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Agenda Supplement 1

Dear Councillor

FINANCE, ASSETS, INVESTMENT & RECOVERY COMMITTEE - WEDNESDAY, 7TH FEBRUARY, 2024

I am now able to enclose, for consideration at next Wednesday, 7th February, 2024 meeting of the Finance, Assets, Investment & Recovery Committee, the following reports that were unavailable when the agenda was printed.

Agenda No	Item
7.	**Treasury Management Strategy 2024/25** (Pages 3 - 62)

Yours sincerely

Jonathan Stephenson
Chief Executive

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Committee(s): Finance, Assets, Investments & Recovery	Date: 7th Feb 2024
Subject: Treasury management strategy 2024/25	**Wards Affected: All**
Report of: Tim Willis, Interim Director (Resources) & Section 151 Officer	**Public**
Report Author/s: Name: Tim Willis, Interim Director (Resources) & Section 151 Officer Telephone: 07870 863270 E-mail: tim.willis@brentwood.rochford.gov.uk	**For Decision**

Summary

This report and appendices set out all the relevant information in support of the Council's Treasury management strategy for 2024/25

(i) Appendix A – Treasury management strategy 2024/25

Recommendation(s)

Members are asked to:

R1. Approve the council's Treasury management strategy for 2024/25

Main Report

Introduction and Background

1. This document has been prepared in accordance with the 2021 CIPFA Prudential Code, which requires a capital strategy to be approved at a meeting of the Council ahead of the 2024/25 financial year.

2. The Treasury management strategy gives an overview of how capital expenditure, capital financing and treasury management activity will contribute to the provision of public services in Brentwood, along with an overview of how associated risk is managed.

3. The Authority is required to operate a balanced revenue 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 Authority's low risk appetite, providing adequate liquidity initially before considering investment return.

4. Capital programme for 2023/24

Table 1: Capital programme for 2023/24

	2023/24 Budget £'000	2023/24 Forecast £'000	2023/24 Variance £'000
Protecting Our Environment			
Vehicle Fleet Management	1388	1,378	(10)
Open Spaces Infrastructure	100	100	0
Low Emissions Infrastructure	138	138	0
Total Protecting Our Environment	**1,626**	**1,616**	**(10)**
Developing Our Communities			
Play Area Refurbishments	100	0	(100)
Brentwood Leisure centre	1000	1,000	0
Football Hub Development	2817	5	(2,812)
Retrofit - GF	250	250	0
Total Developing Our Communities	**4,167**	**1,255**	**(2,912)**
Improving Housing			
Home Repair Assistance Grant	5	5	0
Disabled Facilities Grant	250	250	0
HRA Decent Home Programme	6007	10,000	3,993
Strategic Housing Delivery Programme	16000	1,250	(14,750)
HSG Capital Grants Expenditure (LAHF Grant)	0	1,337	1,337
Total Improving Housing	**22,262**	**12,842**	**(9,420)**
Delivering an Effective and Efficient Council			
Asset Management Strategy	100	100	0
Asset Compliance	250	250	0
E-Financial	51	51	0
ICT Strategy	100	100	0
ICT Hardware	125	125	0
Software Infrastructure	50	50	0
Total Delivering an Effective and Efficient Council	**676**	**676**	**0**
Growing our Economy			
Car Park Improvements	100	100	0
Regeneration Fund	20000	0	(20,000)
Baytree Centre	4988	800	(4,188)
Childerditch	4521	250	(4,271)
Total Growing our Economy	**29,609**	**1,150**	**(28,459)**

Total Capital Programme	**58,340**	**17,539**	**(40,801)**

Table 2: Financing of 2023/24 Capital programme

Financing of Capital expenditure	2023/24 Budget £'000	2023/24 Forecast £'000	2023/24 Variance £'000
Total General Capital Programme	36,333	4,952	(31,381)
Total HRA Capital Programme	22,007	12,587	(9,420)
Total Capital Programme	**58,340**	**17,539**	**(40,801)**
Funded By:			
General Fund Capital Receipts	(200)	(200)	0
Government Grants	(250)	(250)	0
Borrowing	(35,883)	(4,502)	31,381
Total General Fund Capital Funding	**(36,333)**	**(4,952)**	**31,381**
HRA Capital Receipts	(500)	(500)	0
HRA Grant Funding	(1,000)	(1,000)	0
Major Repairs Reserve	(2,941)	(2,941)	0
HRA Borrowing	(17,566)	(8,146)	9,420
Total HRA Capital Funding	**(22,007)**	**(12,587)**	**9,420**
Total Capital Funding	**(58,340)**	**(17,539)**	**40,801**

5. Capital programme for full MTFS

6. The table below details the capital programme budget for 2024/25 and the forecast for the next two years. Each scheme is aligned with the Corporate Strategy as detailed on page 13 of this document, and the proposed budget (including proposed slippage from table 3) is set to deliver against each Corporate Strategy theme.

Table 3: Capital 2024/25 and forecasts for 2025/26, 2026/27 2027/28 & 2028/29

	2024/25 Budget £'000	2025/26 Budget £'000	2026/27 Budget £'000	2027/28 Budget £'000	2028/29 Budget £'000
Protecting Our Environment					
Vehicle Fleet Management	860	500	500	500	500
Open Spaces Infrastructure	50	50	50	50	50
Total Protecting Our Environment	**910**	**550**	**550**	**550**	**550**
Improving Housing					
Home Repair Assistance Grant	5	5	5	5	5

Disabled Facilities Grant	250	250	250	250	250
HRA Decent Home Programme	8,000	8,000	5,000	5,000	4,000
Strategic Housing Delivery Programme	18,050	30,740	14,320	2,020	
HSG Capital Grants Expenditure (LAHF Grant)	0	0	0	0	0
Total Improving Housing	**26,305**	**38,995**	**19,575**	**7,275**	**4,255**
Delivering an Effective and Efficient Council					
Asset Management Strategy	100	100	100	100	100
Asset Compliance	100	250	250	250	250
E-Financial	0	0	0	100	0
ICT Strategy	100	100	100	100	100
ICT Hardware	125	125	125	125	125
Software Infrastructure	50	50	50	50	50
Total Delivering an Effective and Efficient Council	**475**	**625**	**625**	**725**	**625**
Growing our Economy					
Car Park Improvements	50	250	50	50	50
Regeneration Fund	18,000	0	0	0	0
Baytree Centre	5,000	8,473	7,625	0	0
Childerditch	2,500	1,770	0	0	0
Total Growing our Economy	**25,550**	**10,493**	**7,675**	**50**	**50**
GF capital expenditure reductions	**0**	**0**	**-4,000**	**0**	**0**
Total Capital Programme	**53,240**	**50,663**	**24,425**	**8,600**	**5,480**

Table 4 Capital financing

Financing of Capital expenditure	**2024/25 Budget £'000**	**2025/26 Budget £'000**	**2026/27 Budget £'000**	**2027/28 Budget £'000**	**2028/29 Budget £'000**
Total General Capital Programme	27,190	11,923	5,105	1,580	1,480
Total HRA Capital Programme	26,050	38,740	19,320	7,020	4,000
Total Capital Programme	**53,240**	**50,663**	**24,425**	**8,600**	**5,480**
Funded By:					
General Fund Capital Receipts	(200)	(200)	(200)	(200)	(200)
Government Grants	(250)	(250)	(250)	(250)	(250)
Borrowing	(26,740)	(11,473)	(4,655)	0	(1,030)
Capital receipts				(4,000)	0
Total General Fund Capital Funding	**(27,190)**	**(11,923)**	**(5,105)**	**(4,450)**	**(1,480)**
HRA Capital Receipts	(1,000)	(1,000)	(1,000)	(4,079)	(2,000)
HRA Grant Funding	(2,000)	(6,050)	(6,050)	(1,000)	(1,000)
Major Repairs Reserve	(2,941)	(2,941)	(2,941)	(1,941)	(1,000)

HRA Borrowing	(20,109)	(28,749)	(9,329)	0	0
Total HRA Capital Funding	**(26,050)**	**(38,740)**	**(19,320)**	**(7,020)**	**(4,000)**
Total Capital Funding	**(53,240)**	**(50,663)**	**(24,425)**	**(11,470)**	**(5,480)**

7. Treasury management is a key element of the Council's overall financial management arrangements. It relates to the Council's borrowing and investment activities and the effective management of the associated risks. These activities are strictly regulated by statutory requirements and professional codes of practice, which require authorities to set local parameters for their Officers to work within. This Council has adopted the CIPFA Code of Practice on Treasury Management in the Public Services and, as required by the Code, has an approved Treasury Management Policy Statement and associated Treasury Management Practice Statements (TMPs).

8. The main driver of the Council's treasury activity is its capital expenditure plans. The following table summarises the Council's capital expenditure programme for 2023/24 to 2025/26, along with the 2022/23 actuals and 2023/24 forecast outturn.

	2022/23 Actual £000	2023/24 Forecast £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
General Fund	2,842	4,952	27,190	11,923	9,105
HRA	11,601	12,587	26,050	38,740	19,320
Total	**14,443**	**17,539**	**53,240**	**50,663**	**28,425**

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

	2022/23 Actual £000	2023/24 Forecast £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
Capital Financing Requirement					
General Fund	185,312	188,425	213,124	222,369	224,660
HRA	66,382	74,573	94,682	123,431	132,760
Total CFR	**251,694**	**262,998**	**307,806**	**345,800**	**357,420**

Movement represented by:					
Net financing need for the year		12,681	46,849	40,222	13,984
Debt Repayment Provision		(1,378)	(2,041)	(2,228)	(2,364)

Movement in CFR		11,303	44,808	37,994	11,620

10. The intended borrowing strategy for 2024/25 and subsequent years is to adopt a flexible approach. Capital schemes that incur expenditure related to long-term investment will generally be funded from long-term borrowing. However, there may be instances where capital schemes will be funded through short-term borrowing while they in progress, and to replace this with long borrowing once the schemes are complete. Long term borrowing supports medium term financial planning by providing certainty around interest costs, and maintaining some short-term borrowing enables the Council to take advantage of lower interest rates.

