BRENTWOOD
BOROUGH COUNCIL

Brentwood Borough Council

Capital and Investment Strategy

2020/21

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Introduction

The Council is required by Regulation to have regard to the Prudential Code published by the Chartered Institute of Public Finance and Accountancy (CIPFA) when carrying out its duties under Part 1 of the Local Government Act 2003. Following consultation during 2017, CIPFA published a revised Prudential Code (2017 Edition) and Treasury Management Code of Practice (2017 Edition) in January 2018. One of the main aspects of this revised Code is to bring together elements of capital expenditure with the treasury management strategy, into a single Capital and Investment Strategy for approval by Full Council. This strategy document, therefore, sets out the capital, investment and treasury management strategy for 2020/21 and includes a capital programme and prudential indicators for the forecast period of 2020/21 to 2022/23.

In addition to these revised regulations, the Ministry for Housing, Communities and Local Government (MHCLG) has issued a revised Prudential Framework, the regulations under which the Council is able to borrow and invest surplus cash flows, and revised Statutory Guidance on the Minimum Revenue Provision (MRP).

This strategy document includes all of the information necessary to meet the requirements of these revised guidance documents including the revisions to statutory investment and MRP guidance.

Any changes to statutory guidance may, therefore, require a subsequent change to this strategy, which will be reported at the earliest opportunity. Any such revisions will need the approval of Council.

The delegated obligations for the Section 151 Officer in relation to the capital programme and for treasury management activities are set out in the Financial Regulations respectively.

What is Capital Expenditure?

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.

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.

The capital programme is the Councils 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 program could be service and commercial investments.

Treasury Management Function

The proposed Treasury Management arrangements are in accordance with both statutory requirements, non-statutory guidance published by Government and best practice as identified by CIPFA.

All decisions on overall Treasury Management (TM) 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.

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.

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.

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.

The CIPFA Treasury Management Code recognises that organisations may make investments for policy reasons outside of normal treasury management activity. These may include commercial investments.

Investments

The Local Government Act 2003 gives a local authority power to invest "for any purpose relevant to its functions under any enactment, or for the purposes of the prudent management of its financial affairs."
There is no provision in the Act for the Secretary of State to regulate the way in which an authority exercises its investment powers. It does however require authorities to "have regard" to such *guidance as the Secretary of State may issue* and to such *guidance issued by others as he may specify*. For this purpose, the Secretary of State

has formally endorsed CIPFA's TM Code of Practice and has supplemented the Code with additional guidance. Local authorities are therefore required by statute to have regard to both sets of guidance in their investment activities.

Commercial Investments

These are investments taken for mainly financial reasons. These may include:

- investments arising as part of business structures, such as shares and loans in subsidiaries
- investments explicitly taken with the aim of making a financial surplus for the Council.

Commercial investments also include fixed assets which are held primarily for financial benefit, such as investment properties.

The Section 151 will ensure that the Council has the appropriate legal powers to undertake such investments.

The Section 151 will ensure the proportionality of all investments so that the Council does not undertake a level of investing which exposes it to an excessive level of risk compared to its financial resources.

Knowledge and expertise

Capital accounting and treasury activities are 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.

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

In relation to commercial asset acquisitions 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, who score properties against a series of benchmark criteria, agreed as part of the ***SAIL Property Investment Strategy***.

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.

The Capital Programme Budget Setting Process

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/October. In the period between August and November, Budget Challenge sessions are held with the Chief Executive, Chief Operating Officer and S151 to discuss budgets and potential growth bids with the Budget Manager.

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

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

- Services annually prepare Service Plans ensuring that their objectives meet the overall aims and objectives of the Council these 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 by the end of summer each year.

Deciding on Capital Growth to submit

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 of 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

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.

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.

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.

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.

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

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 program.

Bids must be submitted in September/October in order to be considered as part of the budget setting process.

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.

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 will take an overall view on the prudence, affordability and sustainability of the overall borrowing level if all bids are accepted.

Once the Section 151 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

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 program.
- Utilise feasibility studies where needed, to ensure the right capital funds are being requested.
- Ability to enter projects in a manged way through the annual budget cycle and when the capital program is reviewed at mid-year.
- The Council is mindful of the current program and the capacity available to deliver new projects and the relevant financing of the new bids.

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

Large schemes are reported to individual committees before final submission is made to Policy, Projects and Resource 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.

Bids that are successful are then incorporated into the Capital Program as part of the Budget Report, that is presented to Policy, Resources and Economic Development Committee who refer the program to Ordinary Council for approval.

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 who will decide based on current financial position whether to borrowing internally or enter into external borrowing.

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.

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

Monitoring the Capital Programme.

Once the detailed program 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 Policy, Resources and Economic Development Committee.

Housing Revenue Account (HRA) Capital Programme

The Council awarded a new 10-year Repairs & Maintenance Contract that commenced in June 2019.

The new contractor has been carrying out stock condition surveys on the Councils housing properties, this information will then inform a 30-year Asset Management Strategy which will be a key input into the HRA's 30-year business plan.

Once the ***HRA Asset Management Strategy*** is developed this will aid in delivering a program that will improve or maintain stock to the agreed standard but will also help identify how to improve and maintain the overall estates and environment. The programme will be linked to the revenue repairs budget and in particular the planned maintenance programme to ensure that the overall programme of works is aligned and prioritised taking into account the overall capital and revenue resources available.

