of redundancy and may impact negatively on employment levels. A potential mitigation is redeployment by their employer. This decision would rest with the provider and the Ministry of Justice.

Impact on local business

Neutral Impact

DFP/24/06
Corporate Infrastructure & Regulatory Services Scrutiny Committee
25 January 2024

TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2024/25

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 2024/25 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 2024/25 are set out in the Treasury Management and Investment Strategy Overview section. These include:

a) The pressure on the Council's cash resources while the Authority awaits the conclusion of discussions with the Department for Education in relation to the Safety Valve Intervention Programme in relation to Special Education Needs and Disability (SEND), which may result in a further requirement for external borrowing. No assumptions have been made about the outcome of discussions with the Department for Education in setting the 2024/25 Treasury Management Strategy. However, a successful outcome to the discussions is likely to improve the cash position. Further reports will be provided to Cabinet is due course reviewing the position and the requirement for external borrowing.

b) The expectation that new external borrowing of £50 million will be required both to fund the 2024/25 capital programme, and to replace previous internal borrowing to ensure that the Council maintains sufficient cash balances. It should be noted that the Council repaid external debt of £46.5 million during 2022/23, so a large part of the new external borrowing required would be a refinancing of the external debt repaid, but at lower 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. The level of cash balances available for investment is likely to be lower than in past years.

3.4 With effect from 1 April 2023 it is proposed to change the policy for calculating MRP on the residual balance of capital borrowing incurred since 1 April 2008 and for future capital investment, to be consistent with the method used for historic debt pre-April 2008. This will continue to be charged over the life of the asset, but on an annuity basis rather than on a straight-line basis as has been the practice. This change reflects the same principle of aligning with a trend of asset deterioration and the time value of money, so this will apply consistently to MRP on assets financed by either internal or external borrowing.

4) Conclusion

4.1 The Treasury Management and Investment Strategy will be considered by Cabinet along with the draft budget for 2024/25 on 9 February, and will become part of the budget to be approved by Council at its budget meeting on 15 February.

4.2 The Committee is invited to make observations on these proposals prior to their consideration by the Cabinet on 9 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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Appendix 1

Treasury Management Strategy 2024/25 – 2027/28 and Prudential Indicators 2024/25 - 2028/29

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 2024/25.

The policy requires the Authority 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 Authority's policies in relation to:

- the management of the Authority'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 2024/25 – 2028/29, and the Capital Strategy.

This Treasury Management Strategy document sets out:

- Minimum revenue provision (MRP) for repayment of capital borrowing;
- 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 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 Authority 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. New capital expenditure has been limited to investment that is 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, external grants and contributions, and internal borrowing over the capital programme timescale.

The ability to fund the capital programme from internal borrowing is dependent on the availability of cash balances to fund the borrowing. The 2024/25 Treasury Management Strategy is being set against a backdrop of reducing cash balances, the most significant reason for this being the continuing expenditure in excess of grant funding on Special Educational Needs and Disability (SEND), charged to an unusable reserve. The deficit on the unusable reserve is forecast to be in the region of £165 million by 31 March 2024.

While discussions around the Safety Valve Intervention programme continue with the Department of Education and aim to secure a significant level of funding towards the accumulated deficit, these discussions have yet to be concluded. Therefore this Treasury Management Strategy makes no assumption about additional funding being provided.

£46.5 million of the Authority's cash balance was used to repay external debt during 2023/24. While it is likely that new external debt will be required to replace the debt repaid, the loans repaid were at interest rates higher than the rates likely to be payable on new loans based on the forecast level of rates over the next 18-24 months, resulting in a net saving to the Authority's capital financing costs. It was decided to repay the loans, with short term borrowing being taken out, with the intention of reviewing the need to refinance on a longer term basis during 2024/25.

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. This indicates that external borrowing will be required to fund the 2024/25 capital programme. In addition it is forecast that further external borrowing will be required to reduce the accumulated level of internal borrowing in order to ensure the Authority retains adequate cash balances.

The current expectation is that interest rates will start to fall during the second half of 2024 and continue to reduce during 2025. Therefore the timing of 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 and on best available terms to keep borrowing costs as low as possible.

Target Rates for Investment

For the 2024/25 financial year it has been assumed that the average interest rate earned on lending to banks and building societies will be **5.0%** p.a. The target rate takes into account the likelihood that the Bank of England will start to reduce the base rate from the current level of 5.25% during the second half of 2024. The budgeted level of investment income for the year also takes into account a reduced level of cash balances available for investment.

The yield from investment in the CCLA Property Fund is assumed to be **4%**. It is not proposed to make use of short-dated bond funds and multi-asset income funds during 2024/25, due to the lower levels of cash likely to be available for investment and the higher risk associated with such funds. Therefore, 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 incurred to finance capital investment. The Authority has a statutory obligation to make a prudent annual MRP charge to the revenue account for this purpose.

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.

In 2018/19 the Authority changed its method of calculating MRP applicable to its historic capital debt incurred up to 1 April 2008. At that time the method was changed from a straight-line basis to annuity basis. The change was made to implement a fairer charge as it reflects the fact that, on average, asset deterioration is slower in the earlier years of the asset life and increases in later years. It also reflects the time value of money.

Using the annuity method, MRP is calculated by apportioning the balance of relevant debt over the estimated life of the asset. 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 in respect of this element of borrowing included in the calculation.

With effect from 1 April 2023 it is proposed to change the policy for calculating MRP on the residual balance of capital borrowing incurred since 1 April 2008 and for future capital investment, to be consistent with the method used for historic debt pre-April 2008. This will continue to be charged over the life of the asset, but on an annuity basis rather than on a straight-line basis as has been the practice. This change reflects the same principle of aligning with a trend of asset deterioration and the time value of money, so this will apply consistently to MRP on assets financed by either internal or external borrowing. It is proposed to use an inflation forecast rate of 2.5% as the annuity rate to be applied from 1 April 2023. 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 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

	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000
Total Capital Expenditure	**155,231**	**111,012**	**75,864**	**74,211**	**68,081**
Funded by:					
Gross borrowing	13,560	25,471	2,980	100	100
Other capital resources	141,671	85,541	72,884	74,111	67,981
Total capital programme funding	**155,231**	**111,012**	**75,864**	**74,211**	**68,081**

Prudential Indicators

Capital Financing Requirement

The Capital Financing Requirement represents the Authority'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).