	31 March 2023 £000	31 March 2024 £000	31 March 2025 £000	31 March 2026 £000	31 March 2027 £'000
Borrowing					
- PWLB	192,019	192,019	192,019	241,019	251,019
- Market Lender	0	25,000	45,000	45,000	45,000
- Other Local Authorities	34,000	25,000	11,500	11,500	12,000
- Transferred Debt	172	0	0	0	0
Total Borrowing	**226,191**	**242,019**	**267,519**	**297,519**	**308,019**
Investments	-7,000	-22,000	-2,000	-2,000	-2,000
Net Borrowing	**219,191**	**220,019**	**265,519**	**295,519**	**306,019**

11. The following table, provided by the Council's treasury advisors Link Group, shows bank rate and PWLB interest rate forecasts up to March 2026:

	NOW	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
Bank Rate	5.25%	5.25%	5.25%	5.00%	4.50%	4.00%	3.50%	3.00%	3.00%	3.00%
PWLB Rates										
- 5 years	4.18%	4.90%	4.80%	4.70%	4.40%	4.20%	4.00%	3.80%	3.70%	3.60%
- 10 years	4.31%	5.00%	4.80%	4.70%	4.40%	4.20%	4.00%	3.80%	3.70%	3.70%
- 25 years	4.85%	5.30%	5.10%	4.90%	4.70%	4.50%	4.30%	4.20%	4.10%	4.10%
- 50 years	4.59%	5.10%	4.90%	4.70%	4.50%	4.30%	4.10%	4.00%	3.90%	3.90%

Issue, Options and Analysis of Options

12. All the issues, options and analysis are detailed in Appendix A

Reasons for Recommendation

13. Effective financial management underpins all the priorities for the Council and will enable the Council to operate within a sustainable budget environment.

14. The Council is required to approve the Treasury management strategy in accordance with the 2021 CIPFA prudential code

Consultation

15. The Council undertook a Consultation on the budget during 2023. Further information is set out in Appendix A.

References to Corporate Strategy

16. The Treasury management strategy is linked to achieving the current priorities in the Corporate Strategy.

Implications

17. The financial implications are set out within the report and the Appendix accompanying the reports.

Legal Implications

18. The Council is obliged by Section 151 of the Local Government Act 1972 to make proper arrangements for the management of its financial affairs. It is consistent with sound financial management and the Council's obligation under Section 151 of the Local Government Act 1972 for the Council to adopt and monitor a treasury management strategy.

Economic Implications
Name/Title: Leigh Nicholson, Interim Corporate Director of Planning and Economy
Tel/Email: 01277 312500/philip.drane@brentwood.gov.uk

Background Papers

19. Budget 2024/25 and Medium Term Financial Strategy 2024-29

Appendices to this report

Appendix A: Treasury management strategy

Brentwood Borough Council

Treasury Management Strategy

2024/25

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Contents

Introduction

1. This document has been prepared in accordance with the 2021 CIPFA Prudential Code, which requires a capital strategy to be approved at a meeting of the Council ahead of the 2024/25 financial year.

2. The Treasury management strategy gives an overview of how capital expenditure, capital financing and treasury management activity will contribute to the provision of public services in Brentwood, along with an overview of how associated risk is managed.

3. CIPFA published its revised Prudential Code and Treasury Management Code on 20th December 2021. CIPFA have stated after a soft introduction of the Codes, local authorities are expected to fully implement the required reporting changes within their Treasury Management Strategy and their Annual Investment Strategy from 2023/24.

The revised codes will have the following implications:

- a requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;

- the Code clarifies what CIPFA expects a local authority to borrow for and what CIFPFA do not view as appropriate borrowing. This will include the requirement to set a proportionate approach to commercial and service capital investment;

- a requirement to address environmental, social and governance (ESG) issues within the Capital Strategy

- the implementation of a policy to review commercial property, with a view to divest where appropriate

- the creation of new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices)

- a requirement to ensure that any long-term treasury investment is supported by a business model

- a requirement to effectively manage liquidity and longer-term cash flow requirements

- an amendment to Treasury Management Practice 1 to address ESG policy within the treasury management risk framework

- an amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council

In addition, all investments income must be attributed to one of the following three categories:

- Treasury management – see Treasury Management Strategy Statement
- Service delivery – these investments are covered from page 26
- Commercial return – these investments are also covered from page 26

Background

4. The Authority is required to operate a balanced revenue 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 Authority's low risk appetite, providing adequate liquidity initially before considering investment return.

5. The second main function of the treasury management service is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer-term cash flow planning, to ensure that it 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 risk or cost objectives.

6. 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.

7. CIPFA defines treasury management as:

> *"The management of the local authority's borrowing, investments and cash flows, including 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."*

8. 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.

Capital Expenditure

9. Capital expenditure is incurred on the acquisition or creation of assets, or expenditure that enhances or adds to the life or value of an existing fixed asset that is needed to provide services. Fixed assets are tangible or intangible assets that yield benefits to the Council

generally for a period of more than one year. This contrasts with revenue expenditure which is spending on the day to day running costs of services.

10. The Local Government Act 2003 extends the definition for the purpose of capital expenditure to allow expenditure on computer software and on the making of loans or grants for capital expenditure by another body to be treated as capital expenditure of the local authority. These Statutory Regulations have been absorbed into CIPFA's Accounting Code for Local Government Accounting (the Code) and where appropriate form the basis of statutory overrides to International Financial Reporting Standards used within company accounts. For this reason, as well as the Capital Programme produced and approved as part of the annual Budget Setting report, there will also be other activities that are required to be accounted for as Capital Expenditure in addition to the annual programme.

11. The capital programme is the Council's plan of capital works for future years, including details on the funding of the schemes. Included are the projects such as the purchase of land and buildings, the construction of new buildings, design fees and the acquisition of vehicles and major items of equipment. Also included in the programme could be service and commercial investments.

Treasury Management

12. The Council is required to have regard to the 2017 CIPFA Prudential Code and Treasury Management Code when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy and also related reports during the financial year.

13. All decisions on overall Treasury Management Strategy and the setting of annual TM Strategies are determined by Ordinary Council. The same process will apply to changes to the relevant policy or strategy during the course of a year. Thus, all matters relating to borrowing, investments and debt repayment are determined by Ordinary Council.

14. The objective of the strategy is to establish a framework under which officers can carry out treasury activities. The control framework is established initially by what is permitted within the approved strategy, but further levels of control exist within the operational aspects of the activities. This means that just because something is permitted by the strategy, it does not necessarily follow that the activity will take place. The Section 151 Officer has the responsibility for this day to day decision making with the primary objective of acting in the best interest of the Council's finances at all times.

15. Treasury Management investment activity covers those investments which arise from the organisation's cash flows and debt management activity, and ultimately represent balances which need to be invested until the cash is required for use in the course of business.

16. For Treasury Management investments the security and liquidity of funds are placed ahead of the investment return. The management of associated risk is set out in the Treasury Management Strategy.

Knowledge and expertise

17. Capital accounting and treasury activities are highly technical areas of local authority accounting and are covered by specific regulations that are over and above regular accounting functions. In respect of commercial investment, the knowledge and expertise required is specific to asset management within a commercial environment.

18. To ensure that the Council is able to manage these activities appropriately and make informed recommendations, specialist consultants are engaged.

19. In relation to asset acquisitions either directly by the Council or by under the wholly owned company Seven Arches Investment Ltd (SAIL), property management and investment consultants are used to undertake the initial assessment of potential sites for purchase and to evaluate the proposed purchase.

20. For other treasury and investment activities, the Council engages with treasury consultants, who provide general economic data as well as interest and investment rate forecasts and other market data.

Reporting Requirements – Capital Strategy

21. 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

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

Reporting Requirements – Treasury Management Strategy

23. The Authority 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, this Authority 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

25. The above reports are required to be adequately scrutinised before being recommended to the Full Council. This role is undertaken by the audit and scrutiny Committee.

26. Quarterly reports – In addition to the three major reports detailed above, since 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 Audit and Scrutiny Committee. (The reports, specifically, should comprise updated Treasury/Prudential Indicators.)

The Capital Programme Budget Setting Process

27. For any particular budget setting year, the process starts in July of the preceding year. Budget Managers must complete a Growth Bid template to be submitted to Finance by September. In the period between October and December, Budget Challenge sessions are held to discuss budgets and potential growth bids with the Budget Manager.

How Budget Managers should identify need for Capital Expenditure/Investment.

28. The need for a capital scheme may be identified by a Service through one or more of the following processes.

- Services annually prepare plans ensuring that their objectives meet the overall aims and objectives of the Council paying careful consideration to the Council's Corporate Strategy. These plans must identify any capital investment needed to meet future service demands. This should be the main method of identifying and planning for service's capital requirements;
- The *Corporate Asset Management Strategy* is currently being revised to highlight deficiencies in the condition, suitability and sufficiency of the Council's existing building stock and identify future areas of need;
- Reviews and external Inspections may also identify areas that need capital investment;
- The need to respond to Government initiatives and new laws and regulations;
- The need to generate a revenue income to contribute to the funding of services.

These plans and review outcomes must be considered by Budget Managers who then must identify their key capital priorities for the relevant service planning period.

Deciding on Capital Growth to submit

29. When identifying capital needs the Budget Manager along with their Link Accountant, should consider the proposals against the following criteria:

Prudence:

- Recognition of the ability to prioritise and refocus following transformation work;
- Recognition of the capacity in the organisation to deliver such a programme;
- Recognition of the knowledge and skills available and whether these are commensurate with the appetite for risk;
- Recognition of the future vision of the authority;
- The approach to commercial activities including ensuring effective due diligence, expert advice and scrutiny, defining the risk appetite and considerations of proportionality in respect of overall resources;
- The approach to treasury management and the management of risk as set out in the Treasury Management Strategy.

Affordability:

- Revenue impact of the proposals on the Medium-Term Financial Strategy;
- The borrowing position of the Council, projections of external debt and the use of internal borrowing to support capital expenditure;
- The authorised limit and operational boundary for the following year;
- Whether schemes are profiled to the appropriate financial year.

Sustainability:

- A long-term view of capital expenditure plans, where long term is defined by the financing strategy and risks faced with reference to the life of the project/assets;
- Provision for the repayment of debt over the life of the underlying debt as set out in the Minimum Revenue Provision policy;
- An overview of asset management planning including maintenance requirements and planned disposals.

Growth bid Appraisals

30. As part of the process of producing a list of potential schemes for the capital programme budget managers should complete option appraisals to determine the most cost effective and best service delivery options.

31. By submitting the project, the budget manager is agreeing to fund all operational and running costs of the scheme and to find any necessary capital resources to fund the scheme or make the Council aware of the full requirement of the use of corporate resources.

32. Projects are assessed through financial modelling as though they were funded by borrowing and are required to provide a positive Net Present Value by the modelling of the project cash flows, including the financing costs, to ensure that income or cost savings are greater than sums expended.

33. Some projects may require a feasibility study. As part of any feasibility study an assessment of the maintenance costs per annum averaged over the whole life of the asset should be calculated.

34. All projects, especially major, complex and strategic projects, as part of setting the capital programme for new schemes and additions, should follow the *Corporate Project Management Process.*

Submission of Bids

35. All bids are produced in line with the appropriate timetable with consideration for the financial information contained within the bid. Budget Managers must have a clear understanding of the service requirement and the budget consequences, both revenue and capital, of completing the capital programme. Bids must be submitted in September in order to be considered as part of the budget setting process.

