Norfolk County Council

Cabinet

Date: **Monday 30 January 2023**

Time: **10 am**

Venue: **Council Chamber, County Hall, Martineau Lane, Norwich NR1 2DH**

SUPPLEMENTARY
Agenda

Advice for members of the public:

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11 Dedicated Schools Grant (DSG) Funding **(Page B3)**

Report by the Executive Director of Children's Services

Updated report – this report replaces the version in the published agenda; incorrect data in report has been corrected.

16 Annual Investment and Treasury Strategy 2023-24 **(Page B42)**

Report by the Executive Director of Finance and Commercial Services

Updated report – this report replaces the version in the published agenda; incorrect data in report has been corrected.

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Date Supplementary Agenda Published: 24 January 2023

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Cabinet

Item No: 11

Report Title: Dedicated Schools Grant (DSG) Funding

Date of Meeting: 30 January 2023

Responsible Cabinet Member: Cllr John Fisher (**Cabinet Member for Children's Services**)

Responsible Director: Sara Tough, Executive Director of Children's Service

Is this a Key Decision? Yes

If this is a Key Decision, date added to the Forward Plan of Key Decisions: 31 March 2022

Executive Summary / Introduction from Cabinet Member

This paper presents the changes to the distribution for the Dedicated Schools Grant from April 2023 in line with the Department of Education's National Funding Formula arrangements.

This includes the funding distribution formula that delegates the funding into maintained schools and academies, who are responsible for using this to ensure the educational outcomes for their children, and early years providers for 2-, 3- and 4-year-old funded places.

Schools funding, both locally maintained and academies, is provided primarily through the Dedicated Schools Grant (DSG). This ring-fenced funding is allocated to local authorities who then have the responsibility to delegate this funding to schools in accordance with the agreed formula allocation.

Currently, it is each Local Authority's responsibility to determine individual school budgets according to local formulae, following local consultation with schools, within statutorily set timescales to enable schools to plan accordingly for the next financial year. To enable the timescales to be met by the County Council, Cabinet needs to agree the principles of Norfolk's local formulae.

In summary, the proposed changes to the mainstream schools distribution formula are:

- Allocate the Schools Block funding via the National Funding Formula unit values (in line with the 2023-24 arrangements)

- A one-off movement of 0.5% from the Schools Block to the High Needs Block, due to the scale of demand for high needs specialist places for pupils, as agreed by Norfolk's Schools Forum
- An additional one-off movement of 1% from the Schools Block to the High Needs Block, due to the scale of demand for high needs specialist places for pupils, if agreed by the Secretary of State (decision awaited at the time of report preparation)

It is proposed that the Minimum Funding Guarantee is maintained at +0.5% and a cap on gains is expected to be +2.56%.

In addition to funding via the DSG, Schools receive funding from other ring-fenced grants, such as Pupil Premium and Universal Infant Free School Meals. Each have their own method of allocation and distribution.

The Local Authority is responsible for setting the High Needs Block budget, which is proposed within this paper. A deficit budget is proposed for 2023-24 as part of a multi-year plan to return the High Needs Block to a balanced position in-year and to repay the cumulative deficit.

It is also the Local Authority's responsibility to set a local formula to pay early years providers for funded hours claimed by parents in line with DfE requirements, after consultation with providers. In summary, the proposed changes to the distribution formulae utilising the increased rate that NCC will receive (announced by the Government in December 2022) are:

- an increased base rate for 3- and 4-year-olds (increased by £0.23 per hour from £4.08 per hour to £4.31 per hour);
- an increased base rate for 2-year-olds (increased by £0.14 per hour from £5.50 per hour to £5.64 per hour);
- move to a single deprivation supplement rate payable for children living in the most 20% deprived areas.

Recommendations:
To agree:

1. **the Dedicated Schools Grant funding including**
    a. **the changes to the schools funding formula;**
    b. **the changes to the early years funding entitlements formula;**
    c. **agreeing the high needs block budget, noting that it has been assessed to meet our statutory duties and it adds to the DSG cumulative deficit in line with the Safety Valve plan submitted to the Secretary of State for Education for approval;**
2. **to delegate decision making powers to the Executive Director of Children's Services, in conjunction with the Lead Member for Children's Services, to agree the final funding cap, or allocation of additional funds, once the final DSG calculations of individual school allocations are known and in line with the principles of Cabinet's decision.**

1. Background and Purpose

1.1 Schools funding is provided through the Dedicated Schools Grant (DSG) and other grants. The DSG is allocated to local authorities who then delegate the funding to schools in accordance with agreed formula allocation. Grants are allocated by local authorities to schools as per the Department of Education (DfE) conditions of grants, which vary depending upon the purpose and aims of the funding.

1.2 The Local Authority will receive its Dedicated Schools Grant allocation for 2023-24 based on the new National Funding Formula (NFF). Pupil premium will continue as a separate, ring-fenced grant.

1.3 The DSG is split into four funding blocks: the Schools Block, the High Needs Block, the Early Years Block and the Central School Services Block.

1.4 Movements of up to 0.5% from the Schools Block to other Blocks has to be agreed upon by the local Schools Forum. An application for approval to the Secretary of State has to be made if either the Schools Forum do not agree to a transfer of up to 0.5%, or the Local Authority wishes to make a transfer between Blocks of above 0.5%. Appendix A provides further details of previous years Schools Block to High Needs Block arrangements for reference.

1.5 The DSG deficit arises from the historic underfunding of the High Needs Block, which supports high needs places in state special schools, independent schools, and Alternative Provision in addition to supporting pupils within mainstream schools (in addition to delegated SEN notional funding) and the commissioning of services and teams, such as speech and language therapy and sensory support. Norfolk is currently carrying an outstanding DSG deficit from previous financial years, with a forecast £73.616m cumulative deficit forecast for the end of 2022-23. On the basis of the accounting treatment introduced in 2020 by the Government:

- the DSG is a ring-fenced specific grant separate from the general funding of Local Authorities;
- any deficit an authority may have on its DSG account is expected to be carried forward and is not required to be covered by the authority’s general reserves;
- the deficit should be repaid through future years DSG income.

This deficit DSG reserve position is referenced in the County Council’s reserve balances presented within the Norfolk County Council Revenue Budget 2022-23 report elsewhere on this Cabinet’s agenda but does not need to be considered when assessing the sufficiency of the Council’s general reserves balances. The accounting treatment has been extended until end of 2025/26.

1.6 Demand has continued to outstrip supply and without significant transformative change requiring significant investment, it is expected to continue to do so in future years, based upon the trends seen since the policy changes made through the SEND reforms within the Children & Families Act 2014. The financial impact of these policy changes were not fully recognised at the time of implementation and the funding for the High Needs Block has not kept pace. The County Council has a significant capital investment and transformation programme that has been underway for a number of years, but it has not proved sufficient to sustainably balance the DSG given the level of pressures that have been seen in the system and acknowledged in the SEND and AP Green Paper (SEND Review: Right Support, Right Place, Right Time1). that was published by the Government in Spring 2022 (the outcome of the delayed National SEND Review).

1.7 However, in light of the continuing significant financial pressures seen in the County, Norfolk was invited to join the Governments 'Safety Valve' programme in late Spring 2022, working with both financial and SEND advisors appointed by the DfE to develop a multi-year plan to both bring the DSG back into balance on an in-year basis as well as to look to repay the deficit both through savings from transformation of High Needs Block spend as well as through contributions from both the DfE and NCC. NCC's proposed contribution is included within the Norfolk County Council Revenue Budget 2022-23 report elsewhere on this Cabinet's agenda.

Central Government Policy

1.8 The Government have issued various funding announcements in recent times, including:

1.9 Spending Review 2021: At last year's spending review, the Government announced that the total core school budget is increasing to £56.8bn by 2024-25 which is a £7bn cash increase compared with 2021-22.

1.10 Funding allocations for 2023-24 represent the second year of the three-year funding settlement. With core schools funding (including funding for mainstream schools and high needs) increasing by £1.5bn in 2023-24 compared to the previous year, on top of the £4bn increase in 2022-23.

1.11 Latest National Funding Formula guidance for 2023-24: Confirms increased mandatory minimum per-pupil levels of £4,405 for primary schools (up from £4,265) and £5,715 for secondary schools (up from £5,525).

1.12 School Supplementary Grant – In 2022-23, Norfolk's mainstream schools were allocated additional funding of £16.818m through the Schools Supplementary Grant to reflect the costs of the Health and Social Care Levy and other costs pressures. For 2023-24 this funding has been rolled into the DSG via the schools' National Funding Formula for 5–16-year-olds.

1.13 July 2022: This DfE funding announcement provided an indicative like-for-like increase to Norfolk's Schools Block formula funding of approximately £11.256m for 2023-24 (£28.073m when including the rolled-in Schools Supplementary Grant of £16.818m). However, this was before allowing for an increase in pupil the 'Growth' funding factor estimated by the Local Authority to be approximately £0.749m (£3.874m for 2023-24 compared to £3.125m included within 2022-23), so the overall like-for-like Schools Block DSG increase available to distribute in 2023-24 was estimated to be approximately £12.004m). The indicative increase published for High Needs Block for NFF 2023-24 was £7.702m compared at that time to the most recent (July 2022) HN Block allocation for 2022-23.

[1] SEND Review: Right support, Right place, Right time

1.14 December 2022: The DfE announced published DfE allocations for 2023-24 including an additional £2bn announced in the autumn statement (£0.400m of this as additional High Needs DSG allocation). The final Schools Block allocation for 2023-24 including growth factor is £601.033m (£568.631m in 2022-23), an increase of £32.402m, including £16.818m School Supplementary Grant rolled into DSG baseline in 2023-24).

1.15 Government policy: 2023-24 is the first year of transition to the direct schools National Funding Formula (NFF). In 2023-24, local authorities will only be allowed to use NFF factors in their local formulae, and must use all NFF factors, except any locally determined premises factors. Local authorities will also be required to move their local formulae factors 10% closer to NFF values unless they are already mirroring NFF. Norfolk's formula has been closely aligned to NFF factor values and methodologies since 2019-20, with options for the local formula for Norfolk co-produced with Norfolk Schools Forum each year and all schools were consulted on the options available.

1.16 Further information is available at the Government websites detailed below:

National Funding Formula 2023-24

Schools Revenue Funding 2023-24

1.17 The cash increase announced provides for minimum per-pupil levels for 2023-24 of £4,405 for primary schools and £5,715 for secondary schools[2].

1.18 The issue of increasing and sustained pressure within the High Needs Block is in part due to increasing quantity and complexity of need which has been experienced nationally. The increased demand can also be correlated to the period following the implementation of the SEND reforms within the Children and Families Act 2014. This has been acknowledged by government through their national review into support for children with special educational needs (2020/21) which led to the publication of the SEND Green Paper: SEND Review: Right Support, Right Place, Right Time in 2022. The DfE held a consultation upon the proposals, which the Council responded to alongside regional and national representations. The government response to the Green Paper consultation was expected by end of December 2022, however, it has been signalled that the next steps plan will now be published later in the spring of 2023. Therefore, the preparation of this budget is based upon the existing arrangements. If implemented, the proposals could have a significant impact, including financial implications.

SEND Strategic Improvement

1.19 Local 1st Inclusion is Norfolk County Council's next stage SEND Improvement Programme covering the period 2023-29. It marks the end of the first phase of our improvement planning, through the completion of the initial SEND & Alternative Provision Programme, having built the initial special schools and specialist resource bases and started our revised approach to supporting mainstream inclusion.

1.20 Local 1st Inclusion is directly linked to our ongoing negotiation with the DfE as part of their 'safety valve' programme, to provide both DfE and NCC investment

[2] https://www.gov.uk/government/news/school-funding-boosted-by-4bn-to-level-up-education-for-young-people

to return the High Needs Block to in-year balanced budget and address the cumulative overspend. In addition to revenue elements the DfE are also considering capital bids from NCC for two more special schools alongside the council's ongoing £120m SEND capital investment. DfE Advisors have informed us that the scale of the capital investment that the Council has committed to exceeds any they have seen elsewhere.

1.21 Local 1st Inclusion will continue the expansion of specialist provision, to reduce our reliance on high cost, lower quality, independent sector provision but will also continue our focus on mainstream inclusion, a reduction in the reliance on Education Health and Care Plans and a new approach to school led alternative provision.

1.22 As a result of the capital investment to date, we have opened the first two special schools (with the third opening this spring term), expanded existing Norfolk special schools and have also established or expanded ten more specialist resource bases since 2021/22 (again with more committed as part of our next phase of work).

1.23 These transformational changes, taken together, will not only improve educational provision and outcomes for children and young people, but are also key to addressing the ongoing budget pressures within the council's SEND transport budget and the High Needs Block (HNB). For example, we have already identified savings to both the High Needs Block and SEN Transport budgets derived from the first cohorts within the new schools, £2.5m and £1.3m respectively.

1.24 Funding for children with SEND in Norfolk remains a key pressure in a number of ways. For many years, Norfolk's rate of pupils with SEND has been higher than the national average (when taking the SEN Support and Education Health and Care Plan cohort as a whole[3]), which leaves a cultural legacy not just in schools, but from families and agencies across the county. In recent years, we have seen the demand nationally 'catch up' with Norfolk's position, but the funding nationally remains challenging compared to the high level of need and identification and given the size of deficits across a large number of local authorities.

1.25 The geography and infrastructure of the county means that specialist provision is not available equitably. Too often children and young people in Norfolk are travelling too far to access appropriate provision. The funding available to support meeting high needs is firmly committed, year on year, to the delivery of specialist provision, and this accounts for the vast proportion of the funding available via the High Needs Block. However, with too few maintained places in special schools in Norfolk, a significant proportion of this funding is required to fund places in independent / non-maintained, higher cost provision, which, when compared to relative quality, does not represent best value for money.

1.26 In addition, the permanent exclusion of children from Norfolk schools has historically been amongst the highest proportion of children excluded nationally, (excepting the reduction in exclusions during the pandemic). The consequent

[3] SEN Support cohort is 12.6% nationally and 13.6% in Norfolk, with Education Health and Care Plan cohort 4.0% nationally and 4.1% in Norfolk

impact on the funding of alternative provision for excluded children is adding a further, significant pressure, both at a primary and a secondary level.

1.27 Continuing with the existing situation of high numbers of children and young people being placed in specialist provision which does not provide quality and value for money when compared to state-funded specialist provision, is not in line with our ambitions for children and young people or sustainable within the resources available. The DSG budget will not be balanceable if this situation continues. To be able to bring the High Needs Block, and thus the DSG, back to balance in-year, an invest-to-save revenue approach is needed alongside the capital investment already committed by the County Council and requested from the DfE.

DfE Safety Valve Programme

1.28 The Early Years Finance (England) Regulations 2022 state the ring-fenced status of DSG and how any DSG deficits must be handled. DSG deficits must be carried forward to be dealt with only from future DSG income.

1.29 The grant conditions issued for the 2023-24 Dedicated Schools Grant (DSG) were published in December 2022[4].

1.30 Like many other local authorities, Norfolk currently has a cumulative DSG deficit. Therefore, any overspend on the DSG (for example, due to the number of special school places exceeding the funding available) is required to be repaid through future DSG income, unless the Secretary of State authorises an exception to this.

1.31 Whilst a deficit remains, Norfolk County Council's General Fund (council tax funding) continues to bear the hidden cost of lost interest whilst the County Council 'bank rolls' the deficit.

1.32 Norfolk has been working intensively with the DfE since May 2022 as part of the Safety Valve programme, the DfE mechanism to work with LA's who have the highest levels of High Needs Block (DSG) pressure/overspend, to develop a DSG Management plan and to negotiate potential DfE investment.

1.33 The initial stage of the programme in 2021 worked with 14 LA's which were predominantly small unitary and London borough councils. The programme has been expanded and Norfolk was invited to join the negotiation process in May 2022. There could be up to 40 LAs in the programme by end of current financial year.

1.34 The core aim for DfE and NCC alike is to achieve an in-year balanced budget to enable the cumulative deficit to be addressed. Doing so in a way in which outcomes for children and young people are improved and leading to a long term sustainable model of local mainstream inclusion and specialist provision for those with complex needs.

1.35 The timeline for the safety valve programme has been demanding, with final submission on 6 October 2022 (and the deadline for the final associated submission of the Free School Capital application on 10 October 2022). The decision by the Secretary of State was expected at the end of the Autumn term, but this has been delayed and is now expected late February 2023. Following

[4] DSG: conditions of grant 2023 to 2024 - GOV.UK (www.gov.uk)

2023-24 DSG funding announcements in December 2022, Norfolk have been asked to submit a revised plan taking this funding into account by the end of January 2023. This paper is written based on this revised plan and subsequent agreement by the Secretary of State.

1.36 The key requirements that need to be met by all LAs in the programme are:

- How the LA will control the DSG deficit and reach an in-year balance (as a minimum), and how quickly. It is requested that this be set out in the DfE DSG management plan template. The DSG management plan should also indicate any planned block transfer requests, which will be handled through the Safety Valve programme where required.
- How Norfolk will contribute to the reduction of the historic deficit through use of DSG surpluses, in addition to reaching an in-year balance.
- How Norfolk will ensure that the plan is deliverable, how it will be managed as it is implemented and how this plan will continue to ensure the appropriate support for children and young people with SEND. This includes ongoing monitoring of progress towards the agreement by the LA.
- A clear explanation of the financial support Norfolk needs from the DfE to eliminate the historic deficit over the period of the agreement. This could include, if necessary, a request for some funding to help implement the proposal, as well as funding to eliminate the deficit directly, although we would not expect this to constitute a significant element of the total financial support requested.