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

The forecast Capital Finance Requirement for 2024/25 and the following four years are shown in table 2 below.

Table 2 – Capital Financing Requirement

	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000
Underlying borrowing requirement	593,374	607,343	598,081	585,586	572,822
Other long-term liabilities	124,175	119,117	114,637	109,443	104,305
Capital financing requirement	**717,549**	**726,460**	**712,718**	**695,029**	**677,127**

Limits to Debt

The Authorised Limit represents the level at which the Authority 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 2024/25 – 2028/29.

Table 3 – Authorised Limits

	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000
Authorised Limits:					
Borrowing	777,554	681,334	667,391	654,038	640,907
Other long-term liabilities	124,175	119,117	114,637	109,443	104,305
Authorised limit for external debt	**901,729**	**800,451**	**782,028**	**763,481**	**745,212**

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 2024/25 and following years.

Table 4 - Operational Limits

	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000
Operational Limits:					
Borrowing	652,554	656,334	642,391	629,038	615,907
Other long-term liabilities	124,175	119,117	114,637	109,443	104,305
Operational limit for external debt	**776,729**	**775,451**	**757,028**	**738,481**	**720,212**

The forecast opening balance for long term External Borrowing at 1 April 2024 is £461.35 million.

The Authority 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 Authority's internal cash resources.

Table 5 – Underlying Borrowing Requirement to Gross Debt

	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000
Capital financing requirement	717,550	726,460	712,718	695,029	677,126
Gross borrowing and other long-term liabilities	585,525	594,756	556,446	545,472	535,554
Under/ (over) borrowing	**132,024**	**131,704**	**156,272**	**149,557**	**141,573**

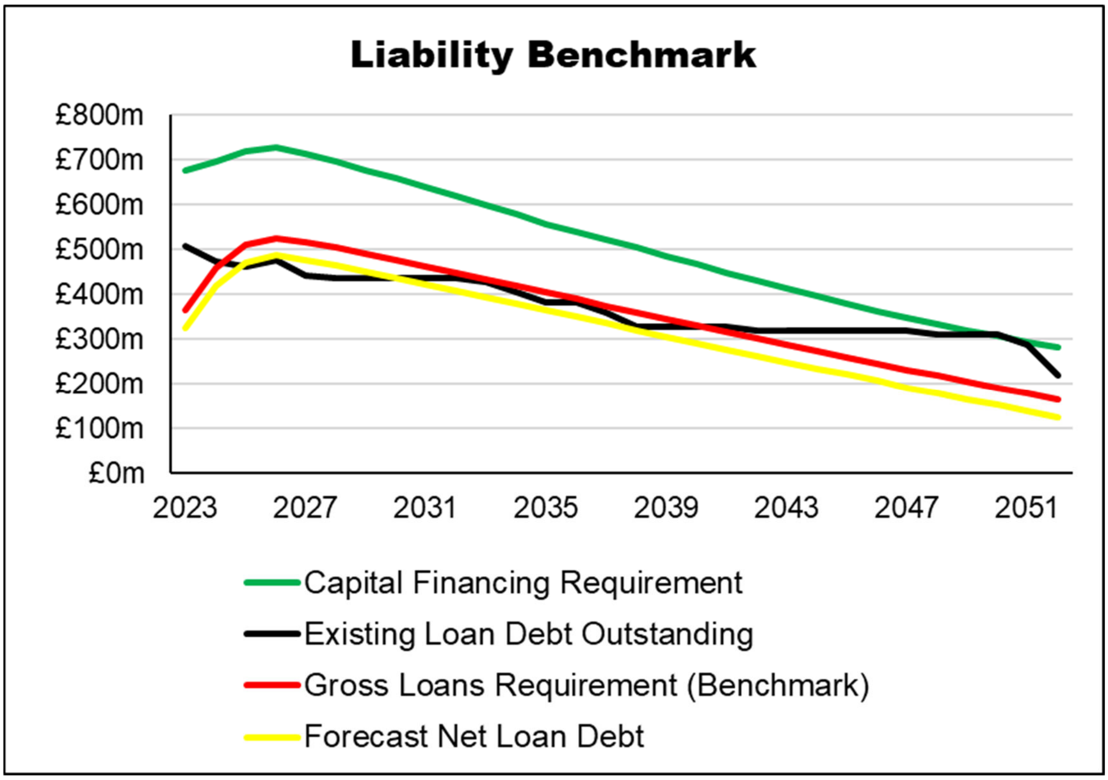
The debt management strategy and borrowing limits for the period 2024/25 to 2028/29 have been set to ensure that over the medium-term net borrowing will only be for capital purposes.

Liability Benchmark

To compare the Authority'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

	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000
Capital financing requirement	717,549	726,460	712,718	695,029	677,127
Less: total reserves and provisions	(246,229)	(240,161)	(236,223)	(229,838)	(225,476)
Plus: minimum liquidity requirement	40,000	40,000	40,000	40,000	40,000
Liability Benchmark	**511,320**	**526,299**	**516,495**	**505,191**	**491,651**
External Debt Maturity Profile	461,349	476,349	442,520	436,739	436,739
Net Requirement for additional External Debt	**49,971**	**49,950**	**73,975**	**68,452**	**54,912**



The increase in the gross loans requirement at the beginning of the period shown is a result of the reduction in the Authority's reserves and balances available for internal borrowing and the early repayment of loans in 2023/24.