36. Possible sources of funding can then be considered for each of the proposed capital schemes. Each project will be considered in terms of revenue funding to cover the

operational running costs of the asset and any borrowing repayment costs, and also how the asset will be funded in terms of capital expenditure.

37. The proportionality of the proposals as a whole will then be considered in respect of overall resources and longer-term sustainability and risk. The Section 151 Officer will take an overall view on the prudence, affordability and sustainability of the overall borrowing level if all bids are accepted.

38. Once the Section 151 Officer has taken a view of the prudence of the overall borrowing level, growth bids are presented to the Senior Leadership Team to be considered from a corporate strategy perspective.

Prioritisation of Bids

39. A formalised corporate approach allows the Council to:

- Identifying essential capital investment in the short term
- Identifying projects through approved strategies such as *Leisure Strategy* and *Play Area Strategy*, ensuring strategies line up against the capital programme.
- Utilise feasibility studies where needed, to ensure the right capital funds are being requested.
- Ability to enter projects in a managed way through the annual budget cycle and when the capital programme is reviewed at mid-year.
- The Council is mindful of the current programme and the capacity available to deliver new projects and the relevant financing of the new bids.

40. This corporate approach results in a list of capital project proposals to be considered as part of that year's budget approval process and a 'waiting list' of other capital project proposals that may be put forward for consideration later in the year or as part of the following year's budget approval process.

Member Approval

41. Large schemes are reported to individual committees before final submission is made to FAIR Committee. The Business Plan of these schemes are reported to members before they approve and allow the drawdown of budgets for the scheme in question.

42. Bids that are successful are then incorporated into the Capital Programme as part of the Budget Report, that is presented to FAIR Committee who refer the programme to Ordinary Council for approval.

43. Members approve the overall borrowing levels at the Ordinary Council budget meeting each year as part of the Treasury Management Strategy. Any external borrowing then becomes an operational decision for the Section 151 Officer who will decide based on current financial position whether to borrowing internally or enter into external borrowing.

44. Once the Council has approved the capital programme, then expenditure can be committed against these approved schemes subject to the normal contract and procurement procedure rules and the terms and conditions of funding, if applicable.

45. Following approval by Council the capital programme expenditure is then monitored on a monthly basis.

Monitoring the Capital Programme

46. Once the detailed programme has been approved at Ordinary Council, the financial spend is monitored on a monthly basis. The monitoring cycle is summarised below

1. At the end of the financial month, Capital Budget monitoring cycle is opened in Collaborative Planning, the Council's monitoring system.
2. Budget mangers project the progress of each capital project and update the system with their current estimates.
3. Link Accountants review the updates and make any necessary challenges or amendments with discussion with the Budget Manager.
4. Senior Leadership Team review the information to ensure the projects are on target at quarterly Budget Challenge sessions.
5. Members review overall delivery as part of Budget update reports taken to FAIR Committee.

Housing Revenue Account (HRA) Capital Programme

47. The Council has begun a pipeline of new affordable homes through the development and regeneration of various Housing Revenue Account (HRA) owned sites. As a reminder, this Strategic Housing Delivery Programme (SHDP) is currently made up of two elements, 1) the regeneration of Brookfield Close, Hutton resulting in a planned 61 zero carbon homes and 2) the development of a range of smaller HRA sites to deliver new homes. All of these new homes will contribute to, and be managed within, the Council's HRA.

48. A review of the HRA Business Plan and its assumptions and capacity to deliver a sustainable programme of new homes has continued into a further phase and now incorporates the costs and returns from the viability assessments. The revised plan assumes the pursuing of a 5 to 7-year programme funding new homes to a total cost of £60m over that period.

49. It is essential to ensure that the stock is maintained to a proper standard and to meet the other demands and commitments of the capital programme. The delivery of a continuous Decent Home Programme ensures the stock remains compliant with any legislative changes and prolongs the life of the assets, ensuring the best homes for the borough's tenants.

50. The major source of funding for the HRA Capital programme is the depreciation charge to the HRA which is charged to the Major Repairs Reserve and drawn down from here to finance the HRA Decent home Programme. However, the HRA can also make contributions of revenue to capital expenditure. The HRA revenue budget identifies the proposed level of

depreciation as well as the proposed level of revenue contribution for the Capital programme.

Funding the Capital Programme

51. The following paragraphs describe the resources that the Council can use to fund its capital expenditure and investment programme.

Capital Receipts

52. A capital receipt is an amount of money exceeding £10,000 which is received from the sale of an asset. They cannot be spent on revenue items.

53. Surplus and poor performing assets are reviewed with re-investment in higher performing assets and the Council's focus on investment and regeneration will ensure maximum return from council assets. The general policy is that any capital receipts are then pooled and used to finance future capital expenditure and investment according to priorities.

Section 106 – Planning obligations

54 When the Council adopts land for open space or a play area, the developer pays a commuted sum under a 'section 106 agreement'. This is held on the balance sheet and the interest earned offsets the future maintenance costs of the recreation asset. The Council also seeks to secure the provision of infrastructure and facilities to mitigate the effects of development under section 106.

External Grants and Contributions

55. Through partnership working, supportive funding and innovation, the Council will seek to attract investment into the Borough. We seek to maximise external funding to support our programme. This tends to be for specific purposes. Working with public and private sector partners we are able to make better use of Council money.

Revenue contributions

56. The Council is able to contribute revenue to the Capital if it chooses to do so. The Council's budget and MTFS sets out allocation of reserve balances and this Council's approach to managing working balances.

Balances and Reserves

57. The Council continues to hold specific reserves, these reserves are mostly earmarked for specific projects, limiting funding for new initiatives.

Prudential/Unsupported Borrowing

58. Local Authorities can set their own borrowing levels based on their capital need and their ability to pay for the borrowing. The levels will be set by using the indicators and factors set out in the Prudential Code. The borrowing costs are not supported by the Government so services need to ensure they can fund the repayment costs. This borrowing may also be referred to as Prudential Borrowing.

59. Capital projects that cannot be funded from any other source can be funded from Prudential Borrowing. The Council must be able to afford the borrowing repayment and

interest charges on the loan from existing revenue budgets or must see this as their key priority and to be factored into the Medium-Term Financial Strategy accordingly.

60. The Section 151 will make an assessment of the overall prudence, affordability and sustainability of the total borrowing requested. The impact of this borrowing will be reported in the Treasury Management Strategy alongside the Prudential Indicators required by CIPFA's Prudential Code for Capital Finance.

61. The view of the Section 151 will be fed into the corporate bidding process so that, should the borrowing levels be unaffordable or not prudent, then the schemes will be prioritised against the available funding from borrowing using the corporate plan.

62. The Section 151 will also determine whether the borrowing should be from internal resources or whether to enter into external borrowing.

Leasing

63. The Section 151 may enter into finance leasing agreements to fund capital expenditure on behalf of services. However, a full option appraisal and comparison of other funding sources must be made and the Section 151 must be certain that leasing provides the best value for money method of funding the scheme.

64. Under the Prudential Code finance leasing agreements are counted against the overall borrowing levels when looking at the prudence of the authority's borrowing.

Invest to Save Schemes

65. Occasionally projects arise for which services require assistance with meeting the set-up costs of projects which may bring long term service delivery improvements and/or cost savings.

66. The initial set up costs may be of a revenue or capital nature. Assistance for these schemes must be considered on an individual basis by the Senior Leadership Team and then reported to FAIR with consideration to the Council's overall priorities and resources. For 'invest to save' schemes assistance may be given for initial set up costs, but it is expected that in the longer term these schemes will produce savings and/or additional income that will as a minimum fund any additional operational or borrowing costs. If the additional savings/income does not cover the additional costs incurred, then the service will be required to fund the gap from their existing budgets.

Capital Programme 2023/24

67. The table below highlights the current forecast for 2023/24 Capital Projects and the proposed slippage to be agreed as part of 2023/24 outturn report, that will be submitted to FAIR in June 2024.

68. These capital schemes have been aligned with the Corporate Strategy headings. The schemes within each strategy theme are set to achieve the following:

Protecting our Environment

- Reducing pressure on environmentally sensitive areas and infrastructure.
- Investing in an electric fleet or alternative fuel powered vehicles to reduce the impact on the environment.
- Improving and enhancing the Councils Waste management services.

Developing Our Communities

- Investing in community facilities to support the growing population.
- Enhancing and developing sustainable leisure facilities.
- Protecting residents and property through enforcement initiatives and crime prevention initiatives.

Improving Housing

- Undertaking refurbishment of existing council housing.
- Increasing the delivery of housing to meet local needs.
- Using brownfield sites efficiently to provide affordable homes and relive pressure on the green belt.

Delivering an efficient and effective Council

- Using Council building's efficiently and to good effect.
- Continuing to deliver service improvement
- Invest further in technology to improve the customer journey when accessing Council services.
- Invest in acquiring strategic in borough assets to promote employment and regeneration.

Table 1 - Capital Programme 2023/24 – Estimated Outturn

	2023/24 Budget £'000	2023/24 Forecast £'000	2023/24 Variance £'000
Protecting Our Environment			
Vehicle Fleet Management	1388	1,378	(10)
Open Spaces Infrastructure	100	100	0
Low Emissions Infrastructure	138	138	0
Total Protecting Our Environment	**1,626**	**1,616**	**(10)**
Developing Our Communities			
Play Area Refurbishments	100	0	(100)
Brentwood Leisure centre	1000	1,000	0
Football Hub Development	2817	5	(2,812)
Retrofit - GF	250	250	0
Total Developing Our Communities	**4,167**	**1,255**	**(2,912)**
Improving Housing			
Home Repair Assistance Grant	5	5	0
Disabled Facilities Grant	250	250	0
HRA Decent Home Programme	6007	10,000	3,993
Strategic Housing Delivery Programme	16000	1,250	(14,750)
HSG Capital Grants Expenditure (LAHF Grant)	0	1,337	1,337
Total Improving Housing	**22,262**	**12,842**	**(9,420)**
Delivering an Effective and Efficient Council			
Asset Management Strategy	100	100	0
Asset Compliance	250	250	0
E-Financial	51	51	0
ICT Strategy	100	100	0
ICT Hardware	125	125	0
Software Infrastructure	50	50	0
Total Delivering an Effective and Efficient Council	**676**	**676**	**0**
Growing our Economy			
Car Park Improvements	100	100	0
Regeneration Fund	20000	0	(20,000)
Baytree Centre	4988	800	(4,188)
Childerditch	4521	250	(4,271)
Total Growing our Economy	**29,609**	**1,150**	**(28,459)**
Total Capital Programme	**58,340**	**17,539**	**(40,801)**

Table 2 - Funding the 2023/24 Capital Programme

The following table identifies how the 2023/24 Capital Programme will be funded.