Local 1st Inclusion

1.37 Norfolk has worked intensively during Summer 2022 with the DfE and their appointed financial and Special Educational Needs and Disabilities Advisors as part of the Safety Valve programme, the DfE mechanism to work with local authorities who have the highest levels of High Needs Block (DSG) pressure/overspend, to develop a DSG Management plan and to negotiate potential DfE investment. The core aim for DfE and NCC alike is to achieve an in-year balanced budget to enable the cumulative deficit to be addressed. Through these discussions with the DfE, a plan has been prepared to bring the in-year deficit into surplus and to reduce the cumulative deficit over 6 years.

1.38 Norfolk's plan is 'Local 1st Inclusion' and is the next stage of our SEND improvement journey, covering the period 2023-29; it marks the end of the first phase of our improvement planning, our SEND and AP transformation programme. In addition to revenue elements the DfE are also considering capital bids from NCC for two more special schools alongside the Council's ongoing £120m capital investment.

1.39 Local 1st Inclusion will continue the expansion of specialist provision, to reduce our reliance on high cost independent sector provision (whilst continuing to work with those in the sector who can provide good, value for money, provision); our state-funded special schools offer an excellent and high-quality education for children and young people with higher needs SEND and we're investing in more state specialist provision for those children and young people with higher needs. But additionally, we will have a renewed focus on mainstream inclusion and a reduction in the reliance on Education Health and Care Plans.

- The programme aims to create a sustainable and effective system which supports children and young people with SEND to flourish in their education, through:
- Creating a system of improved support for children and young people's education by increasing support and funding for mainstream schools/school leaders
- Ensuring fewer children need Education, Health and Care Plans by improving support within the mainstream system
- Meeting demand earlier to prevent needs escalating by creating more support to mainstream schools and, through them, families
- Improving the confidence of parents and carers in local support and provision in mainstream education
- Strengthening/expanding state-funded specialist education capacity and reducing reliance on costly independent specialist education provision

1.40 Local 1st Inclusion is all about improving outcomes for children and young people with SEND, ensuring wherever possible and appropriate they can attend school close to their home/in their community with the support they need to make progress in their learning alongside other children of the same age.

1.41 This was presented to Norfolk's Schools Forum at its September 2022 meeting. The plan below is an amended version taking into account the recent DSG funding announcement by Government and inflationary pressures seen during these unprecedented times.

1.42 Financial modelling for the DSG Management Plan is based upon the best available information at the time of preparation and some elements of the transformation planned are further through the planning cycle than other elements.

1.43 It should be noted that the DSG recovery plan is a based upon a complex financial model, aspects of which are not entirely within the control of the local authority, such as demand for specialist provision, independent sector placement charges and the medium-to-longer term impact of the Covid-19 pandemic upon high needs including alternative provision.

1.44 To enable investment in earlier help and inclusion, particularly within mainstream settings, the in-year deficit is planned to increase initially prior to reduced in-year deficits and then surpluses as the benefits of both the capital and revenue investment and realised.

1.45 The scale of the challenge faced by Norfolk within the current funding arrangements from the Government cannot be understated. The high-level medium-term plan is shown in the table overleaf.

1.46 The Local Authority submitted a disapplication of regulations request to the Secretary of State in November 2022 requesting a further 1% transfer from the Schools Block to the High Needs Block in 2023-24, equivalent to approximately

£6.010m. The decision of the Secretary of State is awaited; agreement, as with the Safety Valve plan is presumed for the purposes of this paper.

1.47 The current financial year outturn forecast (2022/3) is £19.6m overspend at the end of period 8 monitoring (end of November 2022).

DSG Medium Term Plan	2022-23	2023-24	2024/25	2025/26	2026/27	2027/28	2028/29
High Needs Block DSG Income	-120.578	-135.212	-141.484	-145.175	-148.682	-152.865	-157.846
1.5% Schools Block transfer	-8.529	-9.015	-9.196	-9.380	-9.567	-9.759	-9.954
Total income	**-129.107**	**-144.228**	**-150.680**	**-154.555**	**-158.249**	**-162.623**	**-167.800**
Maintained / Academy / Free Special Schools	46.878	53.584	56.351	58.883	62.115	64.828	67.038
Specialist Resource Bases & Deaf Resource Bases	6.314	7.966	10.466	14.291	17.959	19.497	19.887
Independent Special Schools	42.771	47.424	41.437	29.825	16.910	7.427	6.908
Alternative Provision	2.133	2.110	2.007	1.894	1.783	1.662	1.552
Short Stay Schools	8.400	8.831	8.203	7.578	6.957	6.339	5.726
Post-16 (Further Education)	8.173	8.631	8.864	8.620	8.386	8.160	7.960
Other Provisions	5.027	4.238	3.866	3.514	3.133	2.793	2.393
Inclusion fund (including mainstream SEN / EHCP support)	20.176	23.265	25.118	26.533	27.310	27.589	27.370
Speech & Language, Sensory, Youth Offending and Child & Adolescent Mental Health support & contributions	3.551	3.680	3.744	3.841	3.940	4.042	4.146
High Needs Inclusion Infrastructure, cluster teams including parent link workers	2.680	6.098	7.466	7.346	7.323	6.163	5.289
Other, including TPG/TPECG, H&SC levy and new school start-up costs	2.641	2.519	2.591	2.655	2.734	2.804	2.856
Investment contingency including Inclusion Fund	0.000	1.030	1.000	0.500	0.000	0.000	0.000
Total Expenditure	**148.744**	**169.376**	**171.112**	**165.479**	**158.549**	**151.303**	**151.125**
In-year +deficit/-surplus	**19.637**	**25.149**	**20.433**	**10.924**	**0.300**	**-11.320**	**-16.675**
Cumulative Balance without contribution	**73.613**	**98.762**	**119.194**	**130.118**	**130.418**	**119.098**	**102.423**

1.48 The table below provides a breakdown of the placement numbers forecast in the financial model by type, including estimations of the number of children and young people who would be supported in mainstream provision with either an EHCP or high needs funded SEN support. This shows that whilst there is a small, overall increase in the number of children and young people supported by the high needs block, there is a significant shift in how and where needs will be met

Placements Numbers by type:	2022-23	2023-24	2024/25	2025/26	2026/27	2027/28	2028/29
Maintained / Academy / Free Special Schools	2,049	2,128	2,188	2,233	2,317	2,347	2,369
Independent Special Schools	909	946	820	599	344	119	108
Add/Other Provisions	205	187	170	153	136	119	100
Medical Needs/Hospital Provision	84	20	20	20	20	20	20
Personal Budgets	82	83	84	85	86	87	86
Section 19 Placements and Support^	157	139	122	105	88	71	52
Alternative Provision	110	110	103	96	89	82	76
Post-16 (Further Education)	764	781	796	712	629	546	464
Specialist Resource Bases & Deaf Resource Bases	420	530	717	970	1,132	1,132	1,132
Short Stay Schools	432	432	432	432	432	432	432
Other Local Authority Recoupment	96	94	83	72	61	50	40
Total Placement Numbers	**5,308**	**5,450**	**5,535**	**5,477**	**5,334**	**5,006**	**4,879**
Mainstream EHCP & funded SEN support	4,154	4,330	4,385	4,445	4,496	4,562	4,693
Total	**9,462**	**9,780**	**9,920**	**9,922**	**9,830**	**9,568**	**9,572**

2023-24 DSG Allocations

1.49 The total DSG allocation received for 2023-24 was published in December 2022 by the DfE and totals £787.655m before academy recoupment. This compares to a total DSG allocation of £737.767m in 2022-23, as at the November 2022 DSG update; an overall increase of £49.888m.

1.50 An additional £2bn for both 2023-24 and 2024-25 financial years was announced in the Government's autumn statement, and the DfE states that funding increases for mainstream schools are equivalent to a per-pupil increase of approximately 5% overall compared to 2022-23[5].

1.51 Within the additional £2bn for 2023-24, an extra £400m was announced nationally for High Needs. Norfolk will receive an additional £5.349m of High Needs additional DSG funding is included within the published DSG allocations (the total High Needs allocation for 2023-24 to £135.212m). Part of this additional High Needs funding must be used to allocate an additional 3.4% to special and AP schools and academies, as per the 2023-24 DSG conditions of grant.

1.52 As well as an increased DSG allocation, the Government has announced £1.451bn nationally for 2023-24 in the form of 'Mainstream Schools Additional Grant'. Norfolk's share is, indicatively, £20.5m and the grant will be allocated to mainstream schools and academies. School level allocations are expected from the DfE in spring 2023.

1.53 Finally, the DFE have published the early years rates and operational guidance for 2023-24. The Early Years block will receive a further £20m on top of the £180m of additional funding in 2023-24 compared to 2021-22 announced at the Spending Review. Local authorities will receive average funding increases of 3.4% for the 3- and 4-year-old free childcare entitlements and 4% for the 2-year-old entitlement.

Schools Block

1.54 The Schools Block allocation for 2023-24 is £601.033m; an increase of £32.402m (including School Supplementary Grant of £16.818m rolled into DSG) from the £568.631m received in 2022-23.

1.55 £3.633m of the increase is extra funding for additional pupil numbers on the October census, up from 107,460 pupils to 107,974 pupils compared to the previous year (based on 2022-23 funding rates). The remaining £28.769m is from School Supplementary Grant rolled into DSG and uplifts to National Funding Formula funding distributed by the Department for Education (DfE) for 2023-24.

1.56 Appendix B provides a summary of the changes to the National Funding Formula for 2023-24.

1.57 In addition to the Schools Block DSG allocation, Norfolk's mainstream schools and academies will receive Mainstream Schools Additional Grant[6] of £20.5m which will be allocated to mainstream schools and academies in 2023-24 based on school-level allocations provided by the DfE in spring 2023.

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[5] Investment to shield schools from high energy bills and boost to budgets - GOV.UK (www.gov.uk)

[6] Mainstream schools additional grant 2023 to 2024 - GOV.UK (www.gov.uk)

Central School Services Block

1.58 This block consists of historic commitments prior to 2013 with a contractual agreement. It also includes a contribution to the admissions service, the servicing of the Schools Forum and covers licences that are paid centrally by the Department of Education on all schools' behalf. Additionally, it includes the previously retained element of the Education Services Grant, which covers the statutory duties carried out by the Local Authority for all types of school.

1.59 The Central School Services Block allocation for 2023-24 is £4.080m (£3.965m in 2022-23) and covers centrally retained budgets that support schools. The increase of £0.115m is due to an increase of 514 pupils between years, an increase in the amount allocated per-pupil (from £35.75 per-pupil to £36.88 per-pupil), partially offset by a decrease in funding for historic commitments (down from £123k to £98k).

1.60 This DSG block will be used as per agreement with Schools Forum at their November 2022 and January 2023 meetings.

High Needs Block

1.61 The High Needs block allocation generated by National Funding Formula for 2023-24, including High Needs additional DSG funding of £5.349m, has increased to £135.212m from £120.578m in 2022-23. This is an increase of £14.634m (12.1%) compared to the 2022-23 High Needs Block (as at the November 2022 DSG update).

1.62 The increase of £14.634m between years includes an increase of £1.577m based on the number of pupils in special schools (including independent), up from 2,299.50 to 2,638 pupils, and £5.349m of High Needs additional DSG funding allocated from the extra £400m announced for High Needs nationally. The remainder is due to previously announced and expected DSG increases with the High Needs National Funding Formula for 2023-24.

1.63 Part of the additional High Needs funding of £5.349m included within the DSG allocation must be used to give an additional 3.4% to special and AP schools and academies, as per the 2023-24 DSG conditions of grant.

Early Years Block

1.64 The indicative Early Years Block for 3- and 4-year-old universal entitlement (15 hours per week) in 2023-24 totals £30.183m compared to £28.397m in 2022-23 (as of Nov'22 DSG update). The increase in funding is due to an increase in the hourly rate from £4.61 per hour in 2022-23 to £4.90 per hour in 2023-24, based on the same number of funded hours for both years.

1.65 The 2023-24 published rate for Norfolk's 3- and 4-year-old funding is £4.90 per hour from which all provider basic hours, supplements (including Teachers' Pay Grant and Teachers' Pension Employee Contribution Grant) and central costs must be funded. The £4.90 per hour includes £0.06 per hour towards Teachers' Pay Grant (TPG) and Teachers' Pension Employer Contribution Grant (TPECG) which in 2022-23 were separate grants for schools, and excluding that the rate receive is £4.84 per hour which is an increase of £0.23 per hour compared to the 2022-23 rate of £4.61 per hour.

1.66 Working parents may access an additional 15 hours of funded 3- and 4-year-old early education, taking the total amount to 30 hours per week of funded childcare. Based on the January 2022 census, the DfE has provided indicative funding of £10.863 for the estimated take up of the additional 15 hours by parents in 2023-24, compared to £10.220m in 2022-23. The increase in funding is due to an increase in the hourly rate from £4.61 per hour in 2022-23 to £4.90 per hour (including £0.06.hr towards TPG/TPECG) in 2023-24, based on the same number of funded hours for both years.

1.67 Parents can access 15 hours of funded 2-year-old early education, if they meet the eligibility criteria. The Department of Education is providing £4.993m of funding initially based on the January 2022 census (compared to £4.870m in 2022-23). Norfolk County Council will receive £5.71 per hour for Early Education of 2-year-olds, an increase of £0.14 compared to 2022-23 rate of £5.57 per hour.

1.68 Early Years Pupil Premium will be paid at an increased rate of £0.62 per hour per eligible child claiming 3 and 4-year-old funding, up to a maximum of 570 hours per year (compared to £0.60 per hour in 2022-23). The initial published allocation is £0.631m.

1.69 Initial budgets, and the funding formula, will be set based on the DfE's indicative Early Years Block allocation. Final Early Years Block allocations for 2023-24 will be based on 5/12th of Part Time Equivalent data from the January 2023 Census and 7/12th of PTE data from the January 2024 Census. The local authority will account for EY Block income on an accruals basis, entering estimated adjustments into the accounts at year end to reflect the estimated final EY Block funding for 2023-24. The final adjustment to 2022-23 Early Years Block will take place in July 2024, after year end.

1.70 The Disability Access Fund aids access to early years places. An early years setting is eligible for £828 per year (increased from £800 in 2021/22) for each child in receipt of Disability Living Allowance using February 2022 data. The allocation for 2023-24 is £0.276m, and it is not updated during the financial year.

1.71 The Early Years National Funding Formula (EYNFF) places nursery schools on the same funding model as all Early Years Settings, and supplementary funding of £0.383m (increased from £0.268m in 2022-23) has been provided to continue to protect fixed sums that the 3 Nursery Schools in Norfolk receive. This funding is based upon funding of £3.80 per hour to pass to the 3 nursery schools, including £0.53 per hour towards TPG and TPECG, which in 2022-23 were separate grants for schools. Excluding the TPG/TPECG for equal comparison, the rate received is £3.27 per hour, a £0.61 per hour increase compared to the 2022-23 rate of £2.66 per hour. The supplementary funding is to cover the higher overheads and cost of qualified teaching staff in a Nursery School.

1.72 In addition to the Maintained Nursery Supplement (MNS) provided to nursery schools by the DfE, the LA provided additional protection to the schools in 2022-23 to meet the remainder of the fixed sums that were paid to nursery schools prior to the introduction of the Early Years National Funding Formula (less a reduction of 1.5% per year previously agreed for transition). The combined total level of protection in 2022-23 for nursery schools was £365,342 made up of £268,413 for MNS from DfE and £96,929 additional protection provided by the LA from EY Block.

DSG Changes between years (by Funding Block)

1.73 The overall difference in the DSG allocation from the prior year is set out in the table below:

2. Funding element	2023-24* (£m)	2022-23** (£m)	Change (£m)	Explanation for change
Early Years Block				
Early Years 3- & 4-year-olds: 15 hours universal entitlement	30.183	28.397	1.786	Increase in hourly rate from £4.61 to £4.90 including £0.06 per hour for TPG/TPECG
Early Years 3- & 4-year-olds: 30 hours for working parents	10.863	10.220	0.643	Increase in hourly rate from £4.61 to £4.90 including £0.06 per hour for TPG/TPECG
Early Years 2-year-olds: 15 hours, where eligible	4.993	4.870	0.123	Increase in hourly rate from £5.57 to £5.71
Early Years Pupil Premium	0.631	0.611	0.020	Increase in rate from £0.60 to £0.62
Nursery Schools Supplement	0.383	0.268	0.115	Increase in hourly rate from £2.66 to £3.80 including £0.53 per hour for TPG/TPECG
Early Years Disability Access Fund	0.276	0.227	0.049	Increase from £800 per child (for 284 pupils in 2022-23) to £828 (for 333 pupils in 2023-24)
Schools Block	601.033	568.631	32.402	Increase of 514 pupils, £3.633m, School Supplementary Grant rolled into DSG (£16.818m) and additional money from DfE through NFF £11.951m.
Central School Services Block	4.080	3.965	0.115	Increase of 514 pupils, funding per-pupil has increased from £35.75 to £36.88 per pupil, but £25k reduction to historic commitments funding.
High Needs Block* **	135.212	120.578	14.634	Includes £1.577m for increase in special school (inc. independent) places, £5.349m additional High Needs Block DSG allocation announced in December 2022, and additional funding distributed through National Funding Formula.
Total** **	**787.655**	**737.767**	**49.888**	

*Source: DfE's DSG allocation tables 2023-24 (published Dec'22)
**Source: DfE's DSG allocation tables 2022-23 (Nov'22 update)
***Includes High Needs additional DSG funding allocation of £5.349m (HN allocation before additional based on NFF approximately £129.864m)
****Excludes £20.5m of Mainstream Schools Additional Grant, outside of the DSG for mainstream schools and academies which will be distributed based on school-level allocations from the DfE expected to be published in Spring 2023.
Note: All figures are shown rounded to nearest thousand per DfE allocation table

Movement Between Funding Blocks

2.1 Movement of 0.5% from the Schools Block to the High Needs Block was agreed by Schools Forum at the November 2022 meeting with the intention of alleviating the forecast pressure on the High Needs Block caused by the demand on high-cost specialist placements, the increase in high needs in the school population and the proportion of placements in independent provision as opposed to state-maintained provision. Based on the updated DSG allocation for 2023-24 this is a one-off movement of approximately £3.005m. Following that transfer the new totals will be £598.027m for Schools Block and £138.217m for High Needs Block.