In addition to ***HRA Asset Management Strategy***, the Council is currently developing an ***Housing Development Strategy***. This is to address the acquisition and development of new dwellings in the borough, utilising the retained right to buy receipts from right to buy sales of Council dwellings.

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 Program. However, the HRA also makes contributions 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 Program

How the Council funds its capital expenditure and investment.

Capital Receipts

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.

Surplus and poor performing assets are reviewed as part of the Master Asset List with re-investment in higher performing assets and the Council's focus on Commercialisation 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

When the Council adopts land for open space or 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

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

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

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

Prudential/Unsupported Borrowing

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.

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 the Council must see this as their key priority for the budget process and to be factored into the Medium-Term Financial Strategy accordingly.

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.

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.

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

Leasing

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.

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

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.

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 Policy, Resources & Economic Development Committee 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 (i.e. they will underwrite the savings/income).

Capital Programme 2019/20

The table below highlights the current forecast for 2019/20 Capital Projects and the proposed slippage to be agreed as part of 2019/20 outturn report, that will be submitted to Policies, Resource and Economic Development Committee June 2020.

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

- Using Council building's efficiently and to good effect.
- 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

- Continuing to deliver service improvement
- Invest further in technology to improve the customer journey when accessing Council services.

Capital Programme 2019/20 Outturn

	2019/20 Current Budget £'000	2019/20 Estimated Outturn £'000	Variance £'000
Protecting Our Environment			
Asset Management Strategy	172	70	(102)
Vehicle Fleet Management	1,544	670	(874)
Cemetery Infrastructure	60	60	0
Depot Hanger Demolishment	150	0	(150)
Depot Toilets Refurbishment	13	0	(13)
Car Parking Improvements	300	0	(300)
MSCP Enhancements	90	210	120
Total Protecting Our Environment	**2,329**	**1,010**	**(1,319)**
Developing Our Communities			
Play Area Refurbishment	463	463	0
King George's Pavilion Redevelopment	7,173	300	(6,873)
Football Hub Development	750	60	(690)
Brentwood Leisure Trust Enhancements	310	475	165
Community Halls Enhancements	650	50	(600)
Irrigation to Golf Course	7	7	0
Parks Infrastructure	36	36	0
CCTV Upgrades	60	65	5
Total Developing Our Communities	**9,449**	**1,456**	**(7,993)**
Improving Housing			
Home Repair Assistance Grants	10	0	(10)
Disabled Facilities Grant	250	250	0
HRA Decent Home Programme	5,726	1,971	(3,755)
Housing Parking Bays	25	0	(25)
Affordable Housing Development	6,881	3,936	(2,945)
Total Improving Housing	**12,892**	**6,157**	**(6,735)**
Delivering an Effective and Efficient Council			
Town Hall Development	2,798	3,327	529
ICT Strategy	100	100	0
ICT Hardware	75	75	0
Total Delivering an Effective and Efficient Council	**2,973**	**3,502**	**529**
Total Capital Programme	**27,643**	**12,125**	**(15,518)**

The Council also treats any lending to SAIL as capital expenditure. SAIL has a total of £60m available to drawdown, of which £13.5m has been drawdown leaving a balance available for 2019/20 £46.5m.

It is expected that £18.4m will be drawn down in 2019/20 leaving a balance of £28.1m to be brought forward into 2020/21. This is to all be financed by external borrowing.

Funding the 2019/20 Capital Programme

	2019/20 Current Budget £'000	2019/20 Estimated Outturn £'000	Variance £'000
Total General Capital Programme	15,011	6,218	(8,793)
Total HRA Capital Programme	12,632	5,907	(6,725)
Total Capital Programme	27,643	12,125	(15,518)
Funded By:			
General Fund Capital Receipts	200	200	0
Government Grants	250	250	0
Other Government Grants	450	0	(450)
Borrowing	14,111	5,768	(8,343)
Total General Fund Capital Funding	**15,011**	**6,218**	**(8,793)**
HRA Capital Receipts	2,064	1,181	(883)
Major Repairs Reserve	5,750	1,971	(3,779)
Revenue Contribution from HRA	4,010	2,755	(1,255)
HRA Borrowing	808	0	(808)
Total HRA Capital Funding	**12,632**	**5,907**	**(6,725)**
Total Capital Funding	**27,643**	**12,125**	**(15,518)**

Slippage Proposals

Slippage is proposed when capital schemes are not completed within the specified financial year but are still ongoing. Reasons for slippage could be delay to works starting, delay to contracts being agreed, projects being effected 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 commitment. Proposed Slippage from 2019/20 is as follows

Capital Scheme	Amount £'000
Car Parking Improvements	300
King George's Pavilion Redevelopment	6,873
Football Hub Development	690
Community Halls Enhancements	600
Total General Fund Slippage Proposals	**8,463**
HRA Decent Home Programme	1,383
Affordable Housing Development	2,945
Total HRA Slippage Proposals	**4,328**
Total Slippage Proposals	**12,791**
Funded By:	
Other Grants	345
Borrowing	8,118
Total General Fund Funding	**8,463**
HRA Capital Receipts	884
Revenue Contribution	1,045
Major Reserves Contribution	1,383
Borrowing	1,016
Total HRA Funding	**4,328**
Total Capital Funding	**12,791**

These will be finalised and approved as part of 2019/20 outturn that is reported to Policy Resources & economic Development Committee.