Financing of Capital expenditure	2023/24 Budget £'000	2023/24 Forecast £'000	2023/24 Variance £'000
Total General Capital Programme	36,333	4,952	(31,381)
Total HRA Capital Programme	22,007	12,587	(9,420)
Total Capital Programme	**58,340**	**17,539**	**(40,801)**
Funded By:			
General Fund Capital Receipts	(200)	(200)	0
Government Grants	(250)	(250)	0
Borrowing	(35,883)	(4,502)	31,381
Total General Fund Capital Funding	**(36,333)**	**(4,952)**	**31,381**
HRA Capital Receipts	(500)	(500)	0
HRA Grant Funding	(1,000)	(1,000)	0
Major Repairs Reserve	(2,941)	(2,941)	0
HRA Borrowing	(17,566)	(8,146)	9,420
Total HRA Capital Funding	**(22,007)**	**(12,587)**	**9,420**
Total Capital Funding	**(58,340)**	**(17,539)**	**40,801**

Slippage Proposals

69. Slippage is proposed when capital schemes are not completed within the specified financial year but are still ongoing. Reasons for slippage could be delays to works starting, delay to contracts being agreed, projects being affected by resources and weather, projects requiring re-profiling are some examples. Not all underspends on schemes need to be brought forward, only those for schemes that are committed. Proposed Slippage from 2023/24 is as follows:

Table 3 – Potential Capital Slippage

Capital Scheme	Amount £'000
Football Hub Development	2,812
Regeneration fund	20,000

Strategic Housing Delivery Programme	14,750
Baytree centre	4,188
Childerditch	4,271
Total Slippage Proposals	**46,021**
Funded By:	
Borrowing	(46,021)
Total Funding	**(46,021)**

These will be finalised and approved as part of 2023/24 outturn, which will be reported to FAIR. To avoid overstating the capital programme slippage could be spread out over the MTFS if it is not achievable to be delivered in the following year.

Capital Programme 2024/25

70. The table below details the capital programme budget for 2024/25 and the forecast for the next four years. Each scheme is aligned with the Corporate Strategy and the proposed budget (including proposed slippage from table 3) is set to deliver against each Corporate Strategy theme.

Table 4 - Capital Programme 2024/25 and forecasts for 2025/26, 2026/27 2027/28 & 2028/29

	2024/25 Budget £'000	2025/26 Budget £'000	2026/27 Budget £'000	2027/28 Budget £'000	2028/29 Budget £'000
<u>Protecting Our Environment</u>					
Vehicle Fleet Management	860	500	500	500	500
Open Spaces Infrastructure	50	50	50	50	50
Total Protecting Our Environment	**910**	**550**	**550**	**550**	**550**
<u>Improving Housing</u>					
Home Repair Assistance Grant	5	5	5	5	5
Disabled Facilities Grant	250	250	250	250	250
HRA Decent Home Programme	8,000	8,000	5,000	5,000	4,000
Strategic Housing Delivery Programme	18,050	30,740	14,320	2,020	
HSG Capital Grants Expenditure (LAHF Grant)	0	0	0	0	0
Total Improving Housing	**26,305**	**38,995**	**19,575**	**7,275**	**4,255**
<u>Delivering an Effective and Efficient Council</u>					
Asset Management Strategy	100	100	100	100	100
Asset Compliance	100	250	250	250	250
E-Financial	0	0	0	100	0
ICT Strategy	100	100	100	100	100
ICT Hardware	125	125	125	125	125
Software Infrastructure	50	50	50	50	50
Total Delivering an Effective and Efficient Council	**475**	**625**	**625**	**725**	**625**
<u>Growing our Economy</u>					
Car Park Improvements	50	250	50	50	50
Regeneration Fund	18,000	0	0	0	0
Baytree Centre	5,000	8,473	7,625	0	0
Childerditch	2,500	1,770	0	0	0
Total Growing our Economy	**25,550**	**10,493**	**7,675**	**50**	**50**
GF capital expenditure reductions	**0**	**0**	**-4,000**	**0**	**0**
<u>Total Capital Programme</u>	<u>53,240</u>	<u>50,663</u>	<u>24,425</u>	<u>8,600</u>	<u>5,480</u>

Table 5 - Funding the Capital Programme

Financing of Capital expenditure	2024/25 Budget £'000	2025/26 Budget £'000	2026/27 Budget £'000	2027/28 Budget £'000	2028/29 Budget £'000
Total General Capital Programme	27,190	11,923	5,105	1,580	1,480
Total HRA Capital Programme	26,050	38,740	19,320	7,020	4,000
Total Capital Programme	**53,240**	**50,663**	**24,425**	**8,600**	**5,480**
Funded By:					
General Fund Capital Receipts	(200)	(200)	(200)	(200)	(200)
Government Grants	(250)	(250)	(250)	(250)	(250)
Borrowing	(26,740)	(11,473)	(4,655)	0	(1,030)
Capital receipts				(4,000)	0
Total General Fund Capital Funding	**(27,190)**	**(11,923)**	**(5,105)**	**(4,450)**	**(1,480)**
HRA Capital Receipts	(1,000)	(1,000)	(1,000)	(4,079)	(2,000)
HRA Grant Funding	(2,000)	(6,050)	(6,050)	(1,000)	(1,000)
Major Repairs Reserve	(2,941)	(2,941)	(2,941)	(1,941)	(1,000)
HRA Borrowing	(20,109)	(28,749)	(9,329)	0	0
Total HRA Capital Funding	**(26,050)**	**(38,740)**	**(19,320)**	**(7,020)**	**(4,000)**
Total Capital Funding	**(53,240)**	**(50,663)**	**(24,425)**	**(11,470)**	**(5,480)**

Capital Schemes 2024/25

71. A high-level summary is provided for each capital scheme that has been budgeted for in 2024/25 under each Corporate Strategy heading.

Protecting our Environment

Vehicle Fleet Management, replacing existing fleet predominantly for waste services. Current fleets are aged and need replacing to reduce revenue burden of repairs and maintenance. Consideration will be given to replacing vehicles to electric vehicles where applicable.

Open Spaces Infrastructure, additional funds that support workstreams on, improving the car parks at King Georges, improving the boundaries at the golf course, and enhancing open spaces in the borough to address the Council's environmental agenda.

Improving Housing

Home Repair Assistance Grants awarded for small home repairs through public applications.

Disabled Facilities Grant received from central government for the Council to pay for essential housing adaptations to help disabled people stay in their own home, subject to applications and criteria.

HRA Decent Home Programme is planned works and major repairs works on the current stock in the HRA to ensure they meet decent home standards for living.

Strategic Housing Delivery Programme: The regeneration of Brookfield Close, Hutton and the development of a range of smaller HRA sites to deliver new homes.

Delivering an Efficient and Effective council

Asset Management Strategy funds to enhance Council owned assets through planned enhancements.

Asset Compliance Works that are required to develop existing owned assets, ensuring they are complaint with all health & safety requirements and building regulations.

E-Financial, to upgrade the current finance systems to the latest version.

ICT Strategy for the development of ICT in the Council to produce synergies and efficiencies and support services and ICT enhancements required.

ICT Hardware rolling programme of replacing ICT hardware as it comes to the end of its useful life to support the delivery operating a hybrid way of working for officers.

Software Infrastructure Enhance Council software to support the ICT strategy in producing synergies and efficiencies

Growing our Economy

Car Parking improvements to support the delivery on improving the car parking facilities offered in the borough as an outcome of the car parking strategy.

Regeneration Fund, opportunity to loan funds to developers to support local development and regeneration subject to lending criteria and due diligence and approval at PRED committee.

Baytree Centre the Centre was purchased March 2021 for the purpose of regenerating the site and enhancing the offering to support the high street.

Childerditch To prepare site for depot relocation in the future and to create self-storage in the short term to generate revenue income.

Risk, Procurement and Value for Money in the Capital Strategy

72. Risk is the threat that an event or action will adversely affect the Council's ability to achieve its objectives and to execute its strategies successfully.

73. Risk management is the process of identifying risks, evaluating their potential consequences and determining the most effective methods of managing/mitigating them and/or responding to them. It is a means of minimising the costs and disruption to the organisation caused by undesired events and of ensuring that staff understand and appreciate the element of risk in all their activities.

74. The aim is to reduce the frequency of adverse risk events occurring (where possible), minimise the severity of their consequences if they do occur, or to consider whether risk can be transferred to other parties.

75. To manage risk effectively, the risks associated with each capital project need to be systematically identified, analysed, influenced and monitored.

76. It is important to identify the appetite for risk by each scheme and for the capital programme as a whole, especially when investing in capital assets held primarily for financial returns. Under the CIPFA Prudential Code these are defined as investments and so the key principle of control of risk and optimising returns consistent with the level of risk applies.

77. The Council is faced with diminishing capital finance and reduced access to grants and external funding which means the Council will need to monitor spend against available funds carefully to ensure that it does not spend or commit in advance of receiving funding.

78. The Capital Financing Requirement (CFR) will need to be monitored carefully. Risk is therefore addressed throughout this strategy by setting out clearly how projects will be appraised, approved, monitored and reported on.

79. The strategy is closely aligned to the Treasury Management Strategy which contains key performance indicators.

80. Capital projects will be managed through the council's budgeting system. All risks that may affect a project are considered. These can include political, economic, legal, technological, environmental and reputational as well as financial. Large projects will use appropriate project management tools in accordance with the size of the project.

81. A specific risk as a VAT registered body is the recovery of exempt VAT only up to a value of 5% of all the VAT it incurs. This is known as the de-minimis limit. Monitoring and control of exempt input tax is essential for the council as where exempt input tax exceeds the 5% limit the whole amount is irrecoverable and will represent an additional cost to the council. Each capital investment will be closely reviewed to assess its VAT implications.

Procurement

82. The purchase of capital assets should be conducted in accordance with the Procurement Strategy, ensuring value for money, legality and sustainability at all times. Contract standing orders and rules governing the disposal or write offs of assets are contained in the Constitution.

83. The Capital Programme and business cases associated with the development of the individual schemes should take in consideration the Council's Procurement strategy, Standing Orders for Contracts (as part of the Council's Constitution) and Financial Regulations.

84. The decision on which procurement route to take is governed by the following thresholds, contained within Standing Orders:

Overall value	Procedure
Under £25,000	One quotation required, obtaining best value for money
£25,000 and WTO Thresholds (as contained with Public Contracts Regulations 2015)	Full tender exercise conducted by Procurement Officers on Delta E-Sourcing website and advertised on the Council's website for at least two weeks
Over WTO Threshold	Full tender exercise conducted on Delta E-Sourcing website by the Procurement Officers, in accordance with the public Contracts Regulations and advertised on the Council's website for at least two weeks.