For periods beyond the current extent of the Authority'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 2024/25 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

	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000
Minimum revenue provision	10,872	11,502	12,242	12,595	12,864
Interest payable	23,192	23,192	23,912	21,402	21,261
Recharges and other adjustments	752	731	710	707	719
Interest receivable	(3,650)	(2,600)	(1,950)	(1,950)	(1,950)
Capital financing cost (excluding other long-term liabilities)	31,166	32,825	34,914	32,754	32,894
Capital financing costs of other long-term liabilities	13,262	12,427	12,523	12,723	12,259
Capital financing costs including other long-term liabilities	44,428	45,252	47,437	45,477	45,153
Estimated net revenue stream	**639,438**	**705,259**	**733,305**	**755,221**	**755,221**
Ratio of financing costs (excluding other long term liabilities) to net revenue stream	**4.87%**	**4.65%**	**4.76%**	**4.34%**	**4.36%**
Ratio of financing costs (including other long-term liabilities) to net revenue stream	6.95%	6.42%	6.47%	6.02%	5.98%

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 Authority’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 Authority’s longer-term borrowing has therefore reduced. A lower limit for long dated loans is therefore no longer appropriate.

The proposed Prudential Indicators for 2024/25 and beyond are set out in Table 8, with the current proportion of external debt as at 31 December 2023 against each heading.

Table 8 – Treasury Management Prudential Indicators

Prudential Indicators	Upper Limit %	Lower Limit %	Current %
Limits on borrowing at fixed interest rates	100	70	100
Limits on borrowing at variable interest rates	30	0	0
Percentage of Fixed Rate Debt maturing in:			
Under 12 months	20	0	2.7
12 Months to within 24 months	25	0	0
24 Months to within 5 Years	30	0	8.3
5 years and within 10 Years	35	0	9.4
10 years and within 20 years	45	0	15.2
20 years and within 30 years	55	0	34.3
30 years and within 40 years	65	0	30.1
40 years and within 50 years	75	0	0

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 9 shows the County Council's fixed and variable rate debt as at 31 March 2023 and 31 December 2023 (current).

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

Over the last financial year the Authority's external debt has reduced by £46.5 million. Three of the Authority's money market loans were repaid in advance of their maturity date. Each of these loans were Lender Option Borrower Option (LOBO) loans with the lender having the option to increase the interest rate on the loan or to transfer the loan to another lender. By exercising their option, the lender provided the Authority with the opportunity to repay the loan without premium, rather than accept the revised terms.

Appendix 1

Table 9 – Analysis of Long Term Debt

	Actual 31.03.23 £'m	Interest Rate %	Current 31.12.23 £'m	Interest Rate %
Fixed Rate Debt				
PWLB	436.35	4.99	436.35	4.99
Money Market	71.50	5.83	25.00	5.60
Variable Debt				
PWLB	0.00		0.00	
Money Market	0.00		0.00	
Total Long Term Debt	**507.85**	**5.11**	**461.35**	**5.03**

In order to fund the loan repayments, short term borrowing from other local authorities was required. The intention was to repay the short term borrowing as current investments mature, and to review whether new long term borrowing is required in the light of future cashflow forecasts. The short term borrowing is shown in table 10 below:

Table 10 – Analysis of Short Term Borrowing

	Current 31.12.23 £'m	Interest Rate %	Forecast 31.03.24 £'m	Interest Rate %
Fixed Rate Debt				
Local Authorities	29.00	5.70	13.00	5.70
Total Short Term Borrowing	**29.00**	**5.70**	**13.00**	**5.70**

The short term borrowing held at 31 March 2024 all matures by the end of 2024.

Schedule of Investments

The following schedule shows the Authority’s fixed and variable rate investments as at 31 March 2023 and as at 31 December 2023 (current).

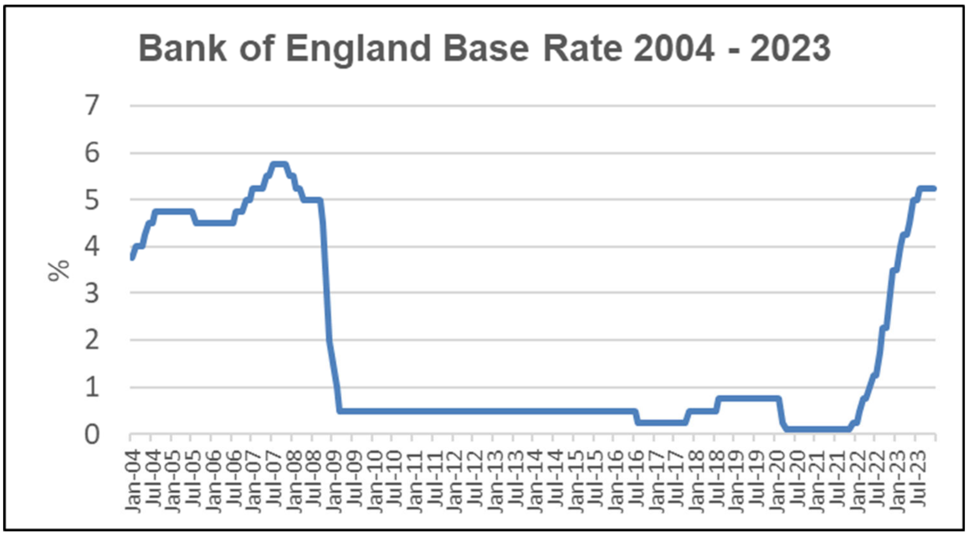
Table 11 – Schedule of Investments

	Actual 31.03.23 £'m	Interest Rate %	Current 31.12.23 £'m	Interest Rate %
Bank, Building Society and MMF Deposits				
Fixed Rates				
Term Deposits maturing in less than 365 days	96.00	2.95	60.00	4.80
Term Deposits maturing in over 365 days	20.00	2.43	10.00	4.30
Callable Deposits				
Variable Rate				
Call Accounts	0.00		0.24	5.14
Notice Accounts	10.00	4.43	0.00	
Money Market Funds	46.48	4.07	0.00	
Property Fund	10.00	3.66	10.00	4.01
All Investments	**182.48**	**3.30**	**80.24**	**4.64**

The Authority's cash balance available for investment varies on a daily basis 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 31 December 2023 is significantly lower than at the start of the year. It was anticipated that the cash balance would reduce by 31 March 2024, as a result of:

- The growing deficit on the provision for Special Educational Needs (SEND).
- Expenditure of balances carried forward from 2023/24.
- Use of reserves during 2023/24.
- Expenditure funded by capital grants received in the previous financial year.