Capital Programme 2020/21

The table below details the capital programme budget for 2020/21 and the forecast for the next 2 years. Each scheme is aligned with the Corporate Strategy, the proposed budget is set to achieve each strategy theme as detailed on page 13 of this document.

Capital Programme 2020/21

	2020/21 £'000	2021/22 £'000	2022/23 £'000
Protecting Our Environment			
Asset Management Strategy	250	200	200
Vehicle Fleet Management	768	200	200
Cemetery Headstones	20	20	20
Cemetery Infrastructure	50	100	100
CCTV Upgrades	10	0	0
Open Space Security Measures	25	0	0
Car Parking Improvements	20	20	20
Total Protecting Our Environment	**1,143**	**540**	**540**
Developing Our Communities			
Play Area Refurbishment	500	825	350
Open Spaces Enhancements	985	0	0
Football Hub Development	750	0	0
Parks Infrastructure	50	100	100
Open Spaces Car Park	150	0	0
Total Developing Our Communities	**2,435**	**925**	**450**
Improving Housing			
Home Repair Assistance Grant	5	5	5
Disabled Facilities Grant	250	250	250
Housing Development	500	400	1,000
HRA Decent Home Programme	2,970	3,030	3,090
Affordable Housing Development	3,075	2,004	2,000
Total Improving Housing	**6,800**	**5,689**	**6,345**
Delivering an Effective and Efficient Council			
ICT Strategy	136	100	100
ICT Hardware	25	25	10
Printing Equipment	25	0	0
Total Delivering an Effective and Efficient Council	**186**	**125**	**110**
Total Capital Programme	**10,564**	**7,279**	**7,445**

Funding the Capital Programme

	2020/21 £'000	2021/22 £'000	2022/23 £'000
Total General Capital Programme	4,519	2,245	2,355
Total HRA Capital Programme	6,045	5,034	5,090
Total Capital Programme	**10,564**	**7,279**	**7,445**
Funded By:			
General Fund Capital Receipts	200	200	200
Government Grants	250	250	250
Other Government Grants	575	0	0
Borrowing	3,494	1,795	1,905
Total General Fund Capital Funding	**4,519**	**2,245**	**2,355**
HRA Capital Receipts	923	601	600
Major Repairs Reserve	2,970	3,030	3,090
Revenue Contribution from HRA	1,200	1,403	1,400
HRA Borrowing	952	0	0
Total HRA Capital Funding	**6,045**	**5,034**	**5,090**
Total Capital Funding	**10,564**	**7,279**	**7,445**

Capital Schemes 2020/21

A high-level summary is provided for each capital scheme that has been budgeted for in 2020/21 under each Corporate Strategy heading.

Protecting our Environment

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

Vehicle Fleet Management, replacing existing fleet predominantly for waste services. Current fleet are aged and need replacing to reduce revenue burden of repairs and maintenance.

Cemetery Headstones is a 3-year project to provide ongoing headstone provision at Woodman Road Cemetery as a statutory duty.

Cemetery Infrastructure is to ensure the facilities at Woodman and London road stay to a standard where they compete with private cemeteries within the Borough.

CCTV Upgrades to match fund CCTV installation in the Borough

Open Space Security Measures is to enable boundary defence works on Council owned sited.

Car Parking Improvements ensuring general enhancements are performed in a timely manner on Council car parks.

Developing Our Communities

Play Area Refurbishment, continued support in achieving the play area strategy. This money is for

Open Spaces Enhancements, additional funds that support workstreams on, improving the car parks at King Georges, improving the disabled access at the golf course, installing electric vehicle charging points and solar lighting for wayfinding and installing a Changing Places facility to serve the play area and Splash Pad

Football Hub Development at Brentwood Centre site, to develop a community hub in the Borough for the use of football achieving the Councils play pitch strategy

Parks Infrastructure, installation of fencing and replacement of bins as well as improvements to degrading pathways in the parks across the borough

Open Spaces Cark Park, joint working partnership to improve the facilities at Larkins playing field for parking.

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.

Housing Development in enhancing assets and looking to gain a commercial return through the exploration of a Housing Company.
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.

Affordable Housing Development looking to provide affordable housing in the borough and utilise the retained capital receipts from right to buy sales.

Delivering an efficient and effective council

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 program of replacing ICT hardware as it comes to the end of its useful life.

Printing Equipment requirement to upgrade to a new wide form plotter as the current one is 30 years old and is a model that is no longer supported. Plotter is required for a range of large printing predominantly used by planning and Building Control

Risk, Procurement and Value for Money in the Capital Strategy

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.

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.

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.

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

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.

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.

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.

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

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.

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

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.

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.

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

Overall value	Procedure
Under £10,000	One quotation required, obtaining best value for money
£10,000 to £50,000	At least three quotations required; quotation exercise to be conducted by the Procurement Officers on Delta E-Sourcing website, and advertised on the Council's website for at least two weeks
£50,000 to EU threshold	Full tender exercise conducted by Procurement Officers on Delta E-Sourcing website and advertised on the Councils website for at least two weeks
Over EU threshold	Full tender exercise conducted on Delta E-Sourcing website by the procurement Officers, in accordance with the Official Journal of the European union rules and advertised on the Council's website for at least two weeks.

Other options

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

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.

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

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.

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.

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.

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.

A waiver cannot be granted if the value of the required procurement is above the current EU threshold

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

Value for Money

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.

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.

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.

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.