Other options

85. Many collaborative organisations let framework agreements which public sector organisations can use.

86. A framework is an agreement between one or more authorities and one or more contractors which establishes the terms governing any call-off contracts that are let during a set period. It is not in itself a contractual agreement to supply, but is an enabling agreement providing agreed specifications, delivery terms, prices, and terms and conditions of contract.

87. Framework agreements have been tendered in compliance with Public Contracts Regulations 2015 and because of this the Council can use these instead of a full, open tender exercise.

88. Once a framework agreement is in place, individual purchase orders can be placed against it under the agreed terms and conditions. The orders, once placed, are contracts under the Framework.

89. There are rules about how you can use a framework agreement, and these will vary dependent on the individual terms of each framework agreement. The Procurement Officer will be able to advise as to the availability of any framework agreements.

90. Standing Orders state that waivers from procurement rules are allowed only under certain circumstances:

• The subject matter of the contract can only be supplied by one specialist supplier;

• There is an unforeseen emergency involving immediate risk to persons, property or serious disruption to Council services;

• The contract is an extension to an existing contract and a change of supplier would cause technical difficulties, diseconomies of scale or significant disruption to Council services;

• The purchase involves collaborative procurement arrangements with another local authority or government department;

• There is any other compelling or practical reason that a competitive exercise should not be run.

91. If a waiver is appropriate for a particular procurement, officers must obtain a Waiver Form from the Procurement Team, complete and sign it and return it to the Procurement Team, who will check its validity and obtain a signature from either the Section 151 Officer, the Chief Executive or the Monitoring Officer.

92. A waiver cannot be granted if the value of the required procurement is above the current WTO thresholds above.

93. Where capital spend involves a specific procurement process which differs from the standard process, we will adopt the principle that by approving the capital project we are also approving the specific procurement process.

Value for Money

94. The Council recognises that effective procurement lies at the heart of delivering value for money and is essential if the Council is to obtain real improvements to quality and service costs. The Council seeks to achieve value for money by applying rigorous procurement standards in the selection of suppliers and contractors to ensure efficiency, economy and effectiveness is received throughout the life of a contract. The significant resources applied to capital expenditure require the adopted principles of value for money to be at the heart of

our capital strategy. Specifically, we will seek to strengthen the outcome indicators as part of post project reviews.

95. Brentwood Borough Council's Procurement Ethics Code is based on the principles of maintaining honesty, fairness and transparency and forms part of the Standing Orders for Contracts.

96. All Officers of Brentwood Borough Council are required to uphold this code and to seek commitment to it by all those with whom they engage in their professional practice.

97. Officers are expected to encourage their suppliers to adopt an ethical purchasing policy based on the principles of this code and to raise any matter of concern relating to business ethics at an appropriate level.

Service Delivery & Commercial Investments

Service Delivery Investments

98. These are investments that are held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure.

99. The investments held by the Council that come within this category are Childerditch Industrial Park, Baytree Centre and Academy Place Office. These were purchased in 2021 at a total cost of £89m for economic regeneration and protection of local employment purposes. These assets are managed on behalf of the Council by its subsidiary company, Seven Arches Investment Limited (SAIL).

Commercial Investments

100. These are investments held primarily for financial return with no treasury management or direct service provision purpose.

The investments held by the Council that come within this category are:

- the loans totalling £60m made by the Council to its subsidiary company, SAIL, to fund the purchase of commercial properties
- the residential flats and the commercial office space in the Town Hall
- the neighbourhood shops that were formerly part of the HRA (these can be considered as legacy assets)

101. Under the 2021 Prudential Code, Councils may no longer borrow to invest primarily for financial return. The capital expenditure plans for 2024/25 to 2028/29 do not include any such borrowing by the Council.

102. All of the above, including the loan to SAIL, were capital expenditure, and the revenue income generated from both types of investments is an integral part of the Medium Term Financial Strategy.

103. Unlike the Council Investments which focuses on the prudent investment of surplus cash flows, by following the factors of Security, Liquidity and Yield in that order, investment in commercial operations, by their nature, need a different objective.

104. Whilst seeking to maintain the level of investment, the focus is on Yield (the level of financial return) and the investments are not likely to be liquid (the speed at which the investment can be converted into cash).

Indicators

105. The following table shows the Council's total exposure to service delivery and commercial investments:

Investment Exposure	2024/25 £'000	2025/26 £'000	2026/27 £'000
Service Delivery Investments			
- Childerditch Industrial Park, Baytree Centre & Academy Place	89,120	89,120	89,120
Commercial Investments			
- loans to subsidiary	60,000	60,000	60,000
- Town Hall - residential flats and commercial suites	7,562	7,562	7,562
- Neighourhood shops	3,256	3,256	3,256
Total Investment Exposure	**159,938**	**159,938**	**159,938**

The following table shows the extent to which the above investments have been funded from borrowing:

Investments funded by borrowing	2024/25 £'000	2025/26 £'000	2026/27 £'000
Service Investments			
- Childerditch Industrial Park, Baytree Centre & Academy Place	89,120	89,120	89,120
Commercial investments			
- loans to subsidiary	60,000	60,000	60,000
- Town Hall - residential flats and commercial suites	6,245	6,245	6,245
- neighbourhood shops	3,256	3,256	3,256
Total Investments funded by borrowing	**158,621**	**158,621**	**158,621**

The following indicators show the rate of return on the above investments, measured by the net income as a proportion of the total investment.

Rate of return	2024/25	2025/26	2026/27
Service delivery investments	2%	2%	2%
Commercial investments - loans to subsidiary	2%	2%	2%
Commercial investments - Town Hall flats & comm suites	5%	5%	5%
Neighbourhood shops	4%	4%	4%

The final indicator shows the gross income from the investments as a proportion of Net Revenue Stream.

Ratio of gross income from investments to Net Revenue Stream	2024/25	2025/26	2026/27
Service delivery investments - strategic acquisitions	43%	42%	42%
Commercial investments - loans to subsidiary	22%	22%	21%
Commercial investments - Town Hall flats & comm suites	5%	5%	5%
Commercial investments - neighbourhood shops	2%	3%	3%

106. Net Revenue Stream includes Council Tax income, un-ringfenced grant funding (excluding any capital grants), such as New Homes Bonus, business rate retention income and Collection fund surplus or deficit.

107. The above indicator is the measure that is prescribed in the Prudential Code. The following points, however, should be borne in mind:

a) In addition to Net Revenue Stream, the Council receives income from many other sources, including fees & charges and grants. This other income can be referred to as Total Gross Income. The following table measures the gross income from the investments as a ratio of Total Gross Income

Ratio of gross income from investments to Total Gross Income	2024/25	2025/26	2026/27
Service delivery investments - strategic acquisitions	14%	14%	14%
Commercial investments - loans to subsidiary	7%	7%	7%
Commercial investments - Town Hall flat & comm suites	1%	1%	1%
Commercial investments - neighbourhood shops	1%	1%	1%

b) Part of the income generated from these assets is used to fund the financing costs associated with these assets. It is the net income from these assets that contributes to the funding of Council services. The ratio of net income from the investments to Net Revenue Stream is as follows:

Ratio of net income from investments to Net Revenue Stream	2024/25	2025/26	2026/27
Service delivery investments - strategic acquisitions	20%	19%	19%
Commercial investments - loans to subsidiary	11%	11%	11%
Commercial investments - Town Hall flat & comm suites	3%	3%	3%
Commercial investments - neighbourhood shops	1%	1%	1%

Risk Management

108. It is essential that, at the very least, ‘other’ investments need to provide an income to the General Fund which is sufficient to cover these costs, but preferably to also create a surplus that can be used to support the provision of services. However, in complying with

the regulations, it is necessary to recognise the risks and in particular that the income generated by these schemes may not be sufficient to cover the costs incurred.

The Council uses a number of mechanisms to reduce these risks, including the following:

a) Project cost modelling – in this exercise, the income and expenditure cash flows for the life of the project are modelled. These are based on a number of assumptions which may include the borrowing rate, term of the borrowing and rate of inflation. These costs are then converted into a 'present value' (taking out the impact of inflation and the opportunity cost of income that could be generated if the funds had simply been invested for a return), using an appropriate discount rate, the effect being as though all of the costs and income generated by the project occurred on day 1. Other investment appraisal techniques are also used including:

- Payback
- Internal rate of return

b) Use of specialist advisors – as part of these activities, the Council employs the use of specialist advisors, who know and understand the market in which the activities operate and provide the Council with appropriate advice and data on which to base many of the assumptions used within the modelling.

c) The activities undertaken by SAIL - This area is subject to a strategic framework in which to operate. Their *Commercial Property Investment Strategy* that clearly sets out the parameters around which investments that will be reviewed and considered by SAIL's board. This strategy is approved alongside the Business Plan on an annual basis by the board and presented annually to the shareholders. FAIR is the nominated committee to represent the Council as shareholder. All purchase decisions under the strategy are subject to the approval of the Directors. FAIR has delegated authority to approve any required funding should this be requested by SAIL and included within the capital programme.

d) Use of earmarked reserves – these activities are rarely consistent in terms of costs and income and while these are modelled as accurately as possible, there will be fluctuations that are unknown at the outset. One of the methods that will be used by the Section 151 Officer to protect the Council from these fluctuations is the use of Earmarked Reserves. In this instance any surpluses above projections, may be transferred into a reserve to offset any future deficits that may be experienced. In this way, the Section 151 Officer can take a view annually of the extent to which surpluses generated can be used to fund services whilst being mindful of the risk to future budget setting of any negative events in any of these commercial areas.

Treasury Management Strategy Statement

Introduction

109. Treasury management is a key element of the Council's overall financial management arrangements. It relates to the Council's borrowing and investment activities and the effective management of the associated risks. These activities are strictly regulated by statutory requirements and professional codes of practice, which require authorities to set local parameters for their Officers to work within. This Council has adopted the CIPFA Code of Practice on Treasury Management in the Public Services and, as required by the Code, has an approved Treasury Management Policy Statement and associated Treasury Management Practice Statements (TMPs).

110. Under these arrangements, Council approves an annual strategy for the expected treasury management activity in the forthcoming financial year. A further report is made after the year-end on the actual activity for the year and a mid-year report will also be made comparing performance with the approved strategy.

111. This section summarises the current position about the Council's Treasury Management arrangements and sets out a strategy for 2024/25.

Training

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

113. Furthermore, pages 47 and 48 of the Code state that they expect "all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

114. The training needs of members will be reviewed during 2024/25 and training will be arranged as required.

Treasury management consultants

115. 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.