The recent investment performance of the Authority'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 5.25% in August 2023, the highest level for 15 years. This has had an impact on the rates available for investment, which have gradually increased over the period since December 2021. The following graph shows the trend in the base rate over the last 20 years.



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, exacerbated by the current economic environment and recent volatility in rates. The factors affecting interest rate movements are clearly outside the Authority'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 Authority retains an external treasury advisor, Link Asset Services, who forecast future rates several years forward. Similar information is received from a number of other sources.

Having taken interest rates to their highest level in 15 years in August 2023, the Bank of England's Monetary Policy Committee (MPC) kept Bank Rate unchanged for a third consecutive time at its December meeting. With the market anticipating cuts in rates during 2024, the MPC decided that it was too early to conclude that services inflation or pay growth were firmly on a downward path.

Nevertheless current market expectations, following this meeting and the previously released weaker than anticipated employment and growth figures, are for an initial cut in interest rates in Summer 2024, followed by further cuts in rates during the Autumn.

The following table includes Link's and Capital Economics' forecast movements in the base rate and Link's forecast of PWLB (Public Works Loans Board) rates.

Table 12 – Base Rate Forecasts and PWLB Rates

Base Rate Forecasts	Dec (actual) 2023	March 2024	June 2024	Sep 2024	Dec 2024	March 2025	June 2025	Sep 2025
Link Asset Services	5.25%	5.25%	5.25%	5.00%	4.50%	4.00%	3.50%	3.25%
Capital Economics	5.25%	5.25%	5.25%	5.25%	4.75%	4.25%	3.75%	3.25%

PWLB Rates	Dec (actual) 2023	March 2024	June 2024	Sep 2024	Dec 2024	March 2025	June 2025	Sep 2025
Link Asset Services forecast								
10 Year	4.73%	5.00%	4.80%	4.70%	4.40%	4.20%	4.00%	3.80%
25 Year	5.27%	5.30%	5.10%	4.90%	4.70%	4.50%	4.30%	4.20%
50 Year	5.05%	5.10%	4.90%	4.70%	4.50%	4.30%	4.10%	4.00%

(Correct as at 4 January 2024)

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 2024/25 – 2028/29

The overall aims of the Authority'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.

Since 2009 the Authority 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. With the repayment of £46.5 million of LOBO loans during 2023 the Authority's external borrowing level has reduced by £148 million since 2008/09, resulting in reduced Capital Financing Charges.

During the period since 2009, all borrowing required to fund the capital programme has been through internal borrowing, i.e. the Authority has borrowed from its cash balances to fund the capital programme.

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

As set out under the schedule of investments, the cash balance has reduced significantly over the last two years, with the key factor being the continued expenditure in excess of grant funding on Special Educational Needs and Disability (SEND), charged to an unusable reserve.

The Authority 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 and Disabilities (SEND). At the end of 2022/23 the Dedicated Schools Grant High Needs Block reported a cumulative deficit of £125.4 million which was carried forward as a deficit reserve as per government requirement. When combined with the current year forecast the deficit is expected to be around £165 million by the end of 2023/24. Should any funding be provided by the Department of Education towards the deficit, then the forecast position on the level of the Authority's cash balances will improve.

However, agreement has yet to be reached, and this Treasury Management Strategy therefore excludes any assumption that funding will be received towards the current deficit.

The capital programme for 2024/25 requires borrowing of £13.56 million.Table 5 in the Prudential Indicators section shows that together with the £46.5 million reduction in external debt during 2023/24, this would take the total internal borrowing up to £132 million. However, with the current level of the Authority's cash balances, it will not be possible to afford this level of internal borrowing.

The liability benchmark included within the prudential indicators is designed to demonstrate whether and when new external borrowing will be required, based on the Authority's current capital programme and the call upon the Authority's cash balances. Table 6 and the following graph included within the prudential indicators section of the

Treasury Management Strategy show that in order to retain the **minimum** level of cash balances, excluding any assumption on funding being received towards the SEND deficit, the benchmark requirement for new external debt for 2024/25, including the funding of the capital programme for 2024/25, is £50 million. This would indicate that the £13.56 million borrowing required to fund the 2024/25 capital programme will need to be external borrowing, and a further £36.5 million of current internal borrowing will need to be converted to external debt in order to ensure that the Authority's cash balances remain healthy.

The Authority is still awaiting an agreement on the Safety Valve proposals to resolve the SEND deficit. A successful outcome to the discussions with the Department for Education is likely to improve the cash position. Further reports will be provided to Cabinet is due course reviewing the position and the requirement for external borrowing.

In April 2022, the Cabinet agreed to support proposals for the creation of the Plymouth and South Devon Freeport. The Business Case included the requirement for the Authority to externally borrow up to £15 million for the capital works needed. The borrowing will not be required until 2025/26, and the additional external borrowing will be ringfenced to the Freeport. All the associated capital financing costs will be funded by the excess business rate income derived from the scheme.

The current expectation is that interest rates will begin to reduce during 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 and financed on best available terms.

In previous years the Authority has looked for opportunities to reduce external debt. An additional £46.5 million was repaid in 2023/24, as the Authority was presented with the opportunity to repay two loans with interest rates of 5.99%, and one at 5.6% without incurring a premium. The new external borrowing that is required, as set out above, will be at lower rates than the loans repaid. Given the current level of cash balances and the requirement for new external borrowing, it would not be beneficial to make premature repayment of any of the remaining current external debt.

The earliest date on which any of the Authority's current long term external debt matures is 31 March 2027, when the Authority is due to repay a PWLB loan of £33.8 million, with a further £5.8 million to be repaid later in 2027. The cash position will need to be monitored carefully to determine whether it will be possible for these loans to be repaid, without taking out new external borrowing to re-finance the debt.

The following table 13 sets out the expected profile of external debt, based on the approved borrowing for the South Devon Freeport, the forecast new borrowing required as set out above and the loans maturing from 2027 onwards.