Other Capital Expenditure

Part of the reason for the changes in the revised CIPFA regulations is to ensure that the Council provides clarity over 'other' investments that might otherwise not be captured in either the Treasury management or Investment Strategies. This type of investment could include, for example, the purchase of Investment Properties (held on a commercial basis to generate income or for capital appreciation purposes), or the issue of loans or other financial support to third parties, including wholly owned companies.

The income generated from such investments will help the Council to achieve a balanced budget in future years and will provide income for reinvesting in Council services, thereby supporting the maintenance and development of the Council's services.

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.

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).

The investments in the Council's wholly owned company Seven Arches Investment Limited (SAIL) are not regarded in the regulations as being part of the Council's treasury activities and are therefore accounted for as capital expenditure as a loan to SAIL. They are facilitated by a Facilities Agreement between the two parties. This expenditure is funded from borrowing, the cost of servicing debts falls on the General Fund and will be included in the budgets to be approved by Ordinary Council in each financial year of the life of the loan.

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. There is a ***Property Investment Strategy*** that clearly sets out the parameters around which investments that will be reviewed and considered by Project Board. Project Board is a cross party group, that meet regularly and has been given delegated Authority by Full Council to discuss propositions regarding SAIL to refer to the Directors or SAIL. All purchase decisions under the strategy is subject to the approval of the Directors.

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 more commercial areas.

Commercial Activity estimates have been included in the budget setting process for 2020/21 and the forecast period. These represent:

a) lending to Seven Arches Investments Ltd
b) the former HRA shops that now sit within the general fund

A summary of this budget is included below.

Policy Initiatives	2020/21 £'000	2021/22 £'000	2022/23 £'000
Commercial activity-loans to SAIL	1,130	1,130	1,694
Commercial activity-shops	184	184	184

To the extent that these income streams are not realised, the Section 151 Officer will need to find additional savings elsewhere in the General Fund budget or use Reserve balances to maintain service levels.

The borrowing for Commercial Activities will be to provide a loan directly to Seven Arches Investment Limited and or the Joint Venture partnership with Morgan Sindall and Seven Arches Investment Limited. All borrowing will take place in context of the Council's Treasury Management Strategy.

To provide a sense of scale of the extent which the Council is relying on Commercial Activities to fund services, the following percentages compare the total budget requirement of each financial year to the projected income.

Policy Initiatives	2020/21 £'000	2021/22 £'000	2022/23 £'000
Total Budget Requirement	8,800	9,087	9,480
Commercial activity-loans to SAIL	1,130	1,130	1,694
Commercial activity-shops	184	184	184
% of Commercial Income to Net budget	14.93%	14.46%	19.81%

As it can be seen from the table, less than 21% of the Councils budget requirement is being financed by commercial activities in any given year, keeping this reliance on resources at a manageable level.

The Council continues to explore alternative ways and models of generating and delivering on commercial initiatives. As new opportunities come forward, they will be assessed in relation to the most appropriate delivery model and, where appropriate, will be delivered within SAIL or a new subsidiary company set up, if this is deemed to be the best vehicle, or when statutory regulations requires the Council to do so.

There may also be occasions when assets are moved within the group, but these transactions will generally be at arm's length and at a market value, ensuring that, where schemes are developed through one of the ventures, they are free to act in a commercial manner in their operations in developing and delivering those schemes.

It should be noted that taking on the additional borrowing associated with these activities is not without risk and the management of this is detailed in subsequent sections of this strategy. All of the borrowing currently undertaken for capital investment purposes is asset backed, i.e. the Council has the ownership of an asset that could be sold if required, with the value sufficient to repay the debt incurred in purchasing it. The Council therefore does not consider that there is a significant risk of the loans being deemed to be impaired in the foreseeable future. In future years, if the loan is deemed to be impaired, the authority will make provision to cover any expected loss by way of minimum revenue provision contribution (see Minimum Revenue Provision section, page 46)

Treasury Management

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 Practice Statements.

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.

This section summarises the current position about the Council's Treasury Management arrangements and proposes a strategy for 2020/21.

HRA and General Fund 'Pools'

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.

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

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

	April 2020				March 2021			
	GF £000	HRA £000	Commercial Activities £000	Total £000	GF £000	HRA £000	Commercial Activities £000	Total £000
Borrowing								
- PWLB	2,000	55,910	3,256	61,166	2,000	55,910	3,256	61,166
- Other Local Authorities	5,768	0	31,000	36,768	9,262	952	60,000	70,214
Total Borrowing	**7,768**	**55,910**	**34,256**	**97,934**	**11,262**	**56,862**	**63,256**	**131,380**
Investments	0	0	0	0	0	0	0	0
Net Borrowing	**7,768**	**55,910**	**34,256**	**97,934**	**11,262**	**56,862**	**63,256**	**131,380**

Debt Requirement

The main purpose of borrowing and other forms of credit (such as finance leasing) is to meet a shortfall in capital resources available to finance capital expenditure. In practice however there is such a great variety of revenue and capital cash flowing in and out of the Council's bank account at any time that it is difficult to determine from an examination of cash transactions just what the underlying debt requirement is.

The statutory measure for this is the Capital Financing Requirement (CFR), as defined in the Prudential Code. By ignoring capital expenditure financed from capital cash resources (e.g. capital receipts, grants and contributions, or from revenue or other reserves), it represents the true capital shortfall at any time. Then, by plotting estimated movements in capital expenditure and resources through the capital programme it is possible to estimate the underlying debt requirement. In practice, the Council might not actually incur borrowing in line with the CFR if, for example, it has surplus funds invested externally that could be called back, but the starting point for developing a strategy for borrowing has to be the CFR. It is divided into two parts according to whether the capital shortfall relates to Housing Revenue Account (HRA) expenditure or General Fund expenditure. The figures for 2020/21 are currently estimated as follows:

The current CFR forecast is based on the original capital budget as amended by proposed slippage requests expected.