2.2 In line with the submitted Safety Valve plan, the Local Authority submitted a disapplication of regulations request to the Secretary of State in November 2022 requesting a further 1% transfer from the Schools Block to the High Needs Block in 2023/224, equivalent to approximately £6.010m. The decision of the Secretary of State is awaited at the time of preparation of this report; the DSG Budget and medium-term plan presented in this report presume that this request is agreed.

Existing DSG Cumulative Deficit

2.3 Norfolk is carrying an outstanding DSG deficit of £53.976m from previous financial years as a result of pressures within the High Needs Block. A further DSG deficit of £19.6m for 2022-23 is forecast based upon the latest information available. The overall DSG starting position for 2023-24 is, therefore, forecast to be a deficit of £73.6m.

Other Schools Grants

Pupil Premium

2.4 The DfE has stated that Pupil Premium funding will increase by 5% for 2023-24, and that the new rates will be:

- Primary FSM6 pupils: £1,455
- Secondary FSM6 pupils: £1,035
- Looked-after children: £2,530
- Children who have ceased to be looked-after: £2,530
- Service children: £335

2.5 The DfE will publish allocations and conditions of grant in spring 2023.

Other grants for 2022 to 2023

2.6 The DfE have said that information about other grants for 2023-24 will be issued during 2023.

2. Proposal

Schools Block

2.2 It is proposed that the Schools Block is allocated to mainstream schools and academies in 2023-24, after deductions for an agreed growth fund and any agreed transfers to High Needs Block, mirroring National Funding Formula factor values and methodologies as closely as possible subject to a final calibration of the formula to funds available (as set out in the autumn 2022 consultation with Norfolk's schools) and including a Minimum Funding Guarantee (MFG) of +0.5% (the maximum allowed for 2023-24).

2.3 Norfolk Schools Forum agreed at the November 2022 meeting:

- A top slice of £0.711m Schools Block funding for a growth fund for maintained schools and academies;
- An additional top slice of £0.390m as part of the growth fund to be allocated to new schools for pre-opening costs;
- A transfer of 0.5% (£3.005m based on final Schools Block allocation) from Schools Block to High Needs Block to support pressures within the High Needs Block and to support recovery of the DSG deficit.

2.4 In addition to the 0.5% transfer agreed by Schools Forum in November 2022, a further transfer of an additional 1% (£6.010m) to High Needs Block has been requested in a disapplication request to the Secretary of State in line with the Safety Valve plan submitted to the DfE.

2.5 The total allocation to mainstream schools' and academies' budget shares will be £590,916,630 (including National Non-Domestic Rates) if the disapplication request is approved (£596,926,961 if refused). In addition, the agreed £1.101m growth fund will be allocated in-year based on the growth fund criteria agreed by Schools Forum in November 2022 (£0.711m for in-year growth and £0.390m for the pre-opening costs of new schools).

2.6 During the Autumn 2022 term, a consultation survey was undertaken with schools on two areas in relation to the formula methodology:

- Feedback was sought to understand the impact to schools and academy trusts, and the system as a whole, at different level of block transfer upon their budgets (documentation set out the impact of three different levels of transfers from Schools Block to High Needs Block in 2023-24).
- Views as to whether Norfolk should retain a 'hard cap' on gains to enable the Minimum Funding Guarantee to be delivered if there is not sufficient funds for all schools to receive their indicative allocation due to a block transfer, or whether an alternative approach should be implemented (and three alternative options were detailed along with impact for individual schools within the documentation).

2.7 Subsequently, further engagement was carried out with schools later in the Autumn term to seek feedback regarding Notional SEN funding.

2.8 Details of the consultations and the responses provided by schools are included within Schools Forum papers[7] and schools fair funding consultation page of our website[8]

2.9 The consultation responses from schools were relatively low in number (110 of 422 state funded schools in Norfolk were represented) with mixed comments regarding impact on their individual schools (likely to be dependent upon whether they are likely to receive funding gains that would be capped) and whether block transfers were the right way of resolving the high needs funding situation as a whole system.

2.10 The second topic of the consultation was the funding cap on gains following issues highlighted by some schools. Historically, a funding cap has been necessary in order to mirror the NFF unit values and methodologies whilst making a Schools Block to High Needs Block transfer. The cap in 2022-23 meant that small schools receiving the sparsity factor for the first time did not realise the large gain in 2022-23 that they may have been expecting as part of the NFF, as overall per-pupil funding in the local formula was capped at increases of +2.82% for schools (beyond which no further increase was received by the schools). This means that the large gains expected by those schools have, effectively, become delayed and, potentially, will be spread over a number of years. This issue could apply equally to other factors if/when there are changes in the methodology within the NFF that target additional amounts to specific school types, although sparsity is thought to be the most notable example of this.

2.11 The alternative options presented included ‘scaling and capping’ rather than a ‘hard cap’, reduction in unit values away from the NFF values, or an application to the Secretary of State for an adjustment to MFG for the affected schools. All options had pros and cons, which were presented, and there would always be ‘winners and losers’ for each one given the finite resources available.

2.12 The survey response was mixed; a high proportion of those schools represented that had had sparsity funding capped in 2022-23 opted for an adjustment to MFG, whilst others opted for maintaining a ‘hard cap’ or a ‘scaling and capping’ combination. Some schools effected by the cap in relation to sparsity funding in 2022-23 opted for reduction in unit values for all rather than MFG adjustment.

2.13 Schools Forum debated the options considering the survey responses and were unable to come to a clear view that an alternative approach should be taken due to the implications of each option given the proposed block transfer. Without a clear direction from the Schools Forum to make a change, it is proposed that the ‘hard cap’ remains in place for 2022-23 and this issue can be revisited with schools in future years. It should be noted that this is likely to mean that some small, rural schools who became eligible for sparsity funding in 2022-23, or become eligible in 2023-24, will have significant caps on gains within the formula.

2.14 The final subject of consultation with schools was Notional SEN. Notional SEN is the element of the DSG Schools Block allocation to all mainstream schools

[7] https://www.schools.norfolk.gov.uk/school-finance/norfolk-schools-forum/forum-agendas-and-papers

[8] https://www.schools.norfolk.gov.uk/school-finance/fair-funding-consultation

that is intended for children and young people described as requiring SEN Support (I.e. not the cohort who have an Education Health and Care Plan). The DfE have issued operational guidance on notional SEN values for the first time, for the financial year 2023-24. LAs are now expected to review the size of their notional SEN allocations following consultation with schools and Schools Forum and to determine if changes are needed.

2.15 The DfE have provided national data on notional SEN, with 78% of authorities allocating between 5% and 15% of their Schools Block funding as notional SEN. In Norfolk, this percentage is approximately 7% currently. Across all authorities, the average is 11.3% which is a significant difference.

2.16 Therefore, there is a need to review whether Norfolk's notional SEN budget should be brought into line with the national average. A consultation survey was issued in November for mainstream schools to gather information on current use of notional SEN budgets.

2.17 There has been a low response rate to the consultation survey, however, of those schools (or Multi Academy Trusts) that did respond they confirmed that the range of spend was between 2.5% and 5%.

2.18 It is important to note that, as the description suggests, this is 'notional' SEN funding and is not intended to prescribe the total level of funding individual schools commit for SEN. Therefore, any change in the ratio of Schools Block funding assigned for notional SEN funding does not change any individual schools' budget allocation. Instead, it provides an indication of the level of support that should be provided and can assist the LA in our work with schools when discussing 'top up' funding from the High Needs Block.

2.19 A further report is being presented to the Schools Forum on 27 January and it will recommend that a move towards national average should not start in the 2023-24 financial year but should instead be phased in over a 3 year period starting FY 2024/25.

2.20 Cabinet is asked to allocate the Schools Block funding via the DfE's National Funding Formula unit rates and methodologies, with a transfer to the High Needs Block of £9.015m of Schools Block, 1.5% as agreed by the Secretary of State. The Minimum Funding Guarantee, based upon the final DSG allocations, is expected to be set at +0.5% and it is anticipated that a funding cap of +2.56% will be required.

2.21 **Cabinet is asked to delegate decision making powers to the Executive Director of Children's Services, in conjunction with the Lead Member for Children's Services, to agree the final funding cap (if necessary) or allocation of additional funds, once the final DSG calculations of individual school allocations are confirmed, and in in line with the principles of Cabinet's decision.**

High Needs Block

2.22 Following engagement with the DfE's Safety Valve programme, a deficit budget for 2023-24 has been identified as part of a multi-year plan designed to return the HNB to an in-year balanced position through our Local 1st Inclusion programme and will subsequently result in the cumulative deficit being repaid. This plan is aligned with the latest monitoring at the time of writing (period 8, end of November 2022).

2.23 The Council submitted a disapplication of regulations request to the Secretary of State in November 2022 requesting a further 1% transfer from the Schools Block to the High Needs Block in 2023-24, equivalent to approximately £6.010m. A response has not yet been received from the Secretary of State but, for now, the proposed 2023-24 budget and the medium term DSG Management Plan includes the requested transfer. If the disapplication request is subsequently refused, or only partially agreed, the forecast DSG deficit will increase accordingly.

2.24 The modelling continues to be improved and refined on an iterative basis. Some of the changes in this latest update are corrections or improvements to previous figures or assumptions.

2.25 The deficit budget for 2023-24 comprises of a combination of demand for high needs, specialist education placements and provision, particularly independent provision, exceeding the funds available combined with revenue invest-to-save approaches as part of the multi-year medium term plan to return to a balanced in year position in future. The budgeted deficit to be added to the cumulative DSG deficit forecast as at end of March 2023.

2.26 Taking into account the modelling of the various types of placements, the proposed HNB for 2023-24 is shown in the table below (an extract of the Safety Valve DSG management plan shown elsewhere on the report):

2023-24 High Needs Block	**£m**
High Needs Block DSG Income	-135.212
1.5% Schools Block transfer	-9.015
Total Resources	-144.228
Maintained / Academy / Free Special Schools	53.584
Specialist Resource Bases & Deaf Resource Bases	7.966
Independent Special Schools	47.424
Alternative Provision	2.110
Short Stay Schools	8.831
Post-16 (Further Education)	8.631
Other Provisions	4.238
Inclusion fund (including mainstream SEN / EHCP support)	23.265
Speech & Language, Sensory, Youth Offending and Child & Adolescent Mental Health support & contributions	3.680
High Needs Inclusion Infrastructure, cluster teams including parent link workers	6.098
Other, including TPG/TPECG, H&SC levy and new school start-up costs	2.519
Investment contingency including Inclusion Fund	1.030
Total Expenditure	169.376
In-year +deficit/-surplus	25.149
Cumulative Deficit Forecast 31 March 2024	98.762

2.27 **Cabinet is asked to agree the HNB budget, noting that it has been assessed to meet our statutory duties and it adds to the DSG cumulative**

deficit and it adds to the DSG cumulative deficit in line with the Safety Valve plan submitted to the Secretary of State for Education for approval.

Early Years Block

2.28 The 3 and 4-year-old allocation (universal and additional entitlement) for Norfolk provided by the DfE will increase by £0.23 per hour for Norfolk in 2023-24 from £4.61 per hour to £4.84 per hour, but in addition, a further £0.06 per hour has been allocated to cover costs of the previously separately funded Teachers' Pay and Pension Grants, bringing the rate received in Early Years Block to £4.90/ per hour.

2.29 The rate for 2-year-olds will increase from £5.57 per hour to £5.71 per hour for 2-year-olds, an increase of £0.14 per hour.

2.30 Key increases in costs for providers will be the increase in National Living Wage (NLW) of £0.92 per hour April 2023 (and any subsequent impact to higher paid roles), although this has been partially mitigated by the removal of the 1.25% Health and Social Care Levy above the lower National Insurance threshold since the 2022-23 EY formula was set.

2.31 Norfolk's Early Years funding formula has been based upon several elements since its introduction. It is proposed that for 2023-24 that all existing elements continue with the addition of an additional element in relation to the Teachers' Pay and Pension Grants now allocated through the EY Block:

- Hourly base rate (2-, 3- & 4-year-olds)
- Special Educational Needs Inclusion Fund (2-, 3- & 4-year-olds)
- Mandatory Deprivation and Discretionary Flexibility and Quality supplements (3- & 4-year-olds only)
- Additional Maintained Nursery Supplement
- Centrally Retained by the LA for the provision of central services
- Contingency
- NEW: Teachers' Pay and Pension Grant (TPG/TPECG) previously separate grants paid to schools in 2022-23 but rolled into the Early Years Block in 2023-24 and expected by DfE to be allocated via the Quality Supplement. Norfolk proposes to allocate the funding to schools only.

2.32 A consultation and survey was open to all Early Years providers in Norfolk was undertaken during the Autumn term 2022, followed by an agreement by Schools Forum for the results to be discussed by the Early Years Consultative Group prior to recommending a formula to the Forum's January 2023 meeting.

2.33 The Consultative Group reviewed the consultation responses in detail and concluded there was no consensus for any significant change from the current funding formula. They agreed, therefore, to maintain the current optional supplements at existing rates and current level of the SEN Inclusion Funds.

2.34 The group examined the impact of changes to Deprivation rates and concluded it would be beneficial for the sector to maintain the existing budget but combine the two rates into a single rate.

2.35 The group met before confirmation of funding rates from the DfE but agreed that any additional funding should be used to maximise the base rate to benefit all providers equally.

2.36 The proposals within the table below for the 2023-24 funding formula for Norfolk presumes that the Forum agrees to the recommendations.

Element	Consideration and Proposal
2-year-old hourly base rate	It is proposed to pass the **increase of £0.14 per hour** to providers, giving a new rate of £5.64 per hour with £0.07 per hour continuing to be retained for the 2-year-old SEN Inclusion Fund. This maintains the 2022-23 SEN Inclusion Fund at £0.050m in 2023-24 to meet demand for low and emerging need for 2-year-olds, whilst passing the full increase in the hourly rate directly through to providers.
3-&4-year-old hourly base rate	Following the consultation with Early Years providers, the local authority, with the Early Years Consultative group, has considered various options for the distribution of the additional funding. It is proposed that the hourly base rate for rate for 3- and 4-year-olds (universal and additional entitlement for working parents) from £4.08 per hour to **£4.31 per hour**, an **increase of £0.23 per hour** reflecting full 'pass through' of the additional funding provided by the national formula to Norfolk, excluding the Teachers' Pay Grant (TPG) and Teachers' Pension Employer Contribution Grant) which was provided in 2022-23 as separate grants to schools.
Special Educational Needs Inclusion Fund (2-, 3- & 4-year-olds)	The SEN Inclusion Funds are to meet demand for low and emerging needs. It is proposed 3-and-4-year-olds fund remains at the current level of £0.850m, equivalent to approximately £0.10 per hour of the funding received from the DfE Following the ongoing success of the fund 2-year-olds during 2021/22, it is proposed to increase the 2-year-olds, it is proposed that it is maintained at the current level of £0.050m for 2023-24, equivalent to £0.07 per hour.
Mandatory Deprivation and Discretionary Flexibility and Quality supplements (3- & 4-year-olds only)	Following feedback from the autumn consultation with providers and from the EY Consultative Group, it is proposed that deprivation and other supplements will remain in the formula for 2023-24. This is a change in direction from the comprehensive autumn 2020 EY funding consultation which at that time indicated a move towards removing discretionary supplements, to reach a standard base rate for all providers, was favoured amongst responses.

	Officers would like to continue to explore the pros and cons for the removal of the discretionary supplements with the EY reference group in future consultations. There is no change proposed to the Quality and Flexibility discretionary supplements for the 2023-24 formula, which will mean they remain at £0.10 per hour where the conditions are met by providers. The Deprivation supplement is currently paid at two levels: £0.25 per hour for children living in the most 10% deprived areas and £0.15 per hour for the 11-20% most deprived parts of the county using the IDACI index. Feedback from the EY Consultative Group indicated a preference to combine the two deprivation rates into a single rate. Therefore, it is proposed the formula is amended for 2023-24 so that there is a **single rate payable for children living in the most 20% deprived areas at £0.21 per hour** (calculated as the weighted average equivalent rate of current take-up).
TPG	Teachers' Pay and Pension Grants (TPG/TPECG) - previously separate grants paid to schools in 2022-23 as part of relevant grants for TPG/TPECG for the whole school. For 2023-24, the equivalent funding has been rolled into the Early Years Block and the DfE expects it to be allocated via the Quality Supplement. Norfolk proposes to allocate the **funding to schools with nursery classes only at a rate of £0.24**. This excludes Maintained Nursery Schools who will receive their share of TPG/TPECG via an additional rate of £0.53 within the Maintained Nursery Supplement.
Additional Maintained Nursery Supplement	In addition to the Maintained Nursery Supplement (MNS) provided to nursery schools by the DfE, the LA currently provides additional protection to the schools to meet the remainder of the fixed sums that were paid to nursery schools prior to the introduction of the Early Years National Funding Formula (less a reduction of 1.5% per year previously agreed for transition). The combined total level of protection in 2022-23 for nursery schools is currently £365,342 made up of £268,413 for MNS from DfE and £96,929 additional protection provided by the LA from EY Block.