Table 13 – Current Forecast External Debt Profile

	Opening Balance £'m	New Borrowing £'m	Debt Repayment £'m	Closing Balance £'m
2024/25	461.35	50.00		511.35
2025/26	511.35			511.35
2026/27	511.35	15.00	(33.83)	492.52
2027/28	492.52		(5.78)	486.74
2028/29	486.74		(4.78)	481.96

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 the current level of interest rates, if short-term borrowing is required to aid cashflow, this will be targeted at an average rate of **5.25%**.

Investment Strategy 2024/25 – 2027/28

The Authority continues to adopt a 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 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 Authority’s investment strategy continue to be to:

- Limit the risk to the loss of capital (security);
- Ensure that funds are always available to meet cash flow requirements (liquidity);
- Maximise investment returns (yield), 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 Authority has made applications and been opted up to elective professional client status where required.

Those counterparties who have confirmed that they will treat the Authority as a professional client under the MiFID II regulations are set out in Table 14 below.

Table 14 – Counterparties that have “opted up” the Authority 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 Authority 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 Authority to invest, for example, in UK Government Gilts, bond funds and property funds. These alternative instruments would either require the Authority 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 County 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 Authority 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, 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 Authority uses the ratings issued by all three of the major credit rating agencies, Fitch, Moody’s, and Standard & Poor’s, made available to the Authority 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 duration of all deposits with financial institutions will be managed prudently, taking account of the latest advice from the Authority’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 15 below summarises the current ‘Approved List’ criteria.

Appendix 1

Table 15 – 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 Authority 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 Authority 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 Authority 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 Authority 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 and the requirement for liquidity it is unlikely that they would be used during 2024/25. 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 Authority’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 originally applied from 1st April 2018 to 31st March 2023, but has been extended to 31st March 2025. This has reduced the risk to the Authority of capital losses impacting on investment income, as any capital loss would only impact on the Authority at the point that the investment is realised, or after the statutory override ends in March 2025.

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 16 below summarises the 'Approved List' criteria for non-specified investments.

Table 16 – 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 2024/25 financial year it has been assumed that the average interest rate earned on lending to banks and building societies will be **5.0%** p.a. The target rate takes into account the current level of the Bank of England's base rate, but also reflects the expectation that rates are likely to reduce in the second half of 2024.

The yield from investment in the CCLA Property Fund is assumed to be **4%**. As set out above, it is not proposed to make use of short-dated bond funds and multi-asset income funds during 2024/25, so these types of funds are not factored into the budget for investment income.

The targets we have set for 2024/25 are considered to be achievable.

The expectation is that interest rates are likely to decrease further during 2025, once inflation is under control. Our Medium Term Financial Plan forecasts have been based on the average rates for lending to banks and building societies being 4.0% in 2025/26 and 3% thereafter. However, these will be reviewed in the light of updated interest rate forecasts and changes to the rates on offer from the Authority's counterparties over the MTFP 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 Authority 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 Authority'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 Authority 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 Authority's policy, this should have no impact on our treasury management strategy.

Service Investments

The following table sets out the Authority's current financial investments held for purposes related to the provision of services to the local community, at the values included in the Statement of Accounts as at 31 March 2023. These investments are not held with the primary intention of gaining a financial return.

Table 16 - Service Investments

	Fair Value as at 31 March 2023 £'000
Norse South West Limited	85
Exeter Science Park Limited	885
Skypark	2,150
Total	**3,120**

Appendix 1

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 NSW 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 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 Authority 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 Authority's Statement of Accounts. The investment aims to stimulate economic development to the East of Exeter through the creation of a high-tech business park. The Authority 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 and 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 is to stimulate economic development to the East of Exeter through the creation of a high-tech business park. Risk management, decision-making and performance management responsibility is shared between the Economy, Enterprise and Skills team and 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.

Devon County Council

Report of the Corporate Infrastructure and Regulatory Services LDS/24/3 Future Finance Project Standing Overview Group of 29 November 2023

1. Recommendation

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

2. 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 29 November 2023, highlights the key points raised during discussion and details any agreed actions.

3. Background

The Future Finance Project is the Council's transformation programme to move away from the FINEST system to a new corporate finance system.

The Committee previously held the Modernisation of the Corporate Finance System Spotlight Review on 10 February 2023 and this was reported to the Committee on 23 March 2023 (Modernisation of the Corporate Finance System Final Report.pdf (devon.gov.uk))

The Scope of the review was "*to evaluate the Future Finance Project's aims, plans and risks to determine if the approach aligns to our corporate priorities and best value. In particular, focusing on quality, governance, and budget*.".

The Future Finance Project will deliver a transformative, new approach to organisational financial management by replacing, the current finance system 'FINEST' which has been used over the last 30 years.

One of the recommendations made by the Spotlight Review was to hold a Standing Overview Group 3 months after the awarding of the contract to review the Future Finance Project and the Spotlight Review's recommendations.

4. Update since March 2023

The Standing Overview Group received a presentation by the Head of Finance Transformation. Following the successful and compliant procurement process, the contract was awarded in July 2023 to Embridge for implementation of the Unit 4 Solution. Embridge are accustomed to working with Unit 4 and have implemented the system within a number of local authorities.

The design phase of the project commenced in September 2023 with engagement of key stakeholders to understand what the system does. Training on the new system and a deep dive across a number of work streams into how to design and develop the new work system is ongoing. The build stage is scheduled to commence at the start of December 2023 and end February 2024.

The contract for the current FINEST system has been extended to December 2025 to provide additional time for change-over and to ensure data archiving.

One of the key principles discussed at the February 2023 review was to ensure to incorporate best practice. Unit 4 will be largely an 'off the shelf' system but will require some adjustments.

Summary of Member Discussion

Members of the Corporate Infrastructure and Regulatory Services Committee were invited, via this Standing Overview Group, to ask questions about and offer comments on the project. The key aspects of the Report and Member discussion are covered below.

- *The cost of the implementation* – The original budget agreed by Cabinet in June 2022 was in the region of £6.5m, inclusive of supplier implementation fees, licence fees, and internal project costs. The supplier's contracted implementation fee is £1.45m over the 13 months of implementation. The Design phase of the project (to end Nov 2023) has added £10,945 for 11 days of additional configuration build work which at less than 4% of phase budget is within tolerance. The project is currently to budget and the Committee would be updated with regards to budget targets throughout the implementation.