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
General Fund	18,634	24,347	27,548	28,873	30,258
HRA	61,229	61,229	62,181	62,181	62,181
Commercial activities	13,500	32,500	60,000	60,000	60,000
Total CFR	**93,363**	**118,076**	**149,729**	**151,054**	**152,439**
Movement in CFR		**24,713**	**31,653**	**1,325**	**1,385**

Movement in CFR represented by:					
Net financing need for the year		24,768	31,946	1,795	1,905
Less MRP/VRP		(55)	(293)	(470)	(520)
Movement in CFR		**24,713**	**31,653**	**1,325**	**1,385**

Borrowing Strategy

The Council has not needed to borrow externally over the last few years, with the exception of the HRA borrowing taken out in 2012 when the Council left the housing subsidy scheme.

The Council has been e borrowing considerably less than its implied need to borrow. This is due to sound and proactive treasury management activity where surplus cash resources available are used to finance capital expenditure rather than investing them externally on the money markets

The surplus cash being relied upon for this purpose consists of Council Tax and NNDR income received in advance of payments to precepting authorities and the Government, other timing differences between receipts from debtors and payments to creditors, grants, subsidies and contributions received in advance of spend, and the general trend for revenue and capital expenditure to be weighted more towards the second half of the financial year. The surplus also includes the level of General Fund and HRA revenue reserves and provisions.

It is assumed that the HRA is always fully borrowed and to the extent that the combination of its reserves and borrowing exceeds its CFR it is assumed that it has lent to the GF. The situation could arise where the HRA is borrowing from the GF. Interest is charged on these internal borrowings at a rate considered to be appropriate by the Section 151 Officer.

The main advantage of this strategy is the lower exposure to external debt, and at the same time, lower exposure to counterparty risk in external investments at this time of increased risk in the financial markets. This is a very considerable benefit, especially given the insistence in the statutory guidance that security of funds comes before any considerations of liquidity or yield (return on investments). More is said about the effect on investments below.

However, no strategy is entirely risk free. The main risk of using cash surpluses generated as described above is that some will be available only temporarily. When the cash is required for other purposes the authority may be forced to borrow to replace those funds at a time when interest rates are higher or other conditions are not favourable (the interest rate projections on which the budgets and the forward forecast have been based are discussed below).

The alternative would be to externalise all or part of our surplus cash. This would leave a cash shortfall to be met by further borrowing. It is ultra vires (beyond the Council's powers) to borrow specifically to invest, but provided total debt did not rise above the CFR and provided it was done for good TM reasons (such as to secure long-term interest rates ahead of an expected increase), this would be a reasonable use of the Council's powers.

The Section 151 Officer retains within the limits set by this TM Strategy the flexibility to adjust the balance between borrowing and investments to meet changing circumstances. The preferred option on which the budget at the present time has been prepared is however to, as far as possible, internalise all surplus funds and to start to lock into the historically low long-term rates for HRA borrowing.

The Council is now faced with a position where surplus cash has been utilised.

In order to fund its capital programme, the Council borrowed £12m during 2018/19 and expects to borrow £24.1m during 2019/20. Over the next three years the Council expects to borrow a further £35.6m, representing total new loans of £72.4m.

Prior to October 2019 the standard source of long-term finance for local authorities was the Public Works Loan Board (PWLB). In October 2019 the PWLB unexpectedly raised its interest rate by 1%. The PWLB is still a low-risk, easy to access source of finance, but at less competitive interest rates.

In response to this move, corporate lenders have started to enter the market. This market is expected to mature over time, providing competively priced alternatives to the PWLB.

The other source of finance for local authorities is the inter-authority market, i.e. councils lending funds to one another. This is still a cheap, low risk, easy to access source of finance for local authorities, for periods of up to five years. All of the borrowing raised since 2018/19 has been from this source, for periods up to one year.

Officers are currently developing a long-term borrowing strategy that strikes an appropriate balance between securing low interest costs and achieving cost certainty over the period for which funds are required. Officers will work closely with its treasury advisors to formulate an approach that meets this objective. It is envisaged that this will involve:

a) extending the current approach of inter-authority borrowing, by taking out futher borrowing as required for periods up to five years
b) if deemed to be cost-effective in the longer term, borrowing additional sums during 2020/21 in anticipation of the funds being required later in the year, even if this will incur a short-term cost of carry

c) developing options for borrowing beyond five years, either from the PWLB or from other corpoate lenders: this will include condering deferred loans, where the interest rate is fixed in advance but the cash in received in later years

In addition, the Council may take out short-term loans to cover any unplanned cash flow shortages.