	On the basis that the total protection continues to be reduced by 1.5%, the new total protection required for 2023-24 would be £359,862 which would be funded by £329,966 for MNS from DfE (excluding the newly allocated TPG/TPECG element) and £29,896 additional protection provided through the EY Block. In addition, TPG/TPECG funding of £53,481 would be allocated, received from DfE as part of 2023-24 MNS allocation. Schools Forum will be asked to comment on the proposal to provide additional protection to maintained nursery schools at this rate at their January Schools Forum Meeting.
Centrally Retained by the LA for the provision of central services	The Early Years National Funding Formula sets out that Local Authority central costs funded from the EY Block should be no greater than 5% of 3- and 4-year-old funding when planning the budget. Based on the 2023-24 published DSG allocations, the upper limit of the 5% of total 3- and 4-year-old funding that can be retained centrally by the LA will be £2,052,323. This funding is used by the Council to provide central support and administer payments to all providers of Early Years Education, in schools and in private, voluntary and independent settings. Schools Forum will be asked to vote on retention of the 5% for 2023-24 at its January 2023 meeting so that the Local Authority will continue to use this funding to provide central support and administer payments to all providers of Early Years Education, in schools and in private, voluntary and independent settings. At present, 2-year-old funding does not contribute towards the central services provided by the Council. For the vast majority of providers who are in receipt of 2-year-old funding and, therefore, can access central services, will also be in receipt of 3-and-4-year-old funding and so contributing through this source.
Contingency	It is proposed that the level of contingency remains at 0.5% (£236,648) of the Early Years Block for 2023-24, in line with the previously agreed contingency level (based upon a percentage of the Block) following consultation with providers on the Early Years formula.

2.1 On the basis of the information provided above and the recommendations from Schools Forum, the proposed final formula for 2023-24 would be:

	Current Rate 2022-23 (£ per hour)	Proposed Rate 2023-24 (£ per hour)
Base rate (3-to-4-year olds)	4.08	4.31
Base rate (2-year olds)	5.50	5.64
Quality supplement	0.10	0.10
Quality supplement TPG/TPECG – Schools only excluding Maintained Nursery Schools	N/A	0.24
Flexibility supplement	0.10	0.10
Deprivation supplement (10% most deprived based on IDACI)	0.25	N/A
Deprivation supplement (11-20% most deprived based on IDACI)	0.15	N/A
Deprivation supplement (20% most deprived based on IDACI)		0.21

2.2 **Cabinet is asked to allocate the Early Years Block funding via revised hourly rates with associated supplements as recommended by Norfolk's Schools Forum.**

3. Impact of the Proposal

Schools Block, High Needs Block and DSG Management Plan

3.1 The current financial year forecast (2022-23) outturn is a £19.6m overspend (as at the end of November 2022, period 8 monitoring), as reported elsewhere on this meeting's agenda. Based upon the latest information and modelling, the forecast in-year deficit for 2023-24 is £25.149m and the cumulative DSG deficit by 31st March 2024 is now forecast to be £98.762m.

3.2 Whilst the updated multi-year plan has been prepared based on latest trends and data available, including market forces including inflation increases seen recently, the plan has been prepared on an invest-to-save in the early years that will then enable savings to be delivered in future years. This means that it is anticipated that the in-year deficit will initially grow in 2023-24 prior to reducing over the subsequent 3 years prior to delivering an in-year surplus in 2027-28.

3.3 The multi-year plan for the DSG includes assumptions regarding contributions from NCC (included elsewhere on the agenda within the NCC Revenue 2023-24 Budget paper) and the DfE (agreement of the Secretary of State awaited).

3.4 The Local Authority submitted a disapplication of regulations request to the Secretary of State in November 2022 requesting a further 1% transfer from the Schools Block to the High Needs Block in 2023-24, equivalent to approximately £6.010m. The Secretary of State's decision is awaited, in line with the Safety Valve agreement.

3.5 The statutory responsibilities that the local authority has means that increases in demand or complexity of demand are expected to be met whether the High Needs Block funding is sufficient or not.

3.6 Whilst the accounting treatment of the DSG deficit means that it does not need to be considered when assessing the sufficiency of the Council's general reserves balances, the Council will still have to 'bank roll' the cumulative deficit until it is fully repaid, which is a cost to the Council's NCC Funded revenue budget.

3.7 Officers share the view of Norfolk's Schools Forum that the system, as a whole, remains underfunded. A High Needs Block consultation in 2021 undertaken by the DfE showed that the system had been under-funded for multiple years for many local authorities, like Norfolk, which will have significantly contributed to the cumulative and current deficits. Back-dated funding to mitigate this recognised historic under-funding was not made, leaving the historic deficit to local authorities to resolve, whilst the cap on 'gains' of meant that Norfolk continued to be under-funded.

3.8 The key direct impact for schools is the continuation of the block transfer of the 1.5% from the Schools Block to the High Needs Block, as per the 2022-23 budget. Schools primarily affected are those whose funding gains are capped, and this includes schools that have become eligible for sparsity funding in the last 2022-23 and / or 2023-24 due to changes in the National Funding Formula methodology. Whilst the system of funding caps and the Minimum Funding Guarantee means that no school will lose money on a like-for-like basis compared to the previous year's funding, it does mean that those who become eligible for additional funds have these introduced slowly, potentially over a number of years, and feedback in consultations that this means that funds are not available for the children upon their school roll now. These schools are often relatively small and rural.

Early Years Block

3.9 2-, 3- and 4-year-old hourly base rates will all be increased in line with the additional funding provided via the national funding formula to Norfolk.

3.10 Overall, funding rates remain low for Norfolk compared to other authorities due to the allocation from Government continuing to be at the lowest level. The funding model considers wage rates in the sector and so has the methodology used by Government has the effect of continuing to perpetuate low wages in the sector, which continues to be a concern in terms of ensuring a sufficient and well-trained workforce is in place.

4. Evidence and Reasons for Decision

4.1 The recommendations to Cabinet in this paper reflect the recommendations made, or expected to be made, by Norfolk's Schools Forum following consultation open to all schools in Norfolk in the Autumn Term 2022 and in consultation with all early years providers in Norfolk, also in the Autumn Term 2022.

4.2 The Schools Forum again supported a 0.5% block transfer from the Schools Block to the High Needs Block; this was a difficult decision for Members but was taken considering the whole strategic picture of the education landscape in Norfolk.

4.3 Schools Forum Members were asked in November to individually indicate whether they supported a further block transfer of 1%, but a vote was not taken as this was not required by the regulations given that an additional transfer at this level is a Secretary of State decision rather than a Schools Forum decision. The views were mixed from Members sharing concerns regarding reducing funds directly available to mainstream schools versus supporting the revised plan.

4.4 A summary of the relevant consultation responses and Norfolk Schools Forum's considerations can be found within the Forum's publicly available agenda and minutes[9].

4.5 The DfE subsequently requested that Norfolk's Schools Forum takes a vote on the additional 1% block transfer as part of the Safety Valve programme, which will be taken at its next meeting on the 27th January 2023. The budget presented within this paper presumes that the Schools Forum will agree the additional transfer, and that this will subsequently be agreed by the Secretary of State for Education.

4.6 Through the Safety Valve programme over the summer, the DSG medium term plan has been fully remodelled in conjunction with support from the DfE appointed finance and SEND advisors. Our previous model was used as a starting point, with assumptions update and new transformation activity identified to enable the High Needs Block to be brought back into balance in-year and to identify a plan to repay the deficit.

4.7 This plan was submitted to the DfE on the 6 October 2022 in line with the Safety Valve programme deadlines, and an updated version that takes into account the most recent funding announcements is due to be submitted by 31st January 2023. At the time of preparation of this report, the 2023-24 budget and plan included in this report are aligned with the plan expected to be submitted by 31st January

4.8 Applying the Minimum Funding Guarantee provides support to those schools losing per-pupil funding through the National Funding Formula, which will protect local schools from sharp funding reductions. Based upon the modelling undertaken for the schools' consultation, the recommended formula will mean that all schools will receive an increase in funding (on a like-for-like basis).

4.9 In Spring 2022, the outcome of the national SEND Review was published within the Green Paper: SEND Review: Right Support, Right Place, Right Time. This reviewed the impact of the SEND reforms implemented since the Children and

[9] https://www.schools.norfolk.gov.uk/school-finance/norfolk-schools-forum/forum-agendas-and-papers

Families Act 2014. The DfE held a consultation upon the proposals, which the Council responded to. If implemented, the proposals could have a significant impact, including financial implications. The DfE have delayed the response to the Green paper consultation, due December 2022, and their next steps plan is now expected later in the spring term 2023. Therefore, preparation of the multi-year plan is based upon existing legislative arrangements.

5. Alternative Options

5.1 The proposals contained within this report represent the culmination of the process with Norfolk schools, Norfolk's early years providers and with Norfolk Schools Forum to identify and recommended local formulae to distribute funding for mainstream schools and funded parental entitlement for early years provision. The Council has a responsibility to determine individual school budgets according to local formula, following local consultation with schools, within statutorily set timescales to enable schools to plan accordingly for the next financial year.

5.2 At this stage, for mainstream schools funding, Cabinet could decide not to implement a block transfer from the Schools Block to the High Needs Block, or to implement a reduced block transfer. Either option would increase the funding for mainstream schools with the raising or removal of the gains cap and then increases to the factor values, within the DfE's allowable range, may be possible with no block transfer.

5.3 However, a decision to reduce or not to implement a block transfer is likely to remove the possibility of a Safety Valve agreement with the DfE unless it was replaced by additional, equivalent NCC funding, which is unaffordable within the current proposed NCC 2023-24 Revenue Budget paper elsewhere on this agenda.

5.4 For the local formula for distribution of funded early years entitlements, Cabinet could choose to implement an alternative option, such as removing discretionary supplements, reducing or removing the additional protection for maintained nursery schools, capping the level of Special Educational Needs Inclusion Funding available, or distributing the supplements differently. However, this would go against the results of the consultation with early years providers and against the expected view of Schools Forum. It would potentially impact upon the financial planning and stability of providers, many of which are small, local businesses contributing to Norfolk's economy, and it would be likely that significant damage would be caused to relationships with both providers and Schools Forum.

6. Financial Implications

6.1 The Central Government consulted during 2019-20 on a change to the terms and conditions of the DSG, to provide clarity regarding the responsibility of local authorities for any deficit within the DSG.

6.2 The outcome of this consultation and the changes introduced, i.e. that the DSG is a separate ring-fenced grant and that local authorities are not expected to contribute local resources towards it.

6.3 The accounting treatment for DSG cumulative deficits diverges from normal accounting practice and allows councils to carry a negative balance on these reserves. This treatment is being dictated by Government but will need to be kept under review as it potentially remains a significant issue for Norfolk County Council and will result in a material deficit balance in the council's Statement of Accounts until the DSG recovery plan has been delivered.

6.4 It should be noted that the Council is effectively 'bank-rolling' the deficit and so there is the impact upon local Council resources of the loss of interest.

6.5 As a result of the submitted plan to the DfE through the Safety Valve Programme, NCC will need to commit to contribute £5.5m pa towards mitigating the deficit, as included in the NCC 2023-24 Revenue Budget paper elsewhere on this agenda.

6.6 The accounting treatment was due to end at the end of the 2022-23 financial year, but an announcement in December 2022 by the Government that the accounting treatment arrangements have been extended until the end of the 2025/26 financial year.

7. Resource Implications

7.1 Staff: None

7.2 Property: None

7.3 IT: None

8. Other Implications

8.1 Legal Implications:

8.1 The key guidance to, and expectations of, local authorities is contained in the 'Pre-16 schools funding: local authority guidance for 2023 to 2024[10].

8.2 It is each Local Authority's responsibility to determine individual school budgets according to local formulae, following local consultation with schools, within statutorily set timescales to enable schools to plan accordingly for the next financial year. To enable the statutory timescales to be met by the County Council, Cabinet needs to agree the principles of Norfolk's local formulae.

8.3 Human Rights Implications: None

8.4 Equality Impact Assessment (EqIA) (this must be included): There are no direct equality or accessibility implications for this report. However, as part of the councils engagement with the DfE for our 'safety valve' and related

[10] https://www.gov.uk/government/publications/pre-16-schools-funding-local-authority-guidance-for-2023-to-2024

‘disapplication request’ we were required to provide information within an EqIA context. For that purpose we have stated to the DfE that : ‘A central theme to addressing local needs and, in turn the HNB recovery plan, is the development of state funded special school provision. This will ensure that complex needs, ASD and SEMH needs are met directly. In addition, we are expanding specialist resource base provision hosted by mainstream schools. Taken together these additional 500 places will increase choice and reduce travel time for children and young people with SEND.’

8.5 Data Protection Impact Assessments (DPIA): Not applicable

8.6 Health and Safety implications (where appropriate): Not applicable

8.7 Sustainability implications (where appropriate): Not applicable

8.8 Any Other Implications: Not applicable

9. Risk Implications / Assessment

9.1 The key risks that will need to be carefully monitored and managed as the financial year progresses are that:

- Pressures increase, particularly within the High Needs Block, that exceeds the forecast expectations, resulting in increased levels of cumulative deficit of the Dedicated Schools Grant;
- The planned SEND and AP transformation is delayed resulting in new places not being available and / or planned support not being in place, which could result in under- delivery of savings or escalating demand, and thus cost pressures, in 2023-24;
- Independent providers continue to open new provision and / or places at existing provision in excess, and with cost rates, exceeding the budgeted amounts;
- Legacy of the pandemic places schools (mainstream and specialist) and / or early years providers under increased financial strain;
- Pressures experienced by schools due to real term increases in costs outside of their direct control exceeding funding available, for example teacher pension costs, support staff costs as a result of national living wage implementation, condition of premises salaries, impacting on their ability to provide consistent education and to meet the basic needs of pupils in their school;
- Inflation pressures continue to drive up the cost of independent placements as well as costs within mainstream and special schools costs exceeding the budgeted assumptions within the plan;
- The Secretary of State does not agree the submitted Safety Valve plan and / or the disapplication request for the additional 1% block transfer.

9.2 Officers will continue to keep the DSG Budget and medium term plan under close review throughout the financial year, reporting regularly to Cabinet through the monthly Finance Monitoring reports and termly, at least, to Norfolk Schools Forum. Officers will be required to report regularly to the DfE regarding the DSG plans.

9.3 As detailed earlier in the report, the Government has prescribed an accounting treatment for the DSG deficit. However, it should be noted that this position is not guaranteed and will remain a subject of scrutiny from External Auditors or a change in approach from the Government. If the Council is not able to reduce the DSG cumulative deficit through a combination of the transformation programme, capital investment, high needs allocations and the Safety Valve programme from the DfE, then there remains a risk to the overall financial viability of the whole Council.

10. Select Committee Comments Not applicable

11. Recommendations

To agree:`

(i) the Dedicated Schools Grant funding including:

a. the changes to the schools funding formula;

b. the changes to the early years funding entitlements formula;

c. agreeing the high needs block budget, noting that it has been assessed to meet our statutory duties and it adds to the DSG cumulative deficit in line with the Safety Valve plan submitted to the Secretary of State for Education for approval;

(ii) to delegate decision making powers to the Executive Director of Children's Services, in conjunction with the Lead Member for Children's Services, to agree the final funding cap, or allocation of additional funds, once the final DSG calculations of individual school allocations are known and in line with the principles of Cabinet's decision.

12. Background Papers

12.1 Transforming the system for Special Educational Needs and Disability (SEND) in Norfolk (Item 8, 29 October 2018 Policy and Resources Committee)

http://norfolkcc.cmis.uk.com/norfolkcc/Meetings/tabid/128/ctl/ViewMeetingPublic/mid/496/Meeting/1421/Committee/21/Default.aspx

Norfolk Schools Forum agendas and minutes from September 2022, November 2022 and January 2023 meetings

https://www.schools.norfolk.gov.uk/school-finance/norfolk-schools-forum/forum-agendas-and-papers

Dedicated Schools Grant (DSG) Funding (Item 11, 31 January 2022 Cabinet)

https://norfolkcc.cmis.uk.com/norfolkcc/CalendarofMeetings/tabid/128/ctl/ViewMeetingPublic/mid/496/Meeting/1799/Committee/169/Default.aspx

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Appendix A: Historic Block Transfers in Norfolk

2019-20

For 2019-20, Norfolk County Council made such an application (known as a disapplication request) to the Secretary of State to transfer £4.58m from the Schools Block to the High Needs Block in addition to the 0.5% transfer that had been agreed by Norfolk Schools Forum. This application was agreed based upon the business case and strength of evidence presented. This included the capital investment agreed by NCC to significantly increase the number of state maintained special school places and places within specialist resource bases, alongside the transformation programme Children's Services has in place. However, despite this additional funding to the High Needs Block, it was still anticipated that the High Needs Block would have an in-year deficit in 2019-20 that would be combined with the cumulative deficit brought forward from previous years. This is due to the time it would take to achieve the transformation required and increasing demand in excess of growth funding provided through the DSG High Needs Block.