- *Integrated System Testing* – the first part of the test stage will be completed in isolation of any other integration to ensure all modules work as a whole system before progression into the end user acceptance testing in May 2024. Training will run alongside this stage in June/July 2024 and 'go live' in August 2024. Training and ongoing support will be provided for all users.

- *Resourcing of Project* – the Committee were keen that the project was correctly resourced. A Senior Responsible Officer has been appointed and two Business Analysts (jointly sponsored by Finance and Business Transformation Teams). The Board is composed of both Finance and

ICT colleagues. Internal Audit is also represented on the Board to provide assurance and audit judgement. The Board currently meet on a monthly basis and the design team meet on a weekly basis. The project team is currently considered to be working well with the 19 members of staff involved. Additional resource will be required to support the income management aspect of the scheme. Super Users will be recruited across the Finance Team and the wider organisation to support User Acceptance Testing at the test stage.

- *Administration* – Reassurance was offered regarding external data storage and back up processes.

Members of the Committee expressed their gratitude that the project was running to budget and to time and welcomed another look at the project in Spring 2024

5 Options / Alternatives

The report is the summary of a Scrutiny Standing Overview Group meeting. Scrutiny does not make decisions and this report does not propose any alternatives.

6 Consultations / Representations / Technical Data

As above, there are no specific considerations in regard to consultations, representations and technical data in this report.

7 Strategic Plan

The alignment of all Scrutiny activity with the strategic plan is detailed on the Scrutiny work programme. The issues raised in the report and the benefit of developing member knowledge and the 'critical friend' challenge of Scrutiny contribute to the Council achieving its strategic plan.

Improving Member knowledge on key issues contributes to the Council's commitment to being a trust, inclusive and innovative Council. It ensures good decision making and that the Council listens and learns.

8 Financial Considerations

There are no specific financial considerations in this report.

9 Legal Considerations

There are no specific legal considerations in this report.

10 Environmental Impact Considerations (Including Climate Change, Sustainability and Socio-economic)

There are no specific environmental impact considerations in this report.

11 Equality Considerations

There are no specific equality considerations in this report.

12 Risk Management Considerations

The activity of Scrutiny Standing Overview Groups contributes to the mitigations for:

Ineffective Member Scrutiny
defined as: 'Due to ineffective scrutiny, the level and quality of service management may drop, leading to financial mismanagement or harm to staff and/or citizens and reputational damage e.g. Grenfell.

Member Effectiveness
defined as: 'Inadequate member effectiveness due to a lack of training, support and knowledge leads to a lack of challenge to corporate officers and/or poor decision making, resulting in a negative effect on the County's citizens (poor value for money, poor service delivery, harm, etc).'

13. Summary / Conclusions / Reasons for Recommendations

The report outlines the topic(s) covered at the meeting of 29 November 2023, highlights the key points raised during discussion and details any agreed actions.

The report is formally reported to the Corporate Infrastructure and Regulatory Services Committee in the interests of openness, transparency and good decision making.

Attendance

Councillors: A Dewhirst (Chair), C Slade, J Trail

Scrutiny Officer: Charlie Fisher
Scrutiny Administrator: Yvette Welsh
Head of Finance Transformation: Jenny Ryding

Electoral Divisions: All

Contact for enquiries:
Name: Yvette Welsh, yvette.welsh@devon.gov.uk
Address: Democratic Services Team, County Hall, Topsham Road, Exeter.

Local Government Act 1972: List of background papers

Background Paper – NIL

The meeting began at 12 noon and finished at 1.00pm.

EES/24/1
Corporate, Infrastructure and Regulatory Services Scrutiny Committee
25 January 2024

Plymouth and South Devon Freeport Update

Report of the Head of Economy Enterprise and Skills

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:

Note this update report and the progress made on delivery of the Plymouth and South Devon (PASD) Freeport.

2) Background / Introduction

The Plymouth and South Devon Freeport is one of 8 current Freeports designated by Government and is led by Plymouth City Council in partnership with Devon County Council, South Hams District Council, and the private sector. This is an ambitious programme aiming to create over 3500 jobs, and to play a crucial role in economic recovery and growth. The initiative is focused on creating high-value employment across key engineering and manufacturing sectors, delivering a Net Zero Programme and contributing to the county's levelling up agenda. At its core, the Freeport programme has three objectives:

1. National hubs for global trade and investment
2. Creating innovation in key specialism and growth sectors
3. Promoting regeneration through the creation of highly skilled jobs.

Freeports have been set up to act as hubs for global trade and investment across the UK, to act as designated tax and customs sites with benefits to businesses from tax incentives, simplified customs, investment funding to unlock sites and create high-skilled jobs. There is also a focus on establishing innovation clusters, fostering conditions to attract new businesses, investors, and innovations to the area.

The County Council took a decision in April 2022 to support the development of the PASD Freeport, and this report provides an update on progress to date.

3) Update on Progress

3.1 Governance mobilisation

The Freeport began with a 'shadow' board which took the form of a public/private partnership with Plymouth City Council acting as Accountable Body. This arrangement was superseded when the Plymouth and South Devon Freeport Company Ltd was incorporated on 16 May 2022. Recruitment of the Freeport core team and Board has taken place with the appointment of a Chair of the Board of Directors and Freeport Chief Executive Officer. An operations lead and growth and investment lead have also been appointed along with an administrator.

The Freeport's governance arrangements are compliant with Government guidance and UK company law. The Freeport governance is:

- Plymouth City Council act as the Accountable Body and receives the seed capital to support the delivery of the capital programme set out in the Full Business Case agreed with Government for the Freeport;
- The Freeport Company is a Company Limited by Guarantee established by the founder members who are the Local Authority partners. The Freeport Company Board operates and runs the Freeport within its delegated powers;
- The Local Authorities are responsible for delivering the capital works funded by Freeport seed capital and local public sector match generated through retained business rates and, for holding Landowners to account through the Landowner agreements;
- The Landowners are responsible for delivering their individual sites in accordance with the Landowner Agreements.