Sources of borrowing

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

Interest rate forecasts and considerations

Long-term borrowing at fixed rates of interest gives certainty of cost, which is important to protect the revenue budget from volatility in market interest rates, but as will be seen from the table of rates at March 2020 and March 2021 below, projected short-term rates offer a considerable saving at the present time below long-term borrowing rates:

	March 2020	March 2021
Bank Rate	0.75%	0.75%
Investment Rate	0.75%	0.75%
Overdraft	2.75%	2.75%
Local Authority Lending		
- 1 year	1.00%	1.00%
- 2 years	1.65%	1.65%
- 3 years	1.85%	1.85%
- 4 years	2.05%	2.05%
- 5 years	2.10%	2.10%
PWLB Rates		
- 5 years	2.40%	2.60%
- 10 years	2.70%	2.90%
- 25 years	3.30%	3.60%
- 50 years	3.20%	3.50%

As recommended by the TM Code, it is important to diversify borrowings to provide a balance between interest rate risk and certainty.

All decisions are taken by the Section 151 Officer or under delegated arrangements, having regard to the issues discussed in this strategy document and principles determined in consultation with our TM advisers.

The short-term rates shown above are projections of 3-month LIBOR5, which is closely related to the cost of temporary borrowing. This is closely related to the 3mth LIBID rate, which is a benchmark rate of interest for short term borrowing. In practice, the rate of interest that could be earned on external investments could fall far short of this rate because of the need to put security before yield and invest only in the safest
5 The LIBOR (London Interbank Offered Rate) rate is the average interest rate that leading banks in London charge when lending to other banks. counterparties, who therefore pay a lower rate of interest.

To project interest rates with any certainty in the present economic climate continues to be very difficult if not impossible.

In terms of interest return from sums invested, these continue to be historically low despite a rise in the Bank of England Base Rate in August 2018 and the PWLB rate rise in October 2019. However, this income is only in respect of managing the Councils excess cash balances, so tends to be short-term in nature. In respect of income to support services, a more proactive approach is being taken as outlined in the earlier sections of the strategy.

Debt Limits

Local borrowing limits are set as part of the Council's consideration of its annual Prudential Indicators. The limits projected by the Council for 2019/20 and for 2020/21 are shown in the following tables:

Authorised Limit For External Debt

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Operational boundary	123,076	154,729	156,054	157,439
Other long-term liabilities	3,000	3,000	3,000	3,000
Total	**126,076**	**157,729**	**159,054**	**160,439**

Operational Boundary For External Debt

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Capital Financing Requirement	118,076	149,729	151,054	152,439
Short term borrowing needs	5,000	5,000	5,000	5,000
Total	**123,076**	**154,729**	**156,054**	**157,439**

The Authorised Limit is the limit placed by the Council on the absolute level of its gross debt at any time. The Local Government Act 2003 stipulates that it must not be breached at any time. The Operational Boundary on the other hand is a lower figure reflecting the *planned* maximum level of debt at any time, the difference being designed to give headroom to deal with unforeseen movements in cash flow. 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.

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

Debt Rescheduling

This is the practice of repaying debt of one maturity early in order to borrow for a different maturity period. The purpose might be to reflect changes in borrowing needs or to take advantage of changes in interest rates. The lender will usually offer a discount, or require payment of a premium, depending on the difference between the rate of interest on the existing loan and that offered in the markets or by the PWLB for the remaining term of that loan.

The question of whether the Council will pursue any debt rescheduling will always have to take into account the net revenue effects of the premium/ discount against the costs/savings to be made in the average rate of interest payable on the new loans.

The PWLB terms on which premature repayment can be made are generally unattractive. Rescheduling should only be considered where the economics can be justified over the term of the original or replacement loan. Another important consideration is the respective financial implications for the General Fund and Housing Revenue Account.

Decisions on rescheduling will be made by the Section 151 Officer or under delegated arrangements. It is not envisaged that any debt rescheduling will take place during 2020/21

Treasury Indicators

Upper Limits on Fixed and Variable Interest Rate Exposure

This indicator is intended to set upper limits to the Council's exposure to the effects of changes in interest rates in 2020/21 and for the following two financial years.

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

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.

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 reviewed without change for 2020/21. 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

	Proportion 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%

Investment Strategy

Section 12 of the Local Government Act 2003 gives a general power to local authorities to invest, "(a) for any purpose relevant to its functions under any enactment or (b) for the purposes of the prudent management of its financial affairs."

The Investment Strategy applies only to the temporary external investment of surplus funds under Section 12(b). It does not apply to loans or investments the Council may make under any other enactment, e.g. financial assistance on economic development, house renovation or well-being grounds. The strategy has been prepared having regard to statutory guidance given by the Secretary of State and to CIPFA's Treasury Management Code of Practice.

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.

The Council's investment strategy has regard to the MHCLG Guidance on Local Government Investments, the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 and the CIPFA Treasury Management Guidance Notes 2018. The primary investment priorities of the Council are:

a) the security of its capital
b) liquidity of its portfolio, i.e. keeping funds readily available for expenditure when needed.

Durational limits

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

Specified investments are high security, high liquidity investments in sterling with high credit quality and a maturity of no more than one year. All of the instruments identified in the table on the next page meet the definition of specified instruments.

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. The Council will not use non-specified investments during 2020/21.

Credit rating

Banks and some of the larger building societies are given credit rating by the three main credit rating agencies, Fitch, Moodys and Standard & Poor (S&P). Ratings are split between short term and long term. The Council's proposed minimum acceptable credit ratings for 2020/21 are as follows:

Agency	Short term	Long term
Fitch	F1	A-
Moody	P1	A3
S&P	A1	A-

Credit Rating Definitions

Long-term Issuer Default rating

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

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)

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.

Investment instruments and limits

The Council will continue its approach of investing the majority of its funds in parcels of £1-£2m with other local authorities and UK banks and building societies. The table below details the Councils proposed Investment Instruments it will look to utilise.