2020-21

For 2020-21, Norfolk County Council decided not to make a disapplication request to the Secretary of State for a Schools Block to High Needs Block transfer in addition to the 0.5% agreed by Norfolk Schools Forum. When the Schools Forum agreed the 0.5% transfer for 2020-21, they requested that the Council did not submit a disapplication request to move any additional funding to enable schools to have the funding to meet the needs of current pupils and to prevent escalation of needs through meeting them, wherever appropriate and possible, at a local level.

As a result of the Schools Forum agreement to the 0.5% transfer, the Council did not submit a disapplication to the Secretary of State to move additional funding from the Schools Block to the High Needs Block for 2020-21, with it stated that the position would need to be reconsidered for 2021-22 and beyond, depending upon the DSG projections.

2021-22

For 2021-22, a disapplication request was submitted to the Secretary of State to move additional funding from the Schools Block to the High Needs Block due to the size of the increasing DSG deficit and based upon the DSG terms and conditions that expects local authorities to look to recover DSG deficits from within the grant. This request was refused by the Secretary of State and so only the 0.5% transfer agreed by Norfolk's Schools Forum from the Schools Block to the High Needs Block has taken place.

2022-23

For 2021-22, a disapplication request was submitted to the Secretary of State to to transfer an additional 1%, above the 0.5% agreed by the Schools Forum, from the Schools Block to the High Needs Block due to the size of the increasing DSG deficit and based upon the DSG terms and conditions that expects local authorities to look to recover DSG deficits from within the grant. This request was agreed by the Secretary of State based upon the strength of evidence provided.

Appendix B: National Funding Formula 2023-24

The DfE announced in their 'Schools Operational Guide: 2023 to 2024' that the following changes will be made to the 2023-24 National Funding Formula:

- Additional support directed to disadvantaged pupils, by increasing the FSM6 and IDACI factors in the schools NFF by a greater amount than other factors. These factors will increase by 4.3%, compared to their 2022-23 values. This means that we will be targeting a greater proportion of schools NFF funding towards deprived pupils than ever before with 9.8% of the schools NFF allocated according to deprivation in 2023-24;
- The core factors in the schools NFF (such as the basic entitlement, and the lump sum that all schools attract) will increase by 2.4%;
- Through the minimum per pupil funding levels, every primary school will receive at least £4,405 per pupil, and every secondary school at least £5,715;
- The funding floor will ensure that all schools attract at least 0.5% more pupil-led funding per-pupil compared to its 2022-23 NFF allocation;
- Rolling the 2022-23 school supplementary grant into the schools NFF ensuring that this additional funding forms an on-going part of schools' core budgets. Appropriate adjustments have been made to NFF factor values and baselines to reflect this;
- Local authorities will only be allowed to use NFF factors in their local formulae. This means that the looked after children (LAC) factor will no longer be an allowable factor (Norfolk does not use this factor). The government provides funding directly to support looked after children and previously looked after children through the pupil premium;
- Local authorities must use the NFF definition for the English as an Additional Language (EAL) factor, whereby pupils attract additional funding for three years after they enter the statutory school system. Norfolk already does this. (Previously local authorities could choose to provide funding for one, two or three years).
- Premises funding which will be allocated at local authority level based on actual spend in 2022-23 (no increases) plus PFI factor will receive RPIX inflation of +11.2%;
- Local authorities have the freedom to set the Minimum Funding Guarantee in the local formulae between +0.0% and +0.5% per pupil, as well as to use a gains cap applied on the same basis for all schools.

The current 2022-23 National Funding Formula unit rates and the DfE's proposed 2023-24 NFF unit rates are set out in the table below:

Funding Factor	2022-23 Formula	2023-24 Formula
	£ NFF unit rates	£ NFF unit rates
Age Weighted Pupil Unit		
Primary	3,217	3,394
Key Stage 3	4,536	4,785
Key Stage 4	5,112	5,393
Minimum Per Pupil Funding		
Primary	4,265	4,405
Secondary	5,525	5,715
Additional Needs Funding		
Primary FSM	470	480
Secondary FSM	470	480
Primary FSM6	590	705
Secondary FSM6	865	1,030
Primary IDACI A	640	670
Primary IDACI B	490	510
Primary IDACI C	460	480
Primary IDACI D	420	440
Primary IDACI E	270	280
Primary IDACI F	220	230
Secondary IDACI A	890	930
Secondary IDACI B	700	730
Secondary IDACI C	650	680
Secondary IDACI D	595	620
Secondary IDACI E	425	445
Secondary IDACI F	320	335
Low Prior Attainment		
Primary LPA	1,130	1,155
Secondary LPA	1,710	1,750
EAL		
Primary EAL	565	580
Secondary EAL	1,530	1,565
Mobility		
Primary Mobility	925	945
Secondary Mobility	1,330	1,360
Lump Sum		
Primary Lump Sum	121,300	128,000
Secondary Lump Sum	121,300	128,000
Sparsity		
Primary Sparsity	55,000	56,300
Secondary Sparsity	80,000	81,900

2023-24 sees the first year of transition to the direct schools NFF, with the end point by 2027-28 at the latest being a system in which every mainstream school in England is funded through the same national formula without adjustments through local funding formulae.

In 2023-24, local authorities will only be allowed to use NFF factors in their local formulae, and must use all NFF factors, except any locally determined premises factors. Local authorities will also be required to move their local formulae factors 10% closer to the NFF values, compared to where they were in 2022-23, unless they are already mirroring the NFF.

To aid the transition, the DfE published the acceptable factor value range for each local authority. The range for Norfolk is shown in the table below:

Factor	**2023-24 NFF Factor Values (£)**	**2023-24 Minimum Factor Values for Norfolk (£)**	**2023-24 Maximum Factor Values for Norfolk (£)**
Primary basic entitlement	3,394	3,309.15	3,478.85
KS3 basic entitlement	4,785	4,665.38	4,904.63
KS4 basic entitlement	5,393	5,258.18	5,527.83
Primary FSM	480	468	492
Secondary FSM	480	468	492
Primary FSM6	705	687.38	722.63
Secondary FSM6	1,030	1,004.25	1,055.75
Primary IDACI F	230	224.25	235.75
Primary IDACI E	280	273	287
Primary IDACI D	440	429	451
Primary IDACI C	480	468	492
Primary IDACI B	510	497.25	522.75
Primary IDACI A	670	653.25	686.75
Secondary IDACI F	335	326.63	343.38
Secondary IDACI E	445	433.88	456.13
Secondary IDACI D	620	604.5	635.5
Secondary IDACI C	680	663	697
Secondary IDACI B	730	711.75	748.25
Secondary IDACI A	930	906.75	953.25
Primary EAL3	580	565.5	594.5
Secondary EAL3	1,565	1,525.88	1,604.13
Primary LPA	1,155	1,126.13	1,183.88
Secondary LPA	1,750	1,706.25	1,793.75
Primary mobility	945	921.38	968.63
Secondary mobility	1,360	1,326.00	1,394.00
Primary lump sum	128,000	124,800.00	131,200.00
Secondary lump sum	128,000	124,800.00	131,200.00
Primary sparsity	56,300	54,892.50	57,707.50
Secondary sparsity	81,900	79,852.50	83,947.50
Middle-school sparsity	81,900	79,852.50	83,947.50
All-through sparsity	81,900	79,852.50	83,947.50

Report to Cabinet

Item No. 16

Report Title: Annual Investment and Treasury Strategy 2023-24

Date of Meeting: 30 January 2023

Responsible Cabinet Member: Cllr Andrew Jamieson (Cabinet Member for Finance**)**

Responsible Director: Simon George (Executive Director of Finance and Commercial Services)

Is this a Key Decision? Yes

If this is a Key Decision, date added to the Forward Plan of Key Decisions: 31 March 2022

Introduction from Cabinet Member

It is a regulatory requirement for local authorities to produce an Investment and Treasury Strategy for the year ahead. The Strategy forms an important part of the overall management of the Council's finances; setting out the criteria for choosing investment counterparties and managing the authority's underlying need to borrow for capital purposes.

Executive Summary

In accordance with regulatory requirements, this report presents the Council's borrowing and investment strategies for 2023-24

Recommendations:

Cabinet is asked to endorse and recommend to County Council the Annual Investment and Treasury Strategy for 2023-24 as set out in Annex 1, including:

- The Capital Prudential Indicators included in the body of the report
- The Minimum Revenue Provision Statement 2023-24 in Appendix 1
- The list of approved counterparties at Appendix 4
- The Treasury Management Prudential Indicators detailed in Appendix 5

For inclusion within the policy framework

1. Background and Purpose

1.1. This Treasury Management Report forms an important part of the overall management of the Council's financial affairs. The regulatory environment places responsibility on Member for the review and scrutiny of treasury management policy and activity.

2. Proposals

2.1. The Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice for Treasury Management in the Public Services (the Code) requires local authorities to produce a treasury management strategy for the year ahead. The County Council is required to comply with the Code through regulations issued under the Local Government Act 2003 and has adopted specific clauses and policy statements from the Code as part of its Financial Regulations.

2.2 Complementary to the CIPFA Code is the Department of Levelling Up Housing and Communities' (DLUHC's) Investment Guidance, which requires local authorities to produce an Annual Investment Strategy and an annual Capital Strategy.

2.3 This report combines the reporting requirements of both the CIPFA Code and the DLUHC's Investment Guidance.

3. Impact of the Proposal

3.1. This report presents the Council's borrowing and investment strategies for 2023-24 providing the framework for managing the capital borrowing requirement within prudential and financially sustainable limits.

3.2. Given the upward trend in the Bank of England base interest rates, coupled with economic uncertainties, borrowing rates are forecast to increase in 2023-24. A flexible approach to borrowing for capital purposes will be maintained which avoids the "cost of carrying debt" in the short term, whilst taking advantage of dips in borrowing rates, where possible, to secure long-term savings on the cost of borrowing.

3.3. The proposed investment strategy retains a diversified pool of high-quality counterparties with a maximum deposit duration of three years apart from property funds which, if used would be part of a longer-term investment strategy. No new counterparties have been added to the list.

4. Evidence and Reasons for Decision

4.1. The primary objectives of the Council's Investment and Treasury Strategy are to safeguard the timely repayment of principal and interest, whilst ensuring adequate liquidity for cashflow and the generation of investment yield. A flexible approach to borrowing for capital purposes will be maintained both in terms of timing, and in terms of possible sources of borrowing including the Public Work Loans Board (PWLB) and the UK Municipal Bonds Agency (UKMBA). This strategy is prudent while investment returns are low and the investment environment remains challenging.

The Investment and Treasury Strategy summarises:

- The Council's capital plans (including prudential indicators);
- A Minimum Revenue Provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- The Treasury Management Strategy (how the investments and borrowings are organised) including treasury indicators; and
- An Investment Strategy (including parameters on how investments are to be managed).

5. Alternative Options

5.1. In order to achieve sound treasury management in accordance with the statutory and other guidance, no viable alternative options have been identified to the recommendation in this report.

6. Financial Implications

6.1. Long term borrowing rates have steadily risen throughout 2022 as the Bank of England's Monetary Policy Committee (MPC) voted to increase the Bank Rate from 0.75% in March 2022 to 3.5% at the recent MPC meeting on 15 December 2022. This consistent rise in interest rates signals the MPC's commitment to using interest rates to counteract the inflationary pressures in the economy and bring inflation back down to its 2% target. Whilst inflation rates remain in double digits, the expectation is for interest rates to continue to rise in 2023-24.

6.2. To fund future capital expenditure, officers will continue to work with the Council's treasury advisors to identify the most advantageous timing and sources of borrowing.

6.3. At 31 December 2022, the Council's external debt was £852.0m, having borrowed £10m to date since April 2022, securing long term borrowing at fixed rates of 3.56% interest rate trigger point and securing £0.386m savings on the cost of carrying debt. The Council is looking to borrow a further £40m this year to meet the capital financing requirements of the capital programme.

6.4. The MRP policy remains unchanged and is designed to ensure sufficient money is set aside to repay the Council's debt.

7. Resource Implications

7.1. There are no direct staff, property or IT implications arising from this report.

8. Other Implications

8.1. **Legal Implications**

In order to fulfil obligations placed on chief finance officers by section 114 of the Local Government Finance Act 1988, the Executive Director of Finance and Commercial Services continually monitors financial forecasts and outcomes to ensure resources (including sums borrowed) are available to meet annual expenditure.

8.2. **Human Rights implications**
None identified.

8.3. **Equality Impact Assessment**
Treasury management activities take place to manage the cashflows relating to the Council's revenue and capital budgets. In setting the 2023-24 budget, the council has undertaken public consultation. This public consultation process has informed an equality impact assessment in respect of both the 2023-24 Budget proposals and the Council's Budget as a whole. In addition, councillors have considered the impact of proposals on rural areas.

8.4 **Data Protection Impact Assessments (DPIA)**
DPIA is not required as the data reported in this paper does not drill down to the personal data level.

9. Risk Implications/Assessment

9.1. The Investment and Borrowing Strategy presented in this report for approval, forms an important part of the overall financial management of the Council's affairs. The strategy has been produced in accordance with best practice and guidance and in consultation with the Council's external treasury advisors.

The Council's Treasury Management Strategy sets parameters for the selection and placing of cash balances, taking in account counterpart risk and liquidity. The strategy also sets out how the Council manages interest rate risks.

10. Select Committee comments

10.1. None

11. Recommendation

11.1. Recommendations are set out in the introduction to this report.

12. Background Papers

12.1. Capital Strategy and Programme 2022-23 on this agenda.

Officer Contact

If you have any questions about matters contained in this paper, please get in touch with:

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ANNEX 1

Norfolk County Council

Treasury Management Strategy
including
Minimum Revenue Provision Policy Statement and
Annual Investment Strategy

2023-24

Note: the tables in this report will be amended to reflect any changes to the capital programme between this meeting and February County Council

INDEX

1 Introduction

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

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

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

1.2 Reporting requirements

1.2.1 Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report which will provide the following:

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

The aim of the Capital Strategy is to ensure that all elected members understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

The Capital Strategy is reported separately from this Treasury Management Strategy Statement. Non-treasury investments including loans to companies are reported through the Capital Strategy and Finance Monitoring Report, with summary information included in Treasury Management reports. This is to ensure separation of the core treasury function under security, liquidity and yield principles, and other investments, including loans to subsidiary and other companies which are usually driven by expenditure on assets for service delivery and related purposes.

Depending on the nature of any particular project, the capital strategy will cover:

- Strategic context
- Corporate priorities
- Capital investment ambition
- Available resources
- Affordability
- Capacity to deliver
- Risk appetite
- Risk management; and
- Determining the appropriate split between non-financial and treasury management investment, in the context of ensuring the long-term financial sustainability of the authority

Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the DLUHC Investment Guidance and CIPFA Prudential Code have not been adhered to.

Norfolk County Council does not hold any non-treasury and/or non-financial investments which are designed purely to generate a financial return: all non-treasury investments, for, example loans to subsidiaries and companies for Norfolk based projects and/or to support subsidiary companies fund their capital investment plans, and all have been approved as part of the capital strategy and programme.

To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown in this report.

1.2.2 Treasury Management reporting

The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals:

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
   - the capital plans (including prudential indicators);
   - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
   - the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
   - an Annual Investment Strategy, (the parameters on how investments are to be managed).

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition the Council will receive quarterly update reports.

c. **An annual treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny
The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Council's Treasury Management Panel and Cabinet.

Quarterly reports – In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June/end of December) is also required. However, these additional reports do not have to be reported to Full Council/Board but do require to be adequately scrutinised. This role is undertaken by the Cabinet.

Scheme of Delegation
A summary of the Treasury Management Scheme of Delegation is at Appendix 8, with the Treasury Management role of the Section 151 Officer at Appendix 9.

1.3 Treasury Management Strategy for 2023-24

The strategy covers two main areas:

Capital issues

- capital expenditure plans and the associated prudential indicators;
- minimum revenue provision (MRP) policy (paragraph 2.4 and Appendix 1).

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

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

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training has been provided to members at the December 2022 Treasury Management Panel, and further training will be arranged as required.

In accordance with the CIPFA Code, the Council

- records and monitors attendance at Link training webinars
- prepares tailored learning plans for treasury management officers and board/council members where necessary.
- requires treasury management officers and board/council members to undertake self-assessment against the required competencies using the CIPFA “Assessment of Effective Scrutiny” self assessment tool 2022
- has regular communication with officers and board/council members through the Treasury Management Panel, encouraging them to highlight training needs on an ongoing basis.

The training needs of treasury management officers are periodically reviewed.

A formal record of the training received by officers central to the Treasury function and members of the Treasury Management Panel will be maintained by the Treasury and Banking Accountant.

1.5 Treasury management consultants

The Council uses Link Group, Treasury solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. Through a competitive tender in 2019, the Council has ensured that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subject to regular review.