Current Treasury management portfolio

The overall treasury management portfolio as at 31.3.23 and for the position as at 02.01.24 are shown below for both borrowing and investments.

TREASURY PORTFOLIO				
	actual	actual	current	current
	31.3.23	**31.3.23**	**02.01.24**	**02.01.24**
Treasury investments	£0	%	£0	%
Banks	2,000,000	29%	13,000,000	57%
Building societies - unrated	0	0%	0	0%
Building societies - rated	0	0%	0	0%
Local authorities	0	0%	7,000,000	30%
DMADF (H.M.Treasury)	5,000,000	71%	3,000,000	13%
Money Market Funds	0	0%	0	0%
Certificates of Deposit	0	0%	0	0%
Total managed in house	**7,000,000**	**100%**	**23,000,000**	**100%**
Bond Funds	0	0%	0	
Property Funds	0	0%	0	
Total managed externally	**0**	**0%**	**0**	**0**
Total treasury investments	**7,000,000**		**23,000,000**	
Treasury external borrowing				
Local Authorities	34,000,000	15%	22,000,000	9%
PWLB	192,019,000	85%	192,019,000	80%
Market Loans	0	0%	25,000,000	10%
LOBOs	0	0%	0	0%
Total external borrowing	**226,019,000**	**100%**	**239,019,000**	**100%**
Net treasury investments / (borrowing)	**(219,019,000)**		**(216,019,000)**	

Capital Expenditure and Financing

116. The main driver of the Council's treasury activity is its capital expenditure plans. The following table summarises the Council's capital expenditure programme for 2023/24 to 2025/26, along with the 2022/23 actuals and 2023/24 forecast outturn.

	2022/23 Actual £000	2023/24 Forecast £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/267 Estimate £000
General Fund	2,842	4,947	27,190	11,923	9,105
HRA	11,601	12,587	26,050	38,740	19,320
Total	**14,443**	**17,534**	**53,240**	**50,663**	**28,425**

The following table summarises how the capital programme will be financed:

	2022/23 Actual £000	2023/24 Forecast £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/267 Estimate £000
Capital receipts	(1,793)	(500)	(1,200)	(1,200)	(5,200)
Capital grants & contributions	(360)	(992)	(2,250)	(6,300)	(6,300)
Revenue contributions	0	0	0	0	0
Major repairs reserve	(7,991)	(3,361)	(2,941)	(2,941)	(2,941)
Borrowing	(4,299)	(12,681)	(46,849)	(40,222)	(13,984)
Total	**(14,443)**	**(17,534)**	**(53,240)**	**(50,663)**	**(28,425)**

Capital Financing Requirement

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

	2022/23 Actual £000	2023/24 Forecast £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/267 Estimate £000
Capital Financing Requirement					
General Fund	185,312	188,425	213,124	222,369	224,660
HRA	66,382	74,573	94,682	123,431	132,760
Total CFR	**251,694**	**262,998**	**307,806**	**345,800**	**357,420**

Movement represented by:					
Net financing need for the year		12,681	46,849	40,222	13,984
Debt Repayment Provision		(1,378)	(2,041)	(2,228)	(2,364)
Movement in CFR		**11,303**	**44,808**	**37,994**	**11,620**

Gross Borrowing and the Capital Financing Requirement

118. The Council should ensure that its gross external borrowing 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 2024/25 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 following table shows that the level of gross external borrowing is expected to be below the CFR, which demonstrates compliance with the requirement of this indicator.

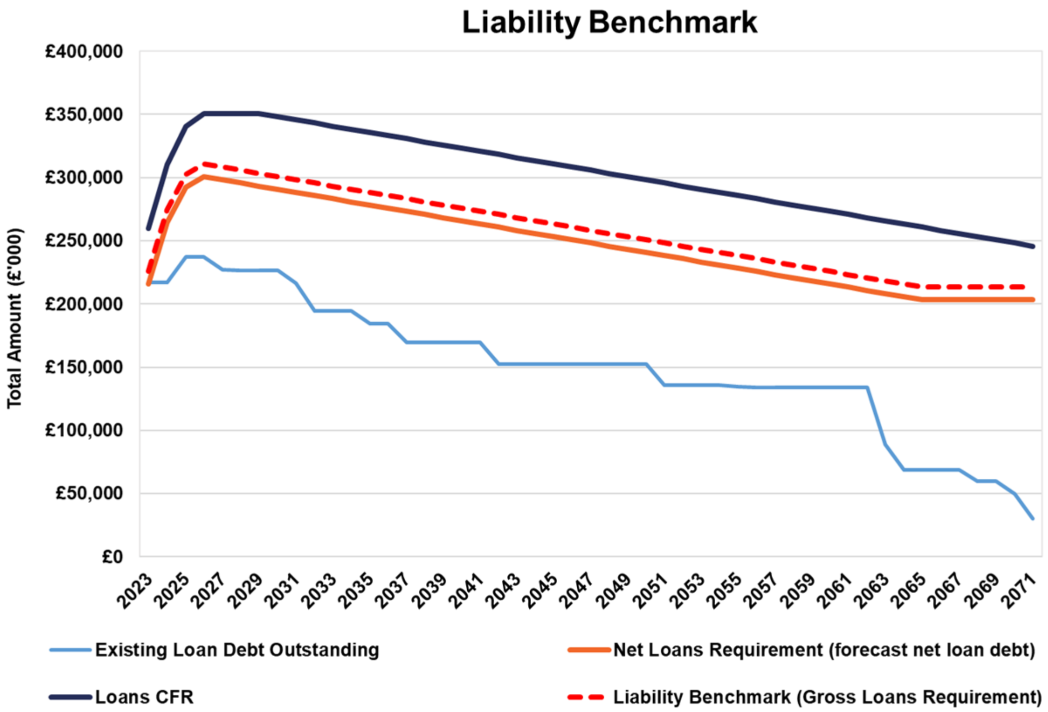
	2022/23 Actual £000	2023/24 Forecast £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/267 Estimate £000
Total external borrowing	226,197	217,019	267,519	297,519	308,019
Capital financing requirement	251,694	262,998	307,806	345,800	357,420
Under borrowing	(25,497)	(45,979)	(40,287)	(48,281)	(49,401)

Liability Benchmark

119. A new prudential indicator was introduced in 2023/24. It has four components:

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

120. The Council's Liability Benchmark is as follows:



121. The highlight from the above table is the gap in future years between the Existing Loan Debt Outstanding and the Liability Benchmark (the gross loans requirement). This highlights the additional borrowing that the Council plans to take over the next few years in order to fund its ambitious capital programme.

Borrowing Strategy

122. The intended borrowing strategy for 2024/25 and subsequent years is to adopt a flexible approach. Capital schemes that incur expenditure related to long-term investment will generally be funded from long-term borrowing. However, there may be instances where capital schemes will be funded through short-term borrowing while they in progress, and to replace this with long borrowing once the schemes are complete. Long term borrowing supports medium term financial planning by providing certainty around interest costs, and maintaining some short-term borrowing enables the Council to take advantage of lower interest rates.

123. During 2021 the Council entered into a deferred draw-down arrangement with a market lender, Phoenix Life. Under this arrangement, the Council will borrow draw-down a long-term loan of £25m in August 2023, and another long-term loan of £20m in June 2024. Both of these loans will run for forty years at 2.058% and 2.059% respectively. These two borrowings will provide long-term finance for the capital schemes due to complete in those two financial years.

124. The Council does not expect the need to take out short-term borrowing to cover its general cash flow needs. In the event of any unplanned cash flow shortages, however, it will take out short-term loans to cover these needs.

Sources of borrowing

125. The approved sources of long-term and short-term borrowing will be:

- Public Works Loan Board and any successor body
- any other UK local authority or other public sector body
- any UK bank or building society
- capital market bond investors

HRA and General Fund 'Pools'

126. HRA and General Fund debt is managed separately in two pools. The following principles are adhered to:

- There must be no detriment to the General Fund in this approach.
- Any allocation of debt should be broadly equitable between the HRA and the GF.
- Future charges to the HRA in relation to borrowing are not influenced by GF decisions, giving a greater degree of independence, certainty and control.
- Cash resources (reserves and other cash backed balances e.g. provisions) which allow borrowing to be below the capital financing requirement are separated between the HRA and General Fund.

127. Where relevant the figures that follow are split between HRA and GF. It should, however, be noted that all debt is secured on all the revenues of the Council and that the Section 151 Officer retains responsibility for the overall TM strategy.

Projected Portfolio Position

128. The projected position for the Council's debt and investments is set out in the table below.

	31 March 2023 £000	31 March 2024 £000	31 March 2025 £000	31 March 2026 £000	31 March 2027 £'000
Borrowing					
- PWLB	192,019	192,019	192,019	241,019	251,019
- Market Lender	0	25,000	45,000	45,000	45,000
- Other Local Authorities	34,000	25,000	11,500	11,500	12,000
- Transferred Debt	172	0	0	0	0
Total Borrowing	**226,191**	**242,019**	**267,519**	**297,519**	**308,019**
Investments	-7,000	-22,000	-2,000	-2,000	-2,000
Net Borrowing	**219,191**	**220,019**	**265,519**	**295,519**	**306,019**

Interest rate forecasts

129. The following table, provided by the Council's treasury advisors Link Group, shows bank rate and PWLB interest rate forecasts up to March 2026:

	NOW	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
Bank Rate	5.25%	5.25%	5.25%	5.00%	4.50%	4.00%	3.50%	3.00%	3.00%	3.00%
PWLB Rates										
- 5 years	4.18%	4.90%	4.80%	4.70%	4.40%	4.20%	4.00%	3.80%	3.70%	3.60%
- 10 years	4.31%	5.00%	4.80%	4.70%	4.40%	4.20%	4.00%	3.80%	3.70%	3.70%
- 25 years	4.85%	5.30%	5.10%	4.90%	4.70%	4.50%	4.30%	4.20%	4.10%	4.10%
- 50 years	4.59%	5.10%	4.90%	4.70%	4.50%	4.30%	4.10%	4.00%	3.90%	3.90%

130. The table shows:

- Bank Rate standing at 5.25% and that is expected to be the peak before gradually reducing over the next couple of years and stabilising at 3%

- PWLB rates are due to rise in March 24 and then gradually reduce over the next two years. The short part of the curve has not moved far but the longer-end continues to reflect inflation concerns. At the time of writing there is 60 basis points difference between the 5 and 50 year parts of the curve

Debt Limits

131. 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

Operational Boundary For External Debt

132. This is the borrowing limit above which borrowing would not normally be expected to rise. It will not normally be a matter of concern if the Operational Boundary is breached temporarily due to variations in cash flow. However, a sustained or regular trend above the Operational Boundary would require investigation and appropriate action.