In January 2023 a Memorandum of Understanding (MoU) was signed by Government, the Accountable Body for the Freeport (Plymouth City Council), the Freeport Governing Body and the two billing authorities (Plymouth City Council and South Hams District Council). While the MoU is not legally binding it contains the agreed modus operandi for the Freeport.

Since the start of 2023, the following governance activities have been completed:

- Set up of Advisory Boards and Sub-Committees;
- Set up of risk management processes;
- Established monitoring and evaluation processes;
- Set up delivery partner objectives;
- Co-designed key working practices between company and delivery partners ahead of Service Level Agreement (SLA) drafting;
- Negotiated SLAs with Freeport partners for delivery of the supporting programmes;
- Appointed a Net Zero lead through an SLA with Devon County Council.

Net zero is embedded across the governance structure with the Net Zero Lead attending all forums to ensure due consideration is given to this strategic priority area. This approach has been commended by Department for Levelling Up, Housing and Communities.

3.2 Net zero

The Plymouth and South Devon Freeport has a high-level ambition to:

Act as an exemplar whereby working with local partners delivers a net zero emissions target for the area covered by the Freeport's outer boundary and wider region significantly ahead of 2050.

This ambition aligns with the wider strategic ambition set out in the Devon Climate Plan as well as partner authorities' individual targets. More broadly, through the Freeport's innovation agenda, there is an ambition to contribute to the development of clean maritime technologies as well as zero carbon shipping.

Milestones and Targets for Achieving Net Zero – all three Local Authorities covered by the Freeport outer boundary have committed to achieving net zero by 2050 or earlier. In the case of Plymouth and Devon, the authorities have committed to achieving net zero by 2030. South Hams has committed to achieving net zero by 2050 and it is expected that milestones will be achieved in line with Government targets for 2030 and 2035. The Freeport will monitor and report progress in terms of scope 1 and 2 emissions (direct and indirect), and in addition, will strongly work towards reducing our scope 3 emissions (supply chains).

The Freeport will act as a catalyst towards 2030 targets, helping to accelerate the implementation of existing technologies (such as electric vehicles and hydrogen) as well as pioneering new solutions through the Innovation work, acting as a test bed for pioneering and lower carbon construction methodologies for industrial designs that promote circular economy measures. The table below shows Freeport proposals which directly contribute to our net zero ambition.

Project	Source of Funding	Contribution to Net Zero and Wider Benefits
A 10MW Green Hydrogen Electrolyser at Langage	Private sector	• Underpins Government's Hydrogen Strategy • A live wire connection to the onsite solar farm and sleeved power Purchase Agreements will ensure 100% green energy usage, providing a low carbon fuel for shipping and HGVs and buses • Creates 10 new green jobs
Pedestrian and Cycle Bridge connecting Sherford and Langage	Seed and public sector	• Enables safe walking and cycle routes between Sherford and Langage and the communities that live on either side of the A38 • Reduces transport emissions
Port Infrastructure Improvements	Seed and private sector	• Will enable development of short sea shipping routes which offer a low carbon alternative to road transport
Innovation Centre at South Yard	Seed and public sector	• Will support development of net zero technologies aligned with the marine sector with wider applications beyond

In addition, the Freeport will aim to exceed basic building regulations in terms of the embodied and operational carbon associated with construction, where possible, acting as a test bed for sustainable, low carbon industrial building construction. The following table sets out the high-level construction techniques as well as the levers that the Freeport will use to ensure delivery.

	Techniques	Levers for Delivery
Reducing embodied carbon	• Construction design which follows a lean, efficient and circular approach to avoid unnecessary waste material • Selection of responsibly sourced materials and components • Consideration of whole life maintenance impacts and embodied carbon emissions	• Procurement – standards and expectations embedded into tender documents and scope • Planning - developers will be required to follow supplementary planning guidance (DEV32.1) • Landowner Agreements – requiring landowners to support net zero objectives
Reducing operational carbon	• Passive design measures and building fabric performance standards in line with best in class i.e. RIBA, LETI etc • Integration of renewables such as solar, heat pumps and where possible integration of heat networks	• Procurement – standards and expectations embedded into tender documents and scope • Planning - developers will be required to follow supplementary planning guidance (DEV32.6) • Landowner Agreements – requiring landowners to support net zero objectives

3.3 Seed Capital Programme

Twelve capital projects were identified within the Full Business Case (FBC) and approved by government. The FBC was developed in the early part of 2022. Individual investment cases are at varying levels of maturity. Since the FBC was submitted the economic landscape has changed significantly, increasing construction and borrowing costs. Despite this, the project is forecast to remain within the borrowing authorisations approved by Cabinet in April 2022. Expected timetables for delivery have also shifted as the MoU with Government was signed considerably later than expected.

Considering the above, the priority has been to:

- Review and redevelop the capital programme – to reflect changes since the FBC.
- Re-profile project timelines – allowing sufficient consideration of design and planning consideration and accelerating schemes where possible.
- Refresh costs – updating spend profiles and based on better understanding of project designs.
- Change requests – making formal change requests to DLUHC adjusting the seed funding profile.
- Releasing the £25m of seed capital – bringing forward business cases as quickly as possible for Technical Appraisal and Business Case Approval – to release grant and raise other funds efficiently to deliver projects at pace and on time.

Six business cases have come forward through the agreed approvals process, including transport and port infrastructure, premises and land assembly, with Devon County Council's lead schemes detailed below.

In October 2023 Devon County Council Cabinet approved the seed capital grant totalling £9.619m to bring forward essential Freeport infrastructure, such as a crossing of the A38 for active travel, sections of spine road in Langage to facilitate employment development and upgrades to an existing roundabout.