2 The Capital Prudential Indicators 2023-24 – 2025-26

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

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £m	2021-22 Actual	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate
Services	241.536	249.139	342.254	231.134	211.196
Capital loans to group and other companies	11.178	4.000	8.800	1.800	0.000
Infrastructure loans to third parties	2.155	0.000	0.000	0.000	0.000
Total	**254.869**	**253.139**	**351.054**	**232.934**	**211.196**

Other long-term liabilities - The above financing need excludes other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments.

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

Financing of capital expenditure £m	2021-22 Actual	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate
Capital grants	131.832	178.013	153.217	106.943	140.268
Revenue and reserves	2.840	0.199			
Capital receipts	8.993	24.000	20.000	10.000	10.000
Prudential borrowing	111.204	50.927	177.837	115.991	60.928
Capital programme	**254.869**	**253.139**	**351.054**	**232.934**	**211.196**
Estimated slippage			(100.000)	(55.000)	(30.000)
Cumulative slippage	**0.000**	**0.000**	**(100.000)**	**(155.000)**	**(185.000)**
New borrowing requirement after slippage	111.204	**50.927**	**77.837**	**60.991**	**30.928**
Net financing need for the year	**254.869**	**253.139**	**251.054**	**177.934**	**181.196**

Slippage has been incorporated into the calculations in line with historic patterns of capital spend and the Q3 Capital Programme Review undertaken by the Capital Review Board. Although members approve capital programmes based on annual expenditure, it is not uncommon for projects to be delayed due to, for example, planning issues. In addition, where grants become available, these will be used ahead of borrowing to fund projects.

To better reflect actual likely expenditure, and to help avoid the risk of borrowing in advance of need, an adjustment for slippage has been incorporated into the calculations shown in this strategy.

2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure shown in paragraph 2.1 above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £43.6m of such schemes within the CFR.

The Council is asked to approve the CFR projections below:

£m	2021-22 Actual	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate
Opening CFR	**887.047**	**969.763**	**987.695**	**1,029.268**	**1,051.161**
Other Financing Adjustments	(0.042)				
Net financing need for the year (above)	111.204	50.927	77.837	60.991	30.928
Less MRP and other financing movements	(28.446)	(32.995)	(36.264)	(39.098)	(40.677)
Movement in CFR	**82.716**	**17.932**	**41.573**	**21.893**	**(9.749)**
Closing CFR	**969.763**	**987.695**	**1,029.268**	**1,051.161**	**1,041.412**

A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position.

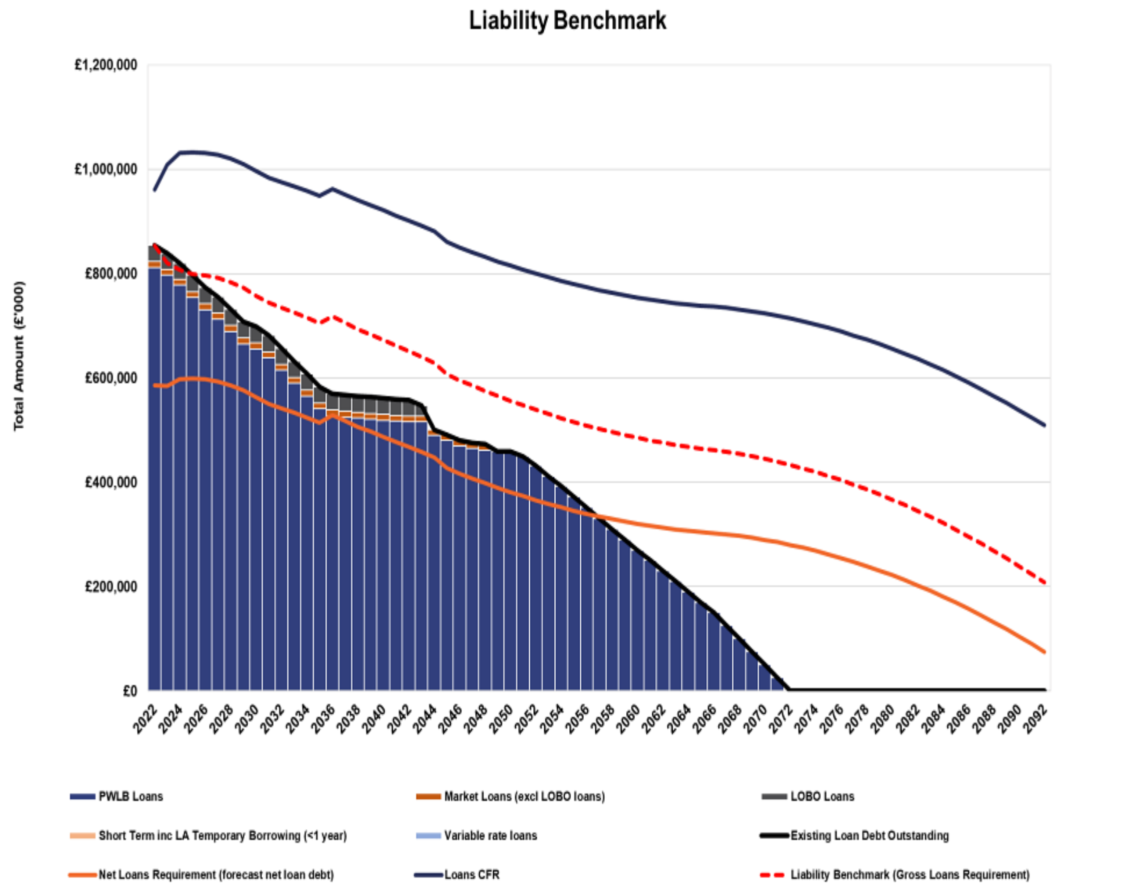
The capital expenditure figures shown in 2.1 and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority's remaining activity.

In line with the Capital Strategy, the external borrowing requirement planned in conformance with the new DLUHC requirements for applying for certainty rate borrowing from the PWLB is:

External borrowing £m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Service spend	97.871	46.927	69.037	59.191	30.928
Housing	11.178	4.000	8.800	1.800	0.000
Regeneration	2.155	0.000	0.000	0.000	0.000
Preventative action					
Treasury Management					
TOTAL	**111.204**	**50.927**	**77.837**	**60.991**	**30.928**

2.3 Liability Benchmark

A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.



There are four components to the LB: -

1. **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years.
2. **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

2.4 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources £m	2021-22 Actual	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate
Opening investments	**210.940**	**267.973**	**241.039**	**218.203**	**202.212**
Net (use) of reserves, capital grants, working capital etc.	58.237	(26.007)	(10.000)	(5.000)	(5.000)
Capital expenditure funded through prudential borrowing	(111.204)	(50.927)	(77.837)	(60.991)	(30.928)
New Borrowing	110.000	50.000	65.000	50.000	20.000
Closing investments	**267.973**	**241.039**	**218.203**	**202.212**	**186.283**

2.5 Minimum revenue provision (MRP) policy statement

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP). It is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

DLUHC regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

For expenditure incurred before 1 April 2008 which forms part of supported capital expenditure, the MRP policy will be:

- **4% reducing balance (CFR method)** – MRP will be calculated as 4% of the opening GF CFR balance;

From 1 April 2008 for all unsupported borrowing the MRP policy will be:

- **Asset life method (straight line)** – MRP will be based on the estimated life of the assets;

Capital expenditure incurred during 2022/23 will not be subject to an MRP charge until 2023/24, or in the year after the asset becomes operational

The Authority will apply the asset life method for any expenditure capitalised under a Capitalisation Direction.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

MRP in respect of assets acquired under Finance Leases or PFI will be charged at an amount equal to the principal element of the annual repayment;

For capital expenditure on loans to third parties where the principal element of the loan is being repaid in annual instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP.

Where no principal repayment is made in a given year, MRP will be charged at a rate in line with the life of the assets funded by the loan.

MRP Overpayments - Under the MRP guidance, any charges made in excess of the statutory MRP can be made, known as voluntary revenue provision (VRP).

VRP can be reclaimed in later years if deemed necessary or prudent. In order for these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

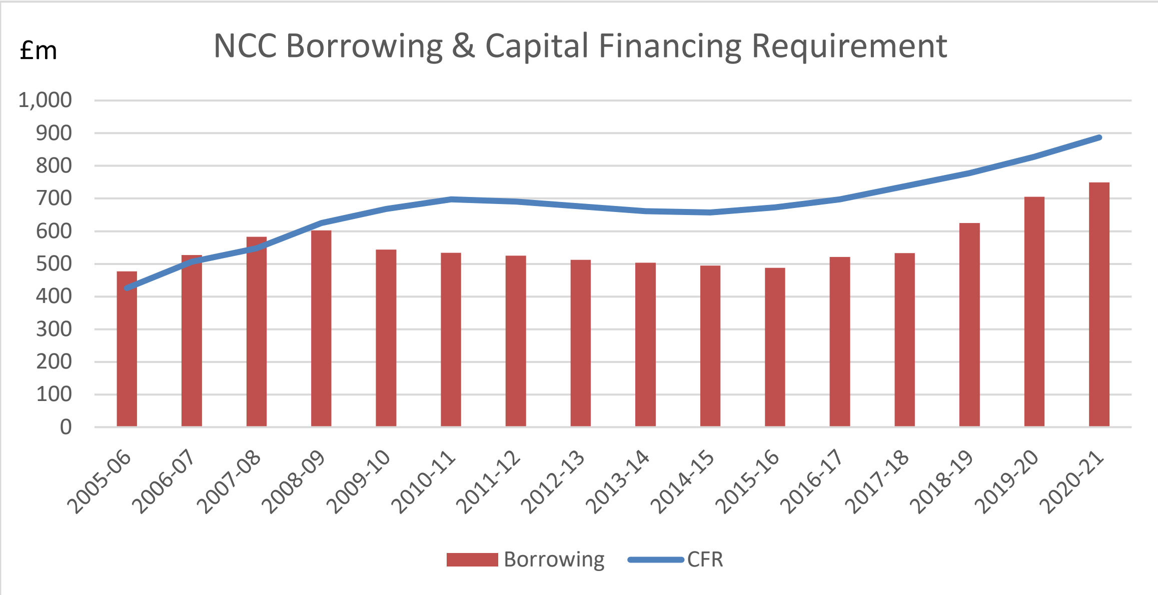
Cumulative VRP overpayments made to date are £1.173m.

The Council's MRP Statement has been updated after having regard to the MRP Guidance and takes into account the addition of right-of-use assets which will result from the impact of IFRS16 which will affect the Council's accounts in 2023-24.

3 Borrowing

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

The table below summarises the Council's historic capital financing requirement and borrowing:



3.1 Current portfolio position

The overall treasury management portfolio as at 31 March 2022 and for 30 November 2022 is shown below for both borrowing and investments.

	31 March 2022	30 November 2022
Treasury Investments		
Banks	230.0	205.0
Local authorities	0.1	0.2
Money Market funds	37.5	94.1
	267.6	**299.3**
Treasury external borrowing		
PWLB	811.9	804.2
Commercial (including LOBOs)	42.3	42.3
	854.2	**846.5**
Net-treasury borrowing	**586.6**	**547.2**

Note: the 31 March column above is reconciled to the Council's Statement of Accounts by adjusting for uncleared BACS payments on balances, and accrued interest on loans.

At the end of November 2022 the bank deposits were with Barclays, Natwest, Close

Brothers, Goldmans Sachs, Australia New Zealand Bank, Toronto-Dominion Bank, DBS Bank and Landesbank Baden-Wuerttemberg and the Money Market Funds with Aberdeen, Federated and Aviva. At 30 November there is £120m invested in non-uk banks.

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	2021-22 Actual	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate
Debt at 1 April	749.274	854.243	888.917	935.045	961.626
Expected change in Debt - repayments	(5.031)	(15.326)	(18.872)	(23.419)	(23.466)
Expected change in Debt – new borrowing	110.000	50.000	65.000	50.000	20.000
Debt at 31 March	**854.243**	**888.917**	**935.045**	**961.626**	**958.160**
Other long-term liabilities (OLTL) 1 April	48.170	46.962	43.601	40.073	36.212
Expected change in OLTL	(1.208)	(3.361)	(3.528)	(3.861)	(4.181)
OLTL forecast	**46.962**	**43.601**	**40.073**	**36.212**	**32.031**
Gross debt at 31 March	**901.205**	**932.518**	**975.118**	**997.838**	**990.191**
The Capital Financing Requirement	969.763	987.695	1,029.268	1,051.161	1,041.412
Under / (over) borrowing	**68.558**	**55.177**	**54.150**	**53.323**	**51.221**

Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2022-23 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Executive Director of Finance and Commercial Services reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: limits to borrowing activity

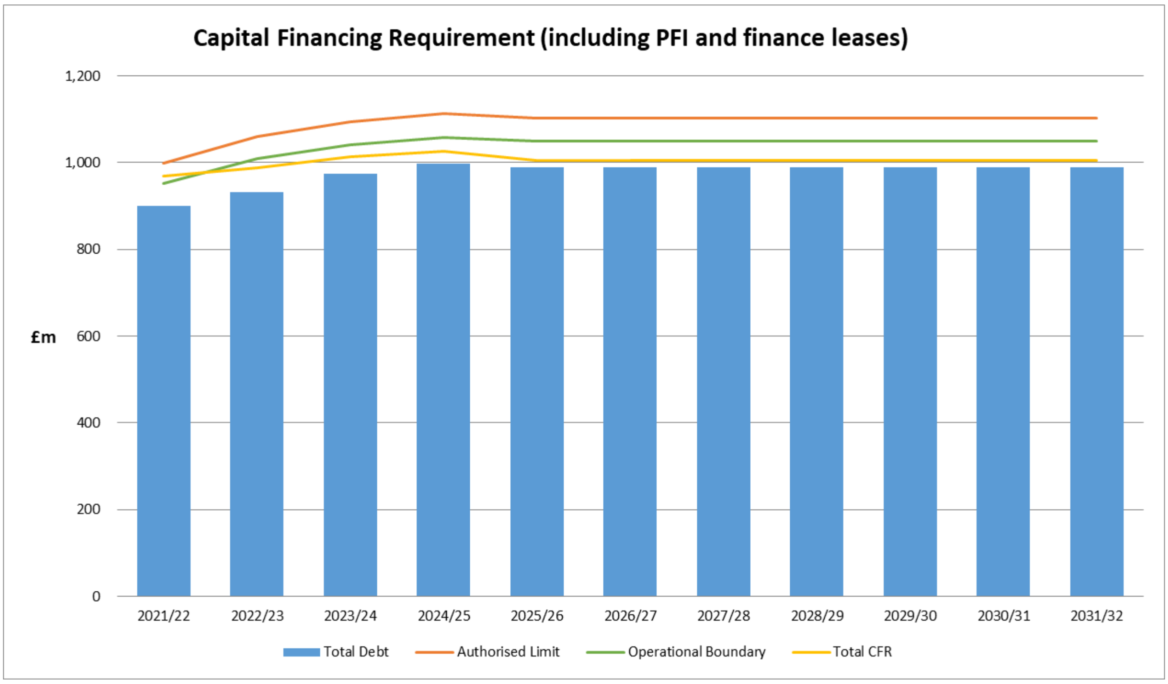
The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary £m	2021-22 Target	2022-23 Target	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate
Debt	905.340	964.195	989.195	1,014.949	1,009.381
Other long-term liabilities	45.965	44.476	40.073	36.212	32.031
Total CFR	**951.305**	**1008.671**	**1,029.268**	**1,051.161**	**1,041.412**

The authorised limit for external debt. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which reflects the total approved capital expenditure, plus an allowance for schemes which may be approved in-year:

1. This is the statutory limit determined under section 3(1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:

Authorised limit £m	2021-22 Target	2022-23 Target	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate
Debt	950.607	1012.405	1,038.654	1,065.696	1,059.850
Other long-term liabilities	48.263	48.923	44.080	39.833	35.234
Total	**998.870**	**1,061.328**	**1,082.735**	**1,105.529**	**1,095.084**



3.3 Prospects for interest rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 8th November 2022. These are forecasts for certainty rates, gilt yields plus 80 bps:

Link Group Interest Rate View	08.11.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

Additional notes by Link on this forecast table: -

- *The Link forecast reflects a view that the MPC will be keen to demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened throughout 2022, but the new Government's policy of emphasising fiscal rectitude will probably mean Bank Rate does not now need to increase to further than 4.5%.*
- *Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures have lessened – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.*
- *The CPI measure of inflation will peak at close to 11% in Q4 2022. Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market. Wage increases, excluding bonuses, are currently running at 5.7%.*
- *Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started but will focus on the short to medium end of the curve for the present. This approach will prevent any further disruption to the longer end of the curve following on from the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy.*

In the upcoming months, Link's forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine and the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB RATES

Yield curve movements have become less volatile under the Sunak/Hunt government. PWLB 5 to 50 years Certainty Rates are, generally, in the range of 3.75% to 4.50%. The medium to longer part of the yield curve is currently inverted (yields are lower at the longer end of the yield curve compared to the short to medium end).

Link views the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the poor inflation outlook but markets are volatile and further whipsawing of gilt yields across the whole spectrum of the curve is possible.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is to the downside. Indeed, the Bank of England projected two years of negative growth in their November Quarterly Monetary Policy Report.

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).

- **The Bank of England** acts too quickly, or too far, over the next two years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

- **Geopolitical risks,** for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates an even more rapid series of increases in Bank Rate faster than we currently expect.

- **The Government** acts too slowly to increase taxes and/or cut expenditure to balance the public finances, in the light of the cost-of-living squeeze.