Proposed Investment Instruments

Instrument	Minimum short term credit rating	Minimum long term credit rating	Maximum value of investment	Maximum duration of investment
Term Deposits with UK Local Authorities	N/a	N/a	£5m per local authority	1 year
Term deposits or notice accounts with UK banks	Fitch F1 Moodys P-1 S&P A-1	Fitch A- Moodys A3 S&P A-	£5m per bank	1 year
Term deposits with banks part nationalised by the UK Government	Minimum credit ratings not required as long as these banks continue to be part nationalised		£5m per bank	1 year
Term deposits with UK Building Societies	Fitch F1 Moodys P-1 S&P A-1	Fitch A- Moodys A3 S&P A-	£5m per Building Society	1 year
Debt Management Account Deposit Facility (DMADF)	N/a	N/a	Unlimited	6 months (DMADF imposed 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 per fund	Liquid
Money Market Funds LVNAV	N/a	AAA	£5m per fund	Liquid
Money Market Funds VNAV	N/a	AAA	£5m per fund	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 per institution	1 year

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, we 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 endeavours to keep balances of no more than £2m on its current accounts.

Ultra-Short/Short-Dated Bond Funds

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 returns expectations

On the assumption that the UK and EU agree a Brexit deal including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.00% by quarter 1 2023. Bank Rate forecasts for financial year ends (March) are

- 2021 0.75%
- 2022 1.00%
- 2022 1.00%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during 20/21 is 0.75%

Liquidity

The Council will carefully plan and monitor its principal cash flows in order to predict shortages or surpluses for up to twelve months ahead. The forecast will be more detailed for the immediate period ahead and will be continuously monitored and updated as new information becomes available. The Section 151 Officer will ensure, under delegated arrangements, that borrowings, investments and other cash flows are managed to ensure there is appropriate operational liquidity, i.e. that there is sufficient access to funds through borrowing and investments to enable the Council to meet its liabilities as they fall due. Due to the uncertainties of some cash flows, there are occasions when, overnight, the balance held in the Councils bank accounts may exceed or dip below the recommended £2million.
The maximum periods for which funds may be prudently invested will be determined at all times by reference to the cash flow forecast. An agreed amount will always be kept 'on call' (available on the same day) to deal with any unforeseen cash flow pressures.

It is desirable from time to time to 'forward deal'. This involves committing to the terms of a future investment now rather than waiting until the date when the funds are expected to become available and taking whatever the market has on offer at that time. This may be useful in a number of ways, for example:

- a few days ahead of a significant cash receipt to ensure effective use of funds on the day
- in connection with a restructuring of debt to accommodate temporary cash differences on the day
- to lock into today's favourable interest rates when the market is predicted to fall.

In all these cases, it is possible that liquidity is compromised if the cash flow projections on which the deal is based do not materialise when the time comes to transfer funds.

Having regard to the effectiveness of cash flow forecasting and the flexibility to adjust other cash flows to accommodate most variances as they happen, the Section 151 Officer considers that Officers should be permitted the flexibility to deal forward for periods up to three months, subject to approval under an internal delegation scheme.

All forward dealing is subject to the constraints and limits put in place by the other provisions of the Treasury Management Strategy.

For the purpose of defining the term of an investment, it will be regarded as commencing on the date that the commitment is entered into, rather than the date on which the funds are paid over to the counterparty. This would prevent, for example, a twelve-month fixed deposit being dealt in advance (as the term would extend over more than twelve months), whereas a six-month fixed deposit dealt three months in advance would be acceptable.

Investment Consultants

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.

In relation to investments, the Council receives regular economic advice including interest rate forecasts, a weekly and monthly newsletter, a regularly updated diary of events affecting the money markets, technical advice on the TM Code of Practice and the MHCLG statutory guidance as well as money market practice, assistance with formulation of the Investment Strategy, the Treasury Management Strategy and the Annual TM Report, access to their website, which provides a comprehensive source of information and occasional technical papers, guidance on investment strategy and in response to ad hoc queries, and a constant review of credit ratings tailored to the Council's lending criteria as approved in its Investment Strategy for the year. Training courses for staff are available as well as regular seminars on topical issues. Whilst a constructive and transparent partnership is encouraged, it is explicit in the relationship that the service provider acts only as adviser and the Council and its Officers are responsible for all decisions taken.

Investment of Money Borrowed in Advance of Need

The CIPFA 2017 Prudential Code states that a council should not borrow more than or in advance of its needs purely to profit from investment of the extra sums borrowed. Guidance issued by MHCLG in October 2018 extends this definition to include borrowing to finance the acquisition of non-financial as well as financial investments that the organisation holds primarily or partially to generate a profit.

Some of the Council's borrowing will be to finance the activities of its wholly owned company Seven Arches Investments Ltd (SAIL) by way of a series of state aid compliant loans in order for SAIL to invest in properties for a commercial return. These returns will be reinvested in Council services and will contribute towards a balanced budget in future years. The Council is satisfied that lending to SAIL supports its service needs and that the borrowing in order to finance these loans is therefore an appropriate use of its borrowing powers.

The Council's policy for managing the risks associated with this activity are:

- All activity is carried out through the Council's subsidiary SAIL. SAIL is a limited company, wholly owned by the Council, with a robust management structure and legal framework.

- SAIL operates within its Property Investment Strategy, which aims to achieve a diverse property portfolio in order to minimise the risks associated with holding an investment property portfolio.