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Limit	260,000	281,000	308,842	347,906	361,921
Total	**260,000**	**281,000**	**308,842**	**347,906**	**361,921**

Authorised Limit For External Debt

133. The Authorised Limit is the limit placed by the Council on the absolute level of its gross debt. The Local Government Act 2003 stipulates that it must not be breached at any time. The indicator is split between limits for external borrowing and for other long-term liabilities.

	2022/23	2023/24	2024/25	2025/26	2026/27
Borrowing	290,000	311,000	340,842	379,906	388,921
Other long term liabilities	3,000	3,000	3,000	3,000	3,000
Total	**293,000**	**314,000**	**343,842**	**382,906**	**391,921**

134. As the two Debt Limits are set locally, the Council may review and amend either or both during the course of the year.

Ratio of Financing Costs to Net Revenue Stream

135. The following table show the revenue costs to the General Fund of financing capital expenditure (i.e. interest charges and provision for debt repayment) as a ratio of the General Fund net revenue stream.

	2022/23	2023/24	2024/25	2025/26	2026/27
Financing costs	4,229	5,637	5,984	6,424	6,907
Net revenue stream	10,000	10,308	10,817	10,997	11,183

Ratio	42.3%	54.7%	55.3%	58.4%	61.8%

136. It should be noted that much of the General Fund financing costs are associated with service delivery assets and loans to the Council's subsidiary company.

137. The following table shows the ratio of other financing costs (i.e. not associated with service delivery and loans to subsidiary) to net revenue stream

	2022/23	2023/24	2024/25	2025/26	2026/27
Financing costs	1,425	2,808	3,155	3,568	4,024
Net revenue stream	10,000	10,308	10,817	10,997	11,183
Ratio	14.3%	27.2%	29.2%	32.4%	36%

138. The following table show the revenue costs to the HRA of financing capital expenditure as a ratio of HRA gross income

	2022/23	2023/24	2024/25	2025/26	2026/27
Financing costs	1,874	2,335	2,481	4,053	4,053
Net revenue stream	13,603	14,447	15,432	15,739	16,052
Ratio	13.8%	16.2%	16.1%	25.8%	25.2%

Debt Rescheduling

139. This is the practice of repaying debt of one maturity early in order to borrow for a different maturity period.

140. Rescheduling of current borrowing in our debt portfolio is unlikely to occur during 2024/25 as there is still a very large difference between premature redemption rates and new borrowing rates.

141. If any rescheduling is undertaken in 2024/25, it would be authorised by the Section 151 Officer under delegated arrangements and reported to Council at the next opportunity following its action.

Treasury Indicators

Upper Limits on Fixed and Variable Interest Rate Exposure

142. This indicator is intended to set upper limits to the Council's exposure to the effects of changes in interest rates in 2024/25 and for the following two financial years.

143. The Council's policy is just to borrow at fixed rates of interest and therefore by default the upper limit for fixed rate exposure is 100%. An upper limit on variable interest rate exposure is not required.

Maturity Structure of Borrowing

144. The following indicators are designed to limit the Council's exposure to sums falling due for replacement at about the same time. Long-term fixed loans could be running at historical rates significantly different from the market rate at the time of repayment, with consequences for the revenue account.

145. The limits refer separately to the maximum and minimum proportions of the borrowing portfolio that may mature in each given time period. They have been maintained at the same levels as 2022/23 as no change is deemed to be necessary. The minimum amounts have been set at 0% since, in the long term, one of the objectives of the HRA business plan is to repay the debt in full. The maximum limits have been kept at their limits to provide flexibility in decision making over appropriate maturity periods for new debt.

Maturity Structure of Borrowing

Maturity Structure of Borrowing	Lower limit	Upper limit
Under 12 months	0%	50%
12 months and within 24 months	0%	50%
24 month and 5 years	0%	50%
5 year and within 10 years	0%	50%
10 years and above	0%	100%

Treasury Investment Strategy

146. The treasury investment strategy deals solely with treasury investments, i.e. investments arising from the organisation's cash flows or treasury risk management activity and representing balances which are only held until the cash is required for use.

147. The categories of service delivery and commercial investments are dealt with on page 26.

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

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

148. The general objective is to invest surplus funds prudently. Accordingly, priority is given to (1) security, (2) liquidity and (3) yield, in that order. The highest rate of return is sought only after security and liquidity requirements are satisfied.

149. The Council's strategy will be to invest surplus funds in amounts of up to £5m per counterparty in a mix of fixed term deposits, call accounts and any other investment products deemed worthwhile, in accordance with the limits set out in the following paragraphs.

Durational limits

150. To determine the duration of investments with bank and building societies, the Council will use the creditworthiness service provided by Link Asset Services. This service employs a modelling approach utilising credit ratings from the three main credit rating agencies, Fitch, Moody's and Standard & Poor, supplemented by other information. The Council will follow these recommended durations, up to a maximum duration of one year. The Link Asset Services model does not apply to local authorities, with which the maximum duration for investments will also be one year.

Specified and non-specified investments

151. Specified investments are high security, high liquidity investments in sterling with high credit quality and a maturity of no more than one year.

152. Non-specified investments are any other type of investments; in addition, any investment with a duration of over one year is classified as a non-specified investment. In previous years the Council has not used non-specified investments. For 2024/25, investments of up to three years with other local authorities will be allowed, up to a total value of £5m. This is to enable the Council to access higher returns through investing for longer periods.

Credit ratings

153. Banks and some of the larger building societies have credit ratings from the three main credit rating agencies, Fitch, Moodys and Standard & Poor (S&P). Some banks and building societies opt for credit ratings from all three agencies; others opt for credit ratings from two out of three agencies. Ratings are split between short term and long term, which are explained in more detail below.

The Council's proposed minimum acceptable credit ratings for 2024/25 are as follows:

Agency	Short term	Long term
Fitch	F1	A-
Moody	P-1	A3
S&P	A1	A-

154. Where a bank or building society has opted for ratings from two of the three agencies, the minimum acceptable ratings will be deemed to have been met if both ratings are at or above the levels in the above table. This is a change in approach from previous years. It is not considered that this will expose the Council to the risk of loss.

Credit Rating Definitions

Long-term Issuer Default rating

155. This rating measures the ability of a financial institution to meet all of its most senior financial obligations on a timely basis over the term of the obligation. It is therefore effectively a benchmark for rating institutions' probability of default.

- For Fitch ratings: the top end of the scale is AAA (the lowest expectation of credit risk) and ranges down to D (where the institution is in default and the potential for recovery of funds is minimal).
- For Moody's ratings: the top end of the scale is Aaa (highest quality with minimal credit risk) and the lowest related class is C (where the institution is in default and the potential recovery is minimal).
- For Standard & Poor's ratings: the top end is AAA (the lowest expectation of credit risk) and the lowest class is D (where the institution is in payment default).

Short-term Issuer Default rating

156. This rating is based on the liquidity profile of the institution and relates to its ongoing capacity to meet financial obligations within a relatively short time horizon (normally less than 13 months).

- For Fitch ratings: the scale ranges from F1 (highest) to D (actual or imminent payment default)

- For Moody's ratings: the scale is from P-1 (highest, where the institution has the superior ability to repay short-term obligations) to P-3 (the lower end of ability to repay short-term obligations).
- For Standard & Poor's ratings: the scale is A-1 (highest) to D (imminent default in payment)

Individual (Fitch), Strength (Moody's)

157. These ratings are assigned only to banks and assess how a bank would be viewed if it were entirely independent. Link have advised that this "standalone" rating be removed as the exclusion of sovereign status from the institutions has adversely affected the rating but does not represent any intrinsic change.

- Fitch ratings: The principal factors assessed are balance sheet integrity and profitability. The range is from A (a very strong bank) to F (bank has defaulted or would have defaulted without external support).
- Moody's ratings: range from A (strong intrinsic financial strength) to E– (in serious difficulty).
- Standard and Poor's have no ratings criteria for this. Link will continue to publish these ratings, it is however intended to use the results of these to inform investment decisions, rather than dictate them.

Country limits

158. In 2022/23, the country limits were expanded to include the non-UK banks that are accessible via the Agency Treasury Service provided by Link Group. This approach has served the Council well during the year and it is proposed that the same country limits are applied in 2023/24. The banks accessible via the Link Agency Treasury Service are considered to be secure potential counterparties that add diversity to the Council's investment portfolio. At the time of writing this strategy, the banks were:

- Bayerische Landesbank (Germany)
- Landesbank Hessen-Thueringen Girozentrale (Germany)
- National Bank of Canada
- First Abu Dhabi Bank PJSC (United Arab Emirates)
- Qatar National Bank
- Oversea-Chinese Banking Corporation Ltd

159. The minimum credit rating would apply to each of these, and in addition the minimum acceptable sovereign credit rating of the country of origin at the time of placing the deposit will be AA- (the UK sovereign rating at the time of writing this strategy).

160. With regard to money market funds, the Council will invest in funds that are domiciled in the UK and the Republic of Ireland.

Investment instruments and limits

161. The table below details the Councils Investment Instruments that it it will utilise, and the associated limits:

Investment Instruments

Instrument	Minimum short term credit rating	Minimum long term credit rating	Maximum value of investment per counterparty	Maximum duration of investment
Term Deposits with UK Local Authorities	N/a	N/a		3 years
Term deposits or notice accounts with UK banks and building societies	Fitch F1 Moodys P-1 S&P A-1	Fitch A- Moodys A3 S&P A-	£5m	1 year
Term deposits with banks part nationalised	Minimum credit ratings not required as long as these banks continue to be part nationalised		£5m	1 year
Term deposits or notice accounts with non UK banks accessible via the Link Group Agency Treasury Service	Fitch F1 Moodys P-1 S&P A-1 Sovereign rating AA-	Fitch A- Moodys A3 S&P A-	£5m	1 year
Debt Management Account Deposit Facility (DMADF)	N/a	N/a	Unlimited	6 months (DMADF time limit)
Ultra-Short/Short Dated Bond Funds	Selection process	Selection process		
Treasury Bills issued by the UK Government	N/a	N/a	Unlimited	1 year
Money Market Funds CNAV	N/a	AAA	£5m	Liquid
Money Market Funds LVNAV	N/a	AAA	£5m	Liquid
Money Market Funds VNAV	N/a	AAA	£5m	Liquid
Certificates of Deposit issued by UK institutions	Fitch F1 Moodys P-1 S&P A-1	Fitch A- Moodys A3 S&P A-	£5m	1 year

Current accounts

162. The monetary limits included in the investment strategy does not apply to balances on our suite of current accounts provided by Lloyds Bank plc. As a result, the Council may operate from time to time with monies held with Lloyds Bank marginally above the investment limits shown because of these current account balances. The Council will aim to keep balances of no more than £2m on its current accounts.