- **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Longer term **US treasury yields** rise strongly, if inflation numbers disappoint on the upside, and pull gilt yields up higher than currently forecast.

Borrowing advice: Link's long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are now above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.

Link suggested budgeted earnings rates for investments up to about three months' duration in each financial year are as follows: -

Average earnings in each year	
2022/23 (remainder)	3.95%
2023/24	4.40%
2024/25	3.30%
2025/26	2.60%
2026/27	2.50%
Years 6 to 10	2.80%
Years 10+	2.80%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

3.4 Borrowing strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate increases over the remainder of 2022 and the first half of 2023.

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Executive Director of Finance and Commercial Services will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates,* then borrowing will be postponed.

- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast,* fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the appropriate decision-making body at the next available opportunity.

3.5 Policy on borrowing in advance of need

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

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Debt rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates.

If rescheduling is to be undertaken, it will be reported to the Cabinet at the earliest meeting following its action.

The portfolio will continue to be kept under review for opportunities and if circumstances change, any rescheduling will be reported to Cabinet at the earliest opportunity.

3.7 New Financial Institutions as a Source of Borrowing and Types of Borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

3.8 Approved Sources of Long and Short-term Borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
UK Municipal Bond Agency	●	●
Local Authorities	●	●
Banks	●	●
Pension Funds	●	●
Insurance Companies	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock Issues	●	●
Local Temporary	●	●
Local Bonds	●	
Local Authority Bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance Leases	●	●

4 Annual investment strategy

4.1 Investment policy – management of risk

The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This section deals solely with treasury (financial) investments as managed by the treasury management team. Non-financial investments, essentially loans made for capital purposes, are covered in the Capital Strategy.

The Council's investment policy has regard to the following: -

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

The Council's investment priorities will be security first, portfolio liquidity second and then yield (return). The Council will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite.

In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions.

The above guidance from the DLUHC and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings. A comparative analysis of ratings from different agencies is shown as Appendix 2, and an indicative list of approved counterparties as Appendix 3.

2. **Other information**: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps**" and overlay that information on top of the credit ratings.

3. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use including ‘specified’ and ‘non-specified’ investments.

    - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally, they were classified as being non-specified investments solely due to the maturity period exceeding one year.
    - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in Appendix 4.

6. **Transaction limits** are set for each type of investment in 4.2.

7. This authority will set a limit for its investments which are invested for **longer than 365 days**, (see paragraph 4.4).

8. The Council will only use non-UK banks from countries with a minimum sovereign rating of AA+ (Appendix 7). The **sovereign rating of AA+** must be assigned by one of the three credit rating agencies. No more than £30m will be placed with any individual non-UK country at any time.

9. This authority has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

10. All cash invested by the County Council will be either Sterling or Euro deposits (including Sterling certificates of deposit) or Sterling Treasury Bills invested with banks and other institutions in accordance with the Approved Authorised Counterparty List. The inclusion of Euro deposits enables the County Council to effectively manage (subject to European Central Bank deposit rates) Euro cash balances held for schemes such as the France-Channel-England Project.

11. As a result of the change in accounting standards for 2022-23 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.

12. In November 2018, the Ministry of Housing, Communities and Local Government (“MHCLG”), concluded a consultation for a temporary IFRS9 override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years to 31 March 2023. At the time of writing the Council has no pooled investments of this kind.

This authority will pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year.
The above criteria are *unchanged* from last year.

4.2 Creditworthiness policy

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Executive Director of Finance and Commercial Services will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by Link Group, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur, and this information is considered before dealing. For instance, a negative rating Watch applying to counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

The criteria for providing a pool of high-quality investment counterparties, (both specified and non-specified investments) is:

- **Banks:**

(i) **UK Banks** requires both the short and long-term ratings issued by at least one of the three rating agencies (Fitch, S&P or Moody's) to remain at or above the minimum credit rating criteria.

UK Banks	Fitch	Standard & Poors	Moody’s
Short Term Ratings	F1	A-1	P-1
Long Term Ratings	A-	A-	A3

(ii) **Non-UK Banks** requires both the short and long term ratings issued by at least one of the three rating agencies (Fitch, S&P or Moody’s) to remain at or above the minimum credit rating criteria and a sovereign rating of AA+ assigned by one of the three credit rating agencies.

Non-UK Banks	Fitch	Standard & Poors	Moody’s
Short Term Ratings	F1+	A-1+	P-1
Long Term Ratings	AA-	AA-	Aa3

- **Part Nationalised UK Bank:** Royal Bank of Scotland Group. This bank is included while it continues to be part nationalised or it meets the ratings for UK Banks above.

- **The County Council’s Corporate Banker:** if the rating for the Council’s corporate banker (currently Barclays) falls below the above criteria, sufficient balances will be retained to fulfil transactional requirements. Other than this, balances will be minimised in both monetary size and time invested.

- **Building Societies:** The County Council will use Building Societies which meet the ratings for UK Banks outlined above.

- **Money Market Funds (MMFs)**: which are rated AAA by at least two of the three major rating agencies. MMF’s are ‘pooled funds’ investing in high-quality, high-liquidity, short-term securities such as treasury bills, repurchase agreements and certificate of deposits. Funds offer a high degree of counterparty diversification that include both UK and Overseas Banks. Following money market reforms, MMFs will be allocated to sub-categories (CNAV, LNAV and VNAV) to meet more stringent liquidity regulations. However, the Council will continue to apply the same minimum rating criteria.

- **UK Government:** including the Debt Management Account Deposit Facility & Sterling Treasury Bills. Sterling Treasury Bills are short-term (up to six months) ‘paper’ issued by the UK Government. In the same way that the Government issues Gilts to meet long term funding requirements, Treasury Bills are used by Government to meet short term revenue obligations. They have the security of being issued by the UK Government.

- **Local Authorities, Parish Councils etc.:** Includes those in England and Wales (as defined in Section 23 of the Local Government Act 2003) or a similar body in Scotland or Northern Ireland.

- **Wholly owned companies: The Norse Group, Hethel Innovation Limited and Repton Property Developments Limited, Independence Matters CIC:** short-term loan arrangements made in accordance with approved service level agreements and the monetary and duration limits detailed below in Appendix 4.

- **Property funds (where not classed as capital expenditure)**: these are long term, and relatively illiquid funds, expected to yield both rental income and capital gains. The use of certain property funds can be deemed capital expenditure, and as such would be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using. Appropriate due diligence will also be undertaken before investment of this type is undertaken.

- **Ultra-Short Dated Bond Funds** will use funds that are AAA rated and only after due diligence has been undertaken.

- **Corporate Bonds:** These are bonds issued by companies to raise long term funding other than via issuing equity. Investing in corporate bonds offers a fixed stream of income, paid at half yearly intervals. Appropriate due diligence will also be undertaken before investment of this type is undertaken.

- **Corporate bond funds:** Pooled funds investing in a diversified portfolio of corporate bonds, so provide an alternative to investing directly in individual corporate bonds. Minimum long-term rating of A- to be used consistent with criteria for UK banks. Appropriate due diligence will also be undertaken before investment of this type is undertaken.

- **UK Government Gilt funds:** A gilt is a UK Government liability in sterling, issued by HM Treasury and listed on the London Stock Exchange. They can be either "conventional" or index linked. Using a fund can mitigate some of the risk of potential large movements in value.

Use of additional information other than credit ratings. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment opportunities.

Time and monetary limits applying to investments. The time and monetary limits for institutions on the Council's counterparty list are set out in Appendix 4.
The proposed criteria for specified and non-specified investments are shown in Appendix 6.

Creditworthiness
Significant levels of downgrades to short- and long-term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, more recently the UK sovereign debt rating has been placed on Negative Outlook by the three major rating agencies in the

wake of the Truss/Kwarteng unfunded tax-cuts policy. Although the Sunak/Hunt government has calmed markets, the outcome of the rating agency reviews is unknown at present, but it is possible the UK sovereign debt rating will be downgraded. Accordingly, when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK.

CDS prices

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the days of the Truss/Kwarteng government, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Authority has access to this information via its Link-provided Passport portal..

4.3 Other limits

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

a) **Non-specified investment limit.** The Council has set limits for non-specified investments in accordance with the criteria set out in Appendix 6. For example, they are bound by the limits for investments set out in Appendix 4 and the upper limit for principal sums invested for longer than 365 days shown in paragraph 4.4. This ensures that non-specified investments are only made within appropriate quality and monetary limits.

b) **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of *AA+.*

c) **Other limits.** In addition:
   - no more than £30m will be placed with any non-UK country at any time;
   - limits in place above will apply to a group of companies.

4.4 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate peaking in the first half of 2023 and possibly reducing as early as the latter part of 2023 so an agile investment strategy would be appropriate to optimise returns.

Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

Investment returns expectations.
The current forecast shown in paragraph 3.3 includes a forecast for Bank Rate to reach 4.5% in Q2 2023.

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

Average earnings in each year	Previously	Now
2022/23	0.50%	3.95%
2023/24	0.75%	4.40%
2024/25	1.00%	3.30%
2025/26	1.25%	2.60%
2026/27	2.00%	2.50%
Years 6 to 10	2.00%	2.80%
Years 10+	2.00%	2.80%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits, (overnight to 100 days), in order to benefit from the compounding of interest.

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

The Council is asked to approve the following treasury indicator and limit:

Upper limit for principal sums invested for longer than 365 days			
£m	**2023/24**	**2024/25**	**2025/26**
Principal sums invested for longer than 365 days	£100m	£100m	£100m
Current investments >365 days as at 31 December 2022	£0m	£0m	-

4.5 Investment risk benchmarking
This Authority will use an investment benchmark to assess the investment performance of its investment portfolio of overnight, 7 day, 1, 3, 6 or 12 month compounded / SONIA.

4.6 Non-treasury investments

Although this section of the report does not specifically cover non-treasury investments, a summary of non-treasury loans is included at Appendix 10. This appendix shows that the impact of these loans on the Council's revenue budget is not material in comparison to its turnover.

4.7 End of year investment report

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

5 Appendices

Appendix 1 - Minimum Revenue Provision Statement 2023-24

A1 Regulations issued by the Department of Communities and Local Government in 2008 require the Council to approve a Minimum Revenue Provision (MRP) statement in advance of each year.

A2 Members are asked to approve the MRP statement annually to confirm that the means by which the Council plans to provide for repayment of debt are satisfactory. Any revisions to the original statement must also be issued. Proposals to vary the terms of the original statement during the year should also be approved.

A3 MRP is the provision made in the Council's revenue budget for the repayment of borrowing used to fund capital expenditure - the Council has a statutory duty to determine an amount of MRP which it considers to be prudent, having regard to guidance issued by the Secretary of State.

A4 In 2023-24:

- For capital expenditure incurred before 1 April 2007 which is supported by Formula Grant (supported borrowing), the MRP policy will be to provide the amount to set aside calculated in equal instalments over 50 years.
- For all capital expenditure since that date which is supported by Formula Grant (supported borrowing), the MRP policy will be to provide the amount to set aside calculated in equal instalments over 50 years from the year set aside is first due.
- In calculating the amounts on which set aside is to be made pre 1 April 2007 Adjustment A will be applied.
- Any charges made over the statutory minimum revenue provision, voluntary revenue provision or overpayments can, if needed, be reclaimed in future years if deemed necessary or prudent, and cumulative overpayments disclosed. At 31 March 2021 the cumulative amount over-provided was £3.26m. The over-provision was fully released in 2021-22.
- For expenditure since 1 April 2008, the MRP policy for schemes funded through borrowing will be to base the minimum provision on the estimated life of the assets in accordance with the guidance issued by the Secretary of State.
- Re-payments included in annual PFI and finance lease/right of use asset arrangements are applied as MRP.
- Having identified the total amount to be set aside for previously unfunded capital expenditure the Council will then decide how much of that to fund from capital receipts with the residual amount being the MRP for that year.

A5 Where loans are made to third parties for capital purposes, the capital receipt received as a result of each repayment of principal, under the terms of the loan, will be set aside in order to re-pay NCC borrowing and to reduce the Capital Financing Requirement accordingly. MRP will only be accounted for if an accounting provision has been made for non-repayment of the loan or if there is a high degree of uncertainty regarding the repayment. This arrangement will also be applied where a third party has committed to underwrite the debt costs of a specific project through amounts reserved for capital purposes.

A6 The Council will continue to make provision at least equal to the amount required to ensure that each debt maturity is met.

Appendix 2 - Ratings comparative analysis

<table>
<tr><th colspan="2">Moody's</th><th colspan="2">S&P</th><th colspan="2">Fitch</th><th></th></tr>
<tr><th>Long-term</th><th>Short-term</th><th>Long-term</th><th>Short-term</th><th>Long-term</th><th>Short-term</th><th></th></tr>
<tr><td>Aaa</td><td rowspan="6">P-1</td><td>AAA</td><td rowspan="4">A-1+</td><td>AAA</td><td rowspan="4">F1+</td><td>Prime</td></tr>
<tr><td>Aa1</td><td>AA+</td><td>AA+</td><td rowspan="3">High grade</td></tr>
<tr><td>Aa2</td><td>AA</td><td>AA</td></tr>
<tr><td>Aa3</td><td>AA-</td><td>AA-</td></tr>
<tr><td>A1</td><td>A+</td><td rowspan="2">A-1</td><td>A+</td><td rowspan="2">F1</td><td rowspan="3">Upper medium grade</td></tr>
<tr><td>A2</td><td>A</td><td>A</td></tr>
<tr><td>A3</td><td rowspan="2">P-2</td><td>A-</td><td rowspan="2">A-2</td><td>A-</td><td rowspan="2">F2</td></tr>
<tr><td>Baa1</td><td>BBB+</td><td>BBB+</td><td rowspan="3">Lower medium grade</td></tr>
<tr><td>Baa2</td><td rowspan="2">P-3</td><td>BBB</td><td rowspan="2">A-3</td><td>BBB</td><td rowspan="2">F3</td></tr>
<tr><td>Baa3</td><td>BBB-</td><td>BBB-</td></tr>
<tr><td>Ba1</td><td rowspan="14">Not prime</td><td>BB+</td><td rowspan="6">B</td><td>BB+</td><td rowspan="6">B</td><td rowspan="3">Non-investment grade
speculative</td></tr>
<tr><td>Ba2</td><td>BB</td><td>BB</td></tr>
<tr><td>Ba3</td><td>BB-</td><td>BB-</td></tr>
<tr><td>B1</td><td>B+</td><td>B+</td><td rowspan="3">Highly speculative</td></tr>
<tr><td>B2</td><td>B</td><td>B</td></tr>
<tr><td>B3</td><td>B-</td><td>B-</td></tr>
<tr><td>Caa1</td><td>CCC+</td><td rowspan="5">C</td><td rowspan="5">CCC</td><td rowspan="5">C</td><td>Substantial risks</td></tr>
<tr><td>Caa2</td><td>CCC</td><td>Extremely speculative</td></tr>
<tr><td>Caa3</td><td>CCC-</td><td rowspan="3">In default with little
prospect for recovery</td></tr>
<tr><td rowspan="2">Ca</td><td>CC</td></tr>
<tr><td>C</td></tr>
<tr><td>C</td><td rowspan="3">D</td><td rowspan="3">/</td><td>DDD</td><td rowspan="3">/</td><td rowspan="3">In default</td></tr>
<tr><td>/</td><td>DD</td></tr>
<tr><td>/</td><td>D</td></tr>
</table>

Appendix 3 - Indicative List of Approved Counterparties for Lending

UK Banks

Barclays Bank
Bank of Scotland Plc (*)
Close Brothers
Goldman Sachs
Santander UK
Lloyds Bank (*)
HSBC Bank Group

Non-UK Banks

Australia:

- Australia & New Zealand Banking Group
- Commonwealth Bank of Australia
- National Australia Bank Limited

Canada:

- Bank of Montreal
- National Bank of Canada
- Toronto-Dominion Bank

Germany:

- DZ Bank AG
- Landesbank Baden-Wuerttemberg
- Landesbank Hessen-Thueringen Girozentrale

Singapore:

- DBS Bank Ltd
- Oversea-Chinese Banking Corp
- United Overseas Bank Limited

Sweden:

- Svenska Handelsbanken

Part Nationalised UK Banks

Royal Bank of Scotland(#)
National Westminster(#)

UK Building Societies

Coventry BS
Leeds BS
Nationwide BS
Yorkshire BS

Money Market Funds

Aberdeen Investments
Federated Investors
Aviva
Northern Trust

UK Government

Debt Management Account Deposit Facility
Sterling Treasury Bills
Local Authorities, Parish Councils

Other – Group companies (non-capital)

The Norse Group
Hethel Innovation Limited
Repton Property Developments
Independence Matters CIC

Note: (*) (#) A 'Group Limit is operated whereby the collective investment exposure of individual banks within the same banking group is restricted to a group total.