Progress on the design and delivery of these 3 transport schemes utilising the seed capital funding is as follows:

- Langage Spine Road Phase 1a:
  - Surveys undertaken and design being progressed
  - Advanced vegetation clearance scheduled for January 2024
  - Reserved matters planning application being prepared and due to be submitted February 2024
  - Business case approved for design and construction funding
- Langage Spine Road Phase 1b
  - Surveys undertaken with ground investigation to follow. Preliminary design being progressed
  - EIA screening submitted to inform requirements for planning application. Planning application due to be submitted Summer 2024
  - Business case approved for design funding
- Langage/Sherford Pedestrian Cycle Bridge
  - Business case approved for design funding
  - Surveys undertaken and design being progressed
  - Planning application to be submitted December 2023
- Langage Sandy Lane/Holland Road roundabout (design phase)
  - Business case submitted for design funding and approval awaited.

3.4 Trade and investment

The Freeport's Langage tax site will be home to a green hydrogen generation plant, which is being developed by landowner Carlton Power. The scheme is a major part of the Freeport's net zero strategy. An industry leading project, that will use renewable energy to produce green hydrogen fuel which will decarbonise industry, and in the future, transport and heating. The development will have an initial capacity of 10 MW, which will produce enough hydrogen to heat the equivalent of 14,000 homes.

Following March's announcement that the project had been shortlisted by the UK Government for financial support, Carlton Power has signed partnership agreements for Langage to supply hydrogen fuel to two international mining and materials companies: Sibelco and Imerys. The Freeport's 10MW hydrogen hub project at Langage, the first of its kind in the South West of England, and earmarked to enter operation in 2025, will help these two companies achieve their sustainability goals.

The Freeport's anchor tenants in Plymouth, Princess Yachts and Babcock, are committed partners and Babcock have secured a £40m contract in partnership with Devon defence vehicle designer and manufacturer Supacat. This contract will deliver 90 new jobs and enables Babcock to expand its operations in the Freeport's South Yard tax site, with an initial order to manufacture 70 High Mobility Transporters (HMT 400 series) 'Jackal' military vehicles.

A trade and investment pipeline to land further businesses within the Freeport is maturing, including providing a legacy to the successful Marine Business Technology Centre initiative with several of the 156 businesses who engaged with the project enquiring about the opportunities the Freeport has to offer.

Building awareness among businesses in relation to the Freeport customs benefits is also gaining traction. The Freeport has aligned itself with Plymouth and Devon Chamber of

Commerce and Plymouth Manufacturers Group to target businesses with high import/re-export activity. This has generated a pipeline of potential customs site operators situated within the Freeport's Outer Boundary, and two businesses have submitted their initial application to HMRC.

Overarching the trade and investment agenda is a significant Levelling Up stimulus, including: 3,584 jobs from inclusive starter roles through to high value technical roles; 2,745 jobs that pay above the average wage; 10% of jobs created filled by inactive claimants and people registered unemployed; upskilling of 300 to 500 people per annum.

In the Autumn Statement the Chancellor announced the following further Freeport incentives, aimed to strengthen the Freeport offer:

- Extension of tax reliefs to Sep 2031 - "conditional on agreement of delivery plans" with DLUHC stating they will publish a freeports delivery roadmap, outlining steps Government will take to ensure freeports can capitalise on this extension.
- A £150m Investment Opportunity Fund for Freeports and Investment Zones with details to follow.

3.5 Skills

In addition to its wider work programme, Devon is also leading on behalf of the Freeport partnership on related employment and skills activity, working closely with colleagues at Plymouth City Council and across the wider skills delivery landscape. Progress to date has been relatively slow but steady, reflecting the link between skills and training activity and the completion of the emerging Freeport capital programme.

Recognising the lead in times involved with some of the projects under consideration however, early work has begun around a range of pump priming activity, with discussions ongoing with potential employers, college and wider provider partners around specialist provision and aligning provision, with the intent to create a clear offer and package of support for individuals and companies coming forward. This includes work with trade union and wider partners around inclusive employment approaches, with the intent to improve local alignment and onboarding. Early work has also begun around initial successes at Oceansgate, with employment and skills colleagues across the Freeport team working with JCP on a 'work academy' model to source and support recruitment into Babcock Land's recently announced production activity on site.

4) Strategic Plan

The scheme is well aligned with several of the Councils Strategic Plan Priorities by providing sustainable economic growth, well-paid, skilled jobs for young people and improving active travel and public transport options.

Strategic Plan Priority	Freeport
Respond to the climate emergency	Net Zero is central to Freeport development and business cases including provision for active travel, innovation in building carbon reduction and hydrogen production.

Be ambitious for children and young people	Providing well-paid jobs and apprenticeships
Support sustainable economic recovery	Business growth and job creation in key sectors
Help communities be safe, connected and resilient	Enabling a range of transport options including public transport and active travel connecting the Freeport to local residential areas

5) Financial Considerations

There are no specific financial considerations in this report.

6) Legal Considerations

There are no specific legal considerations in this report.

7) Environmental Impact Considerations (Including Climate Change, Sustainability and Socio-economic)

There are no specific environmental considerations in this report.

8) Equality Considerations

An Impact Assessment was prepared for submission with the cabinet approval in April 2022 and is available on the Council's website at the link below.
The public sector equality duty has been considered by partners in the operation of the Freeport since its inception.

9) Risk Management Considerations

Risks are presented to Freeport Partners via a Risk Register at operational and Board meetings which is updated regularly. DCC has no corporate risks identified regarding the Freeport and there are no risks to consider in this report.

10) Summary

The Freeport continues to make progress and processes are in place to ensure the seed capital investment can be drawn down. The incentives announced in the Autumn Statement have potential to support the Freeport secure additional investment and develop identified growth sectors and opportunities. The announcement also provided a time extension to tax incentives providing further potential to maximise the impact from the Freeport designation.

Keri Denton
Head of Economy Enterprise and Skills

Electoral Divisions: All

Cabinet Member for Economic Recovery and Skills: Councillor Rufus Gilbert

Local Government Act 1972: List of background papers

Cabinet 13th April 2022:

- Plymouth and South Devon Freeport.
- Impact Assessment Plymouth and South Devon Freeport

The above mentioned Reports are published on the Council's website at **http://democracy.devon.gov.uk/ieDocHome.aspx?bcr=1**

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Plymouth and South Devon Freeport Update - Final