- SAIL applies a robust due diligence process around the acquisition of investment properties. This includes the use of specialist property management and investment consultants, who assess of potential sites for purchase and score properties against a series of benchmark criteria. This include yield, location, alternative uses, length of lease, tenant strength and good covenant.

- There is a robust SAIL funding approval in place, under which all loans to SAIL must be considered and agreed by the Property, Resources and Economic Development Committee, following the satisfactory conclusion of the purchase due diligence process.

- All lending to SAIL is made under a formal legal agreement between the Council and SAIL.

Investment Indicators

The following indicators are provided to enable Members and the public to assess the Council's total risk exposure as a result of its investment decisions.

Total investment exposure

The first indicator shows the Council's total exposure to potential investment losses:

Total investment exposure	2020/21 £'000	2021/22 £'000	2022/23 £'000
Treasury investments	2,000	2,000	2,000
Commercial activity-loans to SAIL	60,000	60,000	60,000
Commercial activity-shops	3,256	3,256	3,256
Total investment exposure	**65,256**	**65,256**	**65,256**

How investments are funded

This is applicable to the capital investments. The table demonstrates that they are 100% funded from borrowing:

Investments funded by borrowing	2020/21 £'000	2021/22 £'000	2022/23 £'000
Commercial activity-loans to SAIL	60,000	60,000	60,000
Commercial activity-shops	3,256	3,256	3,256
Total funded by borrowings	**63,256**	**63,256**	**63,256**

Rate of return received

This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested.

Rate of return	2020/21 £'000	2021/22 £'000	2022/23 £'000
Commercial activity-loans to SAIL	60,000	60,000	60,000
Return	1,130	1,130	1,694
Rate of return	1.9%	1.9%	2.8%

Commercial activity-shops	3,256	3,256	3,256
Return	184	184	184
Rate of return	5.7%	5.7%	5.7%

Treasury investments	2,000	2,000	2,000
Return	50	50	50
Rate of return	2.50%	2.50%	2.50%

Minimum Revenue Provision

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.

The Council is recommended to approve this policy for 2020/21. The policy is as follows:

Debt Liability pre 1 April 2008

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

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.

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.

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

Debt Liability to finance long-term lending to wholly owned subsidiary

MRP will not be provided on borrowing raised to finance long-term loans to the Council's wholly owned subsidiary, Seven Arches Investments Ltd (SAIL). This is on the basis that:

a) the loan is secured against the assets of SAIL
b) the Council expects the loan to be repaid in full
c) the receipt from the repayment of the loan will be used to repay the borrowing.

In future years, if the loan is deemed to be impaired, the authority will make MRP to cover the difference between the total repayment amount now expected to be received and balance of Capital Financing Requirement for the loan.

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.

Prudential and Treasury Indicators

Indicators for Prudence

Estimates of capital expenditure

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

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

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:

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

Operational boundary

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:

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

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. 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

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

Treasury Indicators

Interest exposures

Upper limits to the Council’s exposure to the effects of changes in interest rates

Maturity structure of borrowing

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

A restriction on authorisation of longer-term investments.

All of these Prudential and Treasury Indicators are presented in the following tables:

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Estimates of Capital Expenditure				
General Fund	6,218	4,519	2,245	2,355
HRA	5,907	6,045	5,034	5,090
Commercial Activities	19,000	27,500	0	0
Total	**31,125**	**38,064**	**7,279**	**7,445**

Estimates of Capital Financing Requirement				
General Fund	24,347	27,548	28,873	30,258
HRA	61,229	62,181	62,181	62,181
Commercial Activities	32,500	60,000	60,000	60,000
Total	**118,076**	**149,729**	**151,054**	**152,439**

External Debt				
Authorised Limit	126,076	157,729	159,054	160,439
Operational Boundary	123,076	154,729	156,054	157,439

Gross Debt and Capital Financing Requirement				
Estimated Gross Debt	97,934	131,380	128,175	130,080
Capital Financing Requirement (CFR)	118,076	149,729	151,054	152,439
CFR + Following 2 Years Increases	151,054	152,439	172,439	192,439

Ratio of Financing Cost to Net Revenue Stream				
General Fund	3%	9%	11%	12%
Commercial Activities	-6%	-6%	-7%	-7%
HRA	14%	18%	17%	16%

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%

Principal sums invested > 364 days	nil

Proposed Treasury Management Strategy for 2020/21

Taking account of the above position, the Section 151 Officer recommends the following strategy for 2020/21:

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 continual review according to market and other relevant factors.

h) The treasury management strategy including the investment strategy, will be continually reviewed in the light of changing circumstances, including legislation, and 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.

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 the made to the strategy.

A revised Treasury Management Strategy will be prepared and submitted to Full Council where the Section 151 Officer considers that circumstances have changed sufficiently to require a variation to any of the provisions of this initial strategy as set out in paragraph 8 (or the equivalent paragraph in any subsequent revision to the strategy).

Otherwise, the Section 151 Officer is free to work within the limits determined by the strategy without reference to Full Council. They will, however, as a minimum, draw attention to any such variation in their mid-year report and annual report on TM activity for the year.

Other considerations

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.

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 Property Investment Strategy
- Corporate Asset Management Strategy
- Corporate Project Management Process (Microsite)
- Leisure Strategy
- Play Area Strategy
- HRA Asset Management Strategy (In Progress)
- Housing Development Strategy (In Progress)