Ultra-Short/Short-Dated Bond Funds

163. These are pooled investment vehicles where risk is diversified because of the spread of investments. They are a potential new investment instrument for the Council, and a selection process will be undertaken to ensure that the most suitable fund is chosen, if officers consider that it is worthwhile pursuing them.

Investment Consultants

164. Accessing suitable sources of information, especially in relation to credit risk, are essential elements of an effective TM operation. The Section 151 Officer retains the services of Link Asset Services for this purpose, as well as advice on borrowing, regulation and other technical aspects of capital finance. The quality of the service is controlled through regular monitoring and feedback, as well as through dialogue at periodic review meetings.

Prudence in Borrowing and Investment

165. The Prudential Code 2021 edition requires the Council to ensure that all of its capital expenditure, investments and borrowing decisions are prudent and sustainable.

166. The Code states that authorities may borrow and invest for the following purposes:

- any function of the authority under any enactment
- for the prudent management of their financial affairs.

167. It also gives the following examples of legitimate of prudent borrowing:

- financing capital expenditure primarily related to the delivery of a local authority's functions
- temporary management of cash flow within the context of a balanced budget
- securing affordability by removing exposure to future interest rate rises
- refinancing current borrowing, including adjusting levels of internal borrowing, to manage risk, reduce costs or to reflect changing cash flow circumstances

168. The Council will ensure that all of its borrowing and investment activity during 2024/25 is prudent and in accordance with the above examples.

169. The Code also states that certain acts or practices are not prudent activity for a local authority and incur risk to the affordability of local authority investment:

- In order to comply with the Prudential Code, an authority must not borrow to invest primarily for financial return.
- It is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.

170. The Council will comply with the above requirements during 2024/25.

Minimum Revenue Provision

171. The Council is required by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 to calculate a level a provision for the repayment of debt liability that it considers to be prudent, known as the Minimum Revenue Provision (MRP). The regulations also require the full Council to approve an MRP policy in advance of each financial year. There are four recommended options for the calculation of the provision.

172. The Council is recommended to approve this policy for 2024/25. The policy is as follows:

Debt Liability pre 1 April 2008

173. For capital expenditure funded by borrowing before 1 April 2008, minimum revenue provision will be provided on a 2% straight-line basis, i.e. provision for the repayment of debt over 50 years.

Debt Liability 1 April 2008 onwards

174. Minimum revenue provision for new capital expenditure incurred wholly or partly by unsupported (Prudential) borrowing will be determined by reference to the expected life of the asset on an annuity basis. The asset life is deemed to begin once the asset becomes operational. Minimum revenue provision will commence from the financial year following the one in which the asset becomes operational.

175. Minimum revenue provision in respect of unsupported (prudential) borrowing taken to meet expenditure, which is treated as capital expenditure by virtue of either a capitalisation direction or regulations, will be determined in accordance with the asset life method as recommended by the statutory guidance.

176. The Council retains the right to make additional voluntary payments to reduce debt if deemed prudent.

177. There is no requirement on the HRA to make a minimum revenue provision but under HRA reform there is a requirement to charge depreciation on its assets, which will have a revenue effect. The HRA business plan will need to fund this depreciation over the life of the assets.

Debt Liability in respect of loans to third parties

178. 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.

179. 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.

Prudential and Treasury Indicators

180. The following paragraphs give more detail regarding the indicators described above.

Indicators for Prudence

Estimates of capital expenditure

181. The local authority will make reasonable estimates of the total of capital expenditure that it plans to incur during the forthcoming financial year and at least the following two financial years. These prudential indicators will be referred to as estimates of capital expenditure and shall be expressed in the following manner: Estimate of total capital expenditure to be incurred in years 1, 2 and 3

Estimates of capital financing requirement

182. The local authority will make reasonable estimates of the total capital financing requirement at the end of the forthcoming financial year and the following two years. These prudential indicators will be referred to as the estimates of capital financing requirement and shall be expressed as follows:
Estimate of capital financing requirement as at the end of years 1, 2 and 3

Indicators for External Debt

Authorised limit

183. The local authority will set for the forthcoming financial year and the following two financial years an authorised limit for its total gross external debt, separately identifying borrowing from other long-term liabilities. This prudential indicator will be referred to as the authorised limit and shall be expressed in the following manner:

184. Authorised limit for external debt = authorised limit for borrowing + authorised limit for other long-term liabilities for years 1, 2 and 3

Operational boundary

185. The local authority will also set for the forthcoming financial year and the following two financial years an operational boundary for its total external debt, excluding investments, separately identifying borrowing from other long-term liabilities. This prudential indicator will be referred to as the operational boundary and shall be expressed in the following manner:

186. Operational boundary for external debt = operational boundary for borrowing + operational boundary for other long-term liabilities for years 1, 2 and 3

Gross debt and the capital financing requirement

187. In order to ensure that, over the medium term, debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. If in any of these years there is a reduction in the capital financing requirement, this reduction is

ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with gross external debt. This is a key indicator of prudence. This prudential indicator will be referred to as gross debt and the capital financing requirement.

188. Where the gross debt is greater than the capital financing requirement the reasons for this should be clearly stated in the annual treasury management strategy.

Indicators for Affordability

Estimates of financing costs to net revenue stream

189. As a minimum, the local authority will estimate for the forthcoming financial year and the following two financial years the proportion of financing costs to net revenue stream. This prudential indicator shall be referred to as estimates of the proportion of financing costs to net revenue stream and shall be expressed in the following manner:

Estimate of financing costs ÷ estimate of net revenue stream x 100% for years 1, 2 and 3.

190. Net revenue stream includes Council Tax income, un-ringfenced grant funding (excluding any capital grants), such as New Homes Bonus, business rate retention income and any Collection fund surplus or deficit.

Treasury Indicators

Interest exposures

191. Upper limits to the Council's exposure to the effects of changes in interest rates

Maturity structure of borrowing

192. The maximum and minimum proportions of the borrowing portfolio that may mature in each given time period.

Upper liming on total principal sums invested for periods longer than 364 days

193. A restriction on authorisation of longer-term investments.

Liability Benchmark

194. A new indicator required under the revised Codes is the Liability Benchmark. This is a series of inter-related measures that have been brought together to show how the council is intending to manage its debt position over the MTFS period.

The Prudential and Treasury Indicators are presented in the tables on the following pages:

	2022/23 Actual £'000	2023/24 Forecast £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
Estimates of Capital Expenditure					
General Fund	2,842	4,947	27,190	11,923	9,105
HRA	11,601	12,587	26,050	38,740	19,320
Total	**14,443**	**17,534**	**53,240**	**50,663**	**28,425**
Estimates of Capital Financing Requirement					
General Fund	185,312	188,425	213,124	222,369	224,660
HRA	66,382	74,573	94,682	123,431	132,760
Total	**251,694**	**262,998**	**307,806**	**345,800**	**357,420**
External Debt					
Authorised Limit	3,000	3,000	343,842	382,906	391,921
Operational Boundary	260,000	281,000	308,842	347,906	361,921
Gross Debt and Capital Financing Requirement					
Estimated Gross Debt	226,197	217,019	267,519	297,519	308,019
Capital Financing Requirement	251,694	262,998	307,806	345,800	357,420
CFR + Following 2 Years Increases	307,806	345,800	357,420	357,420	357,420
Ratio of Financing Cost to Net Revenue Stream					
General Fund	35%	42%	55%	55%	58%
HRA	14%	14%	16%	16%	26%

Interest Exposures	
Fixed rate	100%
Variable rate	n/a

Maturity Structure of Borrowing	Lower limit	Upper limit
Under 12 months	0%	50%
12 months and within 24 months	0%	50%
24 month and 5 years	0%	50%
5 year and within 10 years	0%	50%
10 years and above	0%	100%

	2024/25	2025/26	2026/27
Principal sums invested > 364 days	£5m	£5m	£5m

Proposed Treasury Management Strategy for 2024/25

195. Taking account of the above position, the Section 151 Officer recommends the following strategy for 2024/25:

a) The overall direction of treasury management strategy will reflect the separation of HRA and GF debt (the two-pool approach).

b) The overall debt and investment position will be managed having regard to the Prudential Indicators set by the Council and the treasury indicators set out above.

c) The Council will invest its monies prudently, considering security first, liquidity second and yield last whilst also carefully considering its investment counterparties. It will similarly borrow monies prudently to meet the Council's service objectives.

d) The gross level of borrowing will be maintained below the average Capital Financing Requirement for the year.

e) Surplus funds (with the exception of funds required for liquidity purposes or for internal investment) will be invested in accordance with the approved Investment Strategy.

f) New borrowing will be diversified over a range of maturity periods, including short term (less than one year), having regard to longer-term projections of CFR, liquidity considerations and expected movements in interest rates.

g) Opportunities for rescheduling debt will be kept under review according to market and other relevant factors, but will not be actively pursued.

h) The treasury management strategy including the investment strategy, will be continually reviewed in the light of changing circumstances, including legislation. Within the limits set by this Strategy as set out above, the Section 151 Officer will exercise their discretion to determine the extent to which surplus funds will be used to minimise new borrowing and exposure to external investments.

i) Nothing in this strategy confers on the Section 151 Officer the authority to enter into any derivative or derivative like contract without the permission of the full Council.

196. The strategy has been prepared on the statutory guidance and rules currently applicable. Any changes to these or to wider economic circumstances may require a revision to be made to the strategy.

197. A revised Treasury Management Strategy will be prepared and submitted to Full Council if the Section 151 Officer considers that any such revision is necessary.

198. Otherwise, the Section 151 Officer is free to work within the limits determined by the strategy without reference to Full Council, but will draw attention to any such variation in the quarterly in-year reports and annual outturn report on TM activity for the year.

Other considerations

199. All capital schemes must comply with legislation and Council policies such as the Financial Regulations and Contract Procurement Rules. Reference should also be made to other strategies and plans of the Council.

200. To be able to manage the significant forecast budget gaps and minimise the impact on service levels the Council needs to explore and implement innovative ways of generating income. Such activity will involve an increase in the level of borrowing that the Council holds but this will only be undertaken in cases where an appropriate level of return is expected. The proposed governance arrangements detailed in this strategy are intended to both place Members within the tactical decision-making process for such activity and to ensure that all Members are kept up-to-date on activity in this area.

Documents for reference are:

- Constitution
- Corporate Strategy
- Financial Regulations
- Medium Term Financial Strategy
- SAIL Commercial Property Investment Strategy
- Corporate Project Management Process
- Leisure Strategy
- Play Area Strategy
- Digital Strategy