Appendix 4: Time and monetary limits applying to investments

The time and monetary limits for institutions on the Council’s counterparty list are as follows (these will cover both specified and non-specified investments):

COUNTERPARTY	NCC LENDING LIMIT (£m)	OTHER BODIES LENDING LIMIT (£m)	**TIME LIMIT**
UK Banks	£60m	£30m	**Up to 3 Years** (see notes below)
Non-UK Banks	£30m	£20m	**1 Year**
Royal Bank of Scotland / Nat. West. Group	£60m	£30m	**2 Years**
Building Societies	£30m	£20m	**1 Year**
MMFs – CNAV	£60m (per Fund)	£30m (per Fund)	**Instant Access**
MMFs – LNVAV			**Instant Access**
MMFs – VNAV			**Instant Access**
Debt Management Account Deposit Facility	Unlimited	Unlimited	**6 Months (being max period available)**
Sterling Treasury Bills	Unlimited	Unlimited	**6 Months (being max period available)**
Local Authorities	Unlimited (individual authority limit £20m)	Unlimited (individual authority limit £10m)	**3 Years**
The Norse Group	£15m	Nil	**1 Year**
Hethel Innovation Limited	£1.25m	Nil	**1 Year**
Repton Property Developments Limited	£1.0m	Nil	**1 Year**
Independence Matters CIC	£1.0m	Nil	**1 Year**
Property Funds	£10m in total	Nil	**Not fixed**
Ultra short dated bond funds	£5m in total	Nil	**3 years**
Corporate bonds	£5m in total	Nil	**3 years**
Corporate bond funds	£5m in total	Nil	**3 years**
UK Government Gilts / Gilt Funds	£5m in total	Nil	**3 years**

Notes:

- In addition to individual institutional lending limits, 'Group Limits' are used whereby the collective investment exposure of individual banks within the same banking group is restricted to a group total lending limit. For example, in the case of Lloyds Bank and Bank of Scotland, the group lending limit for the Lloyds Banking Group is £60M.

- The maximum deposit period for UK Banks is based on the following tiered credit rating structure:

Long Term Credit Rating (Fitch or equivalent) assigned by at least one of the three credit rating agencies	**Maximum Duration**
AA-	Up to 3 years
A	Up to 2 years
A-	Up to 1 year

  Deposits may be placed with the Royal Bank of Scotland as a UK Part Nationalised Bank and Local Authorities may be made for periods of 2 and 3 years respectively.

- The Council will only use non-UK banks from countries with a minimum sovereign rating of AA+. The sovereign rating of AA+ must be assigned by one of the three credit rating agencies. No more than £30m will be placed with any individual non-UK country at any time. Approved countries for investments are shown at Appendix 7.

- For monies invested on behalf of the Norse Group, Independence Matters and Norfolk Pension Fund there is a maximum monetary limit of £10m per counterparty. Operationally funds are diversified further as agreed with the individual bodies.

- Long-term loans to the Norse Group and other subsidiary companies are approved as part of the Council's capital programme.

- The use of property funds, bonds and bond funds, gilts and gilt funds will be subject to appropriate due diligence.

- Certain property funds may be classed as a capital investment. If this is the case then they will be approved via the capital programme. If the fund is classed as revenue, then the IFRS 9 implications will be fully considered: unless the DCLG specifies otherwise, any surpluses or losses will become chargeable to the Council's general fund on an annual basis.

Appendix 5: The Capital and Treasury Prudential Indicators

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

5.1 Capital Expenditure

Capital expenditure £m	2021-22 Actual	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate
Adult Social Care	14.817	14.196	12.473	22.482	15.401
Children's Services	52.379	29.707	118.296	61.323	21.325
CES Highways	103.564	153.172	107.926	105.658	153.090
CES Other	22.901	23.825	58.706	23.483	1.200
Finance and Comm. Servs	61.208	32.156	53.654	19.989	20.180
Strategy and Governance	0.000	0.083	0.000	0.000	0.000
Total	**254.869**	**253.139**	**351.054**	**232.934**	**211.196**
Loans to companies included in Finance and Comm Servs above	**11.178**	**4.000**	**8.800**	**1.800**	**0.000**
GNGB supported borrowing to developers	**2.155**	**0.000**	**0.000**	**0.000**	**0.000**
Loans as a percentage	*5%*	*2%*	*3%*	*1%*	*0%*

Non-treasury investments – proportionality

The table above demonstrates that loans to companies and developers, as a percentage of all capital expenditure, are a relatively low proportion and therefore do not present undue risk in the context of the programme overall.

5.2 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

Ratio of financing costs to net revenue stream

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

%	2021-22 Actual	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate
Financing costs (net)	59.351	64.599	71.851	75.162	79.685
Net revenue costs	733.818	784.689	788.209	808.189	828.301
Percentage	8.09%	8.23%	9.12%	9.30%	9.62%

The estimates of financing costs include current commitments and budget proposals.

The Prudential Code 2013 acknowledged that the "Financing Costs to Net Revenue Stream" indicator may be more problematic for some authorities regarding the level of government support for capital spends. In these instances, it is suggested that a narrative explaining the indicator may be helpful. At this stage, it is considered that the table above can provide useful information.

5.3 Maturity structure of borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits. The Council is asked to approve the following treasury indicators and limits:

Maturity structure of fixed & variable interest rate borrowing 2022-23		
	Lower	**Upper**
Under 12 months	0%	10%
12 months to 2 years	0%	10%
2 years to 5 years	0%	10%
5 years to 10 years	0%	20%
10 years to 20 years	0%	30%
20 years to 30 years	10%	30%
30 years to 40 years	10%	30%
40 years to 50 years	10%	40%

The percentages shown in the table above are proportions of total borrowing.

5.4 Control of interest rate exposure:

The table above indicates how the authority manages its interest rate exposure to ensure a degree of alignment between asset lives and appropriate interest rates and spreading the time over which any debt re-financing may need to happen.

Only £42.250m out of total borrowing of over £849m (less than 5% of total borrowing) is potentially variable, and the rate will only vary if borrowing rates rise to above 4.75%. Forecast borrowing rates suggest that that this threshold will not be exceeded in the foreseeable future. Planned borrowing is expected to be at fixed rates to take advantage of low interest rates as they arise, and to limit long term exposure to variable rates.

With positive cash balances, the Council has maintained an under-borrowed position which avoids short term exposure to interest rate movements on investments. The Council will continue to balance the risks of borrowing while cash balances are available, against the long-term benefits of locking into low borrowing rates

5.5 Interest Rate Forecasts 2022-2025

Link Group Interest Rate View	08.11.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

PWLB forecasts are based on PWLB certainty rates.

5.6 ECONOMIC BACKGROUND

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps since the turn of the year. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	Eurozone	US
Bank Rate	3.0%	1.5%	3.75%-4.00%
GDP	-0.2%q/q Q3 (2.4%y/y)	+0.2%q/q Q3 (2.1%y/y)	2.6% Q3 Annualised
Inflation	11.1%y/y (Oct)	10.0%y/y (Nov)	7.7%y/y (Oct)
Unemployment Rate	3.6% (Sep)	6.6% (Sep)	3.7% (Aug)

Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation has picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at 5.5% - 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22nd February 2022.

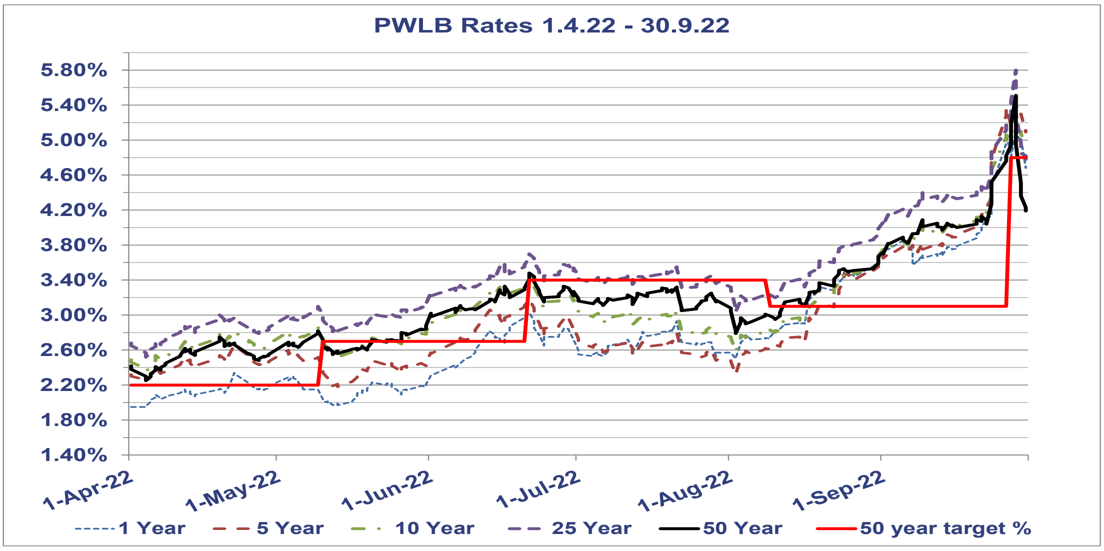
Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3% in November and the market expects Bank Rate to hit 4.5% by May 2023.

Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and December. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of 17th November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have completely reversed the increases seen under the previous tenants of No10/11 Downing Street.

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one if not more quarters of GDP contraction. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank.

The £ has strengthened of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.20. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

In the table below, the rise in gilt yields, and therein PWLB rates, through the first half of 2022/23 is clear to see.



However, the peak in rates on 28th September as illustrated in the table covering April to September 2022 below, has been followed by the whole curve shifting ever lower. PWLB rates at the front end of the curve are generally over 1% lower now whilst the 50 years is over 1.75% lower.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

After a shaky start to the year, the S&P 500 and FTSE 100 have climbed in recent weeks, albeit the former is still 17% down and the FTSE 2% up. The German DAX is 9% down for the year.

CENTRAL BANK CONCERNS – NOVEMBER 2022

At the start of November, the Fed decided to push up US rates by 0.75% to a range of 3.75% - 4%, whilst the MPC followed a day later by raising Bank Rate from 2.25% to 3%, in line with market expectations. EZ rates have also increased to 1.5% with further tightening in the pipeline.

Having said that, the press conferences in the US and the UK were very different. In the US, Fed Chair, Jerome Powell, stated that rates will be elevated and stay higher for longer than markets had expected. Governor Bailey, here in the UK, said the opposite and explained that the two economies are positioned very differently so you should not, therefore, expect the same policy or messaging.

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.5% - 4.75%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data has proven stronger than expected.

In addition, the Bank's central message that GDP will fall for eight quarters starting with Q3 2022 may prove to be a little pessimistic. Will the £160bn excess savings accumulated by households through the Covid lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

Appendix 6: Treasury Management Practice (TMP1) - Credit and counterparty risk management

The DLUHC issued Investment Guidance in 2018, and this forms the structure of the Council's policy below.   These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council has adopted the Code and will apply its principles to all investment activity. In accordance with the Code, the Executive Director of Finance and Commercial Services has produced its treasury management practices (TMPs). This part, covering investment counterparty policy requires approval each year.

Annual investment strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. They also include investments which were originally classed as being non-specified investments, but which would have been classified as specified investments apart from originally being for a period longer than 12 months, once the remaining period to maturity falls to under twelve months.

These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:
1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, housing association, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency e.g., Standard and Poor's, Moody's and/or Fitch rating agencies.
5. A body that is considered of a high credit quality (such as a bank or building society). This category covers bodies with a minimum Short-Term rating of AAA (or the equivalent) as rated by Standard and Poor's, Moody's and Fitch rating agencies.

In accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are shown in detail in Appendix 4.

Non-specified investments –are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

	Non Specified Investment Category	**Limit (£ or %)**
a.	**Supranational bonds greater than 1 year to maturity** **(a) Multilateral development bank bonds** - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Reconstruction and Development Bank etc.). **(b) A financial institution that is guaranteed by the United Kingdom Government** (e.g. National Rail, the Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	Not currently included as approved investment
b.	**Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	Ref Appendix 4
c.	**The Council's own banker** if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	Ref Appendix 4
d.	**Building societies not meeting the basic security requirements under the specified investments**. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings.	Not currently included as approved investment
e.	Any **bank or building society** that meets minimum long-term credit ratings, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	Ref Appendix 4
f.	**Share capital** in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies. This Authority would seek further advice on the appropriateness and associated risks with investments in these categories.	Not currently included as approved treasury investment.
g.	**Loan capital** in a body corporate. The use of these loans to subsidiaries and other companies will normally be deemed to be capital expenditure. However, working capital loans are dealt with under Treasury Management arrangements. This Authority would seek further advice on the appropriateness and associated risks with investments in these categories.	Ref Appendix 4
h.	**Bond funds.** These are specialist products, and the Authority will seek guidance on the status of any fund it may consider using.	Ref Appendix 4

i.	**Property funds –** The use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using.	Ref Appendix 4

The monitoring of investment counterparties - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Group as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Executive Director of Finance and Commercial Services, and if required new counterparties which meet the criteria will be added to the list.

Use of external fund managers – at the time of writing the Council does not use or plan to use external fund managers.

Appendix 7: Approved Countries for Investments (as at 2 December 2022)

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link creditworthiness service.

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Qatar
- **U.K.**

Appendix 8: Treasury Management Scheme of Delegation

(i) Full Council

- approve the Policy Framework and the strategies and policies that sit within it (Source: Council constitution);
- Note: the Policy Framework includes "Annual investment and treasury management strategy".

(ii) Cabinet terms of reference

- to prepare, for adoption by the Council, the budget and the plans which fall within the policy framework).

(iii) Audit and Governance Committee

- Consider the effectiveness of the governance, control and risk management arrangements for Treasury Management and ensure that they meet best practice. (Source: Audit Committee Terms of Reference)

(iv) Treasury Management Panel

The Panel's terms of reference are to:

- consider and comment on the draft Annual Investment and Treasury Strategy prior to its submission to Cabinet and full Council
- receive detailed reports on the Council's treasury management activity, including reports on any proposed changes to the criteria for "high" credit rated institutions in which investments are made and the lending limits assigned to different counterparties
- receive presentations and reports from the Council's Treasury Management advisers, Link Asset Services
- consider the draft Treasury Management Annual Report prior to its submission to Cabinet and full Council.

(v) Executive Director of Finance and Commercial Services

- "responsible for the proper administration of the financial affairs of the Council including … investments, bonds, loans, guarantees, leasing, borrowing (including methods of borrowing)…"

  (Source: Scheme of delegated powers to officers)

  See Appendix 9 for detailed responsibilities.

Appendix 9: The Treasury Management Role of the Section 151 Officer

The S151 (responsible) officer is the Executive Director of Finance and Commercial Services. Responsibilities include:

Constitution – officer roles

- Have responsibility for the administration of the financial affairs of the Council and be the Section 151 Officer.
- Statutory responsibilities of the Chief Finance Officer (Section 151 officer) Budgeting and Financial Management, Exchequer Services, Pensions, Investment and Treasury Management, Risk & Insurance, Property, Audit. ICT and Procurement and Transactional Services.

Financial Regulations

- execution and administration of treasury management decisions, including decisions on borrowing, investment, financing (including leasing) and maintenance of the counter party list.
- prepare for County Council an annual strategy and plan in advance of the year, a mid-year review and an annual report.
- regularly report to the Treasury Management Panel and the Cabinet on treasury management policies, practices, activities and performance monitoring information.
- monitoring performance against prudential indicators, including reporting significant deviations to the Cabinet and County Council as appropriate.
- ensuring all borrowing and investment decisions, both long and short term, are based on cash flow monitoring and projections.
- ensuring that any leasing financing decisions are based on full options appraisal and represent best value for the County Council, in accordance with the County Council's leasing guidance.
- the provision and management of all banking services and facilities to the County Council.
- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities

- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following *(TM Code p54): -*
    - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
    - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*
    - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*
    - *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*
    - *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

Appendix 10: Non-treasury investments

Existing non- treasury investments (loans) at 31 March 2022

Loans	**£m**
NORSE Energy (capital investment)	10.000
Norse Group (capital investment)	2.687
Norse Group (Aviation Academy)	5.867
NEWS	0.318
NorseCare	2.844
Hethel Innovation Ltd (Hethel Engineering Centre)	7.011
Norwich Airport Radar (relocation due to NDR)	2.194
Repton Property Developments Limited	12.550
LIF loans to developers in Norfolk	6.766
Total loans to companies	**50.238**
NDR Loan – underwritten by CIL receipts	34.501
Total long-term debtors in balance sheet	**84.739**

In addition to the loans listed above, equity of £3.5m has been invested in Repton Property Developments Limited, a wholly owned housing development company.

A more detailed schedule of the above loans, showing objectives and explanations of each investment are detailed in Appendix 3 to the Mid-Year Treasury Management Monitoring Report 2022-23 presented to 5 December 2022 Cabinet.

Potential future non-treasury capital investments

Non-treasury investments: The following schemes if approved will result in loans to wholly owned companies or third parties. These loans will be for capital purposes, are Norfolk based, and are designed to further the Council's objectives. None of the loans listed are purely for the purpose of income generation.

Scheme	**Background**	**Approximate value**
Capital equity in, and loans to wholly owned companies	**Repton Property Developments** The company is developing land north of Norwich Road Acle surplus to County Council, as well as other appropriate surplus land holdings. **Other projects** From time to time the Council's wholly owned companies further the Council's objectives through capital investments. This facility is included in the capital programme.	£23m included in capital programme

Proportionality of non-treasury investments:
The total value of loans (including CIL supported debt) is not likely to exceed £100m. At an indicative interest rate of 4.2% (giving a margin of approximately 1% over current PWLB borrowing rate) this would mean interest of £4.2m pa. This approximates to less than 20% of the Council's general reserves, 2% of the Council's net expenditure, and 0.5% of departmental gross expenditure. As a result, reliance on income from non-treasury is therefore considered to be proportionate and manageable.