Rother District Council

Report to:	Cabinet
Date:	27 February 2023
Title:	Capital, Investment and Treasury Management Strategy 2023-24
Report of:	Chief Finance Officer
Cabinet Member:	Councillor Jeeawon
Ward(s):	All
Purpose of Report:	To present the Capital, Investment and Treasury Management Strategy for approval
Decision Type:	Key
Officer Recommendation(s):	**Recommendation to COUNCIL:** That the:

1) Capital Strategy as set out at Appendix A to the report be approved and adopted;

2) Treasury Management Strategy as set out at Appendix B to the report be approved and adopted;

3) Annual Investment Strategy as set out at Appendix C to the report be approved and adopted;

4) Minimum Revenue Provision Policy Statement 2023-24 be approved;

5) Prudential and Treasury Indicators as set out within the report be approved; and

6) authorised limits in this report be approved.

Reasons for Recommendations:	To gain approval for the Capital, Investment and Treasury Management Strategy 2023-24, including the MRP Policy Statement.

Introduction

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

2. Another key function of the treasury management service is to manage the funding of the Council's Capital Programme. It determines borrowing needs in respect of longer-term cash flow planning so that the Council can deliver its capital plans. This involves arranging long and short-term loans as well as the use of cash flow surpluses. It can also involve restructuring existing debt if this reduces costs or risk exposure to interest rate increases.

3. The Treasury Management function looks to optimise interest income and reduce debt interest payments whilst ensuring that the Council has enough liquidity to meet all its spending commitments. Since cash balances generally consist of reserves and balances, it is paramount that investments are placed as securely as possible as any loss will result in a hit on the General Fund.

4. The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

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

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

Reporting requirements to Members

Capital Strategy

6. The CIPFA 2021 Prudential and Treasury Management Codes require local authorities to prepare a Capital Strategy Report. This is contained within Appendix A.

7. The Strategy aims to gives Members an overview of the Council's approach to capital. The objectives of the Code are to ensure, within this clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable.

Treasury Management Reporting

8. The Council is required to receive and approve at least three main treasury reports each year. These are detailed below:

   a. **Prudential and treasury indicators and treasury strategy** – This is included in this report and is forward looking. It covers:
      - the capital plans, (including prudential indicators);
      - the Minimum Revenue Provision (MRP) policy, (the statutory revenue charge to repay loan debt used to finance capital expenditure);
      - the Treasury Management Strategy (Appendix B), (how investments and borrowings are to be organised), including treasury indicators; and
      - an Annual Investment Strategy (Appendix C), (how Investments will be managed).

b. **A mid-year treasury management report** – This is a progress report that updates Members on the capital position, and reviews prudential indicators and policies. In addition, the Council will receive quarterly update reports.

c. **An annual treasury report** – This report reviews performance over the past financial year of performance indicators and treasury operations against the estimates in the strategy.

9. The reports are scrutinised by the Audit and Standards Committee before being recommended to full Council.

10. Quarterly reports – In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June/end of December) is also required. However, these additional reports do not have to be reported to Full Council but do require to be adequately scrutinised. This role is undertaken by the Audit and Standards Committee. (The reports, specifically, should comprise updated Treasury/Prudential Indicators.)

Environmental Implications

11. The environmental considerations of the projects within the Capital Programme will be assessed as part of the design, development and delivery of each project to ensure they align with the organisation's strategic objectives and policies. Relevant internal functions will be consulted on the proposals.

Risk Assessment

12. Failure to produce a Capital, Investment and Treasury Management Strategy would mean that the Council would not be complying with the relevant CIPFA Codes of Practice and would be at risk of making inappropriate investments. This could lead a major loss of resources or the setting of an unaffordable Capital Programme.

Conclusion

13. The expectation is that 2023/24 will see a return to some sort of stability in the investment environment following the turbulences resulting from the post-pandemic economic climate, the ongoing war in Ukraine and the effects of the mini-budget. The strategies proposed in this report, together with the interest rates forecast, are in line with the assumptions made when preparing the 2023/24 revenue and capital budgets. The costs of treasury operations are contained within the 2023/24 revenue budget.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	Consultation	No
Environmental	No	Access to Information	No
Sustainability	No	Exempt from publication	No
Risk Management	No		

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Appendices:	Appendix A – Treasury Management Strategy Appendix B – Annual Investment Strategy

Relevant Previous Minutes:	None
Background Papers:	2023/24 Budget report to Cabinet 6 February 2023
Reference Documents:	None

Capital Strategy 2023/24 to 2032/33 **Appendix A**

1. Introduction

1.1 Capital expenditure is where the Council spends money on assets, such as property or major equipment that will be used for more than one year. In local government, this includes spending on assets owned by other bodies or individuals (e.g. disabled adaptations) and loans and grants to other bodies enabling them to buy assets.

1.2 The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not normally capitalised and are charged to revenue in year. Further details of the Council's policies on capital expenditure are contained within the Statement of Accounts.

1.3 The Capital Strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activities contribute to the provision of local public services. It also provides an overview of how associated risk is managed and the implications for future financial sustainability. The Strategy is intended to be a longer-term view of investment and go beyond the detailed five-year Capital Programme. The Strategy is updated annually in line with the requirements of CIPFA's 2021 Prudential Code. And should be read in conjunction with the Treasury Management Strategy to get a full understanding of the Council's investment activities and relevant Prudential Indicators.

2. Corporate Priorities – Putting our Residents at the heart of all we do

1.4 In July 2021 the Council implemented a new Corporate Plan which set out the intent and ambition of the authority for the period 2020 – 2027, a copy of which can be found here. The Plan detailed the Council's vision for the next seven years, 'Putting Residents at the heart of all we do'. This provided the framework and context for the Council's service provision, project interventions and resource allocation (financial and staffing) for the period through to 2027.

1.5 The Corporate Plan reflected the essential needs and aspirations of our customers and communities and how the Council can best use its resources to deliver services and outcomes that make a positive difference for everyone who lives in, works in or visits the district of Rother.

1.6 The broad range of services we provide make planning challenging and this is set within the context of competing demands for increasingly scarce resources. All our services are committed to making improvements and finding savings, so that the Council remains efficient, effective and meets the day to day needs of the communities we serve. The purpose of the Corporate Plan is to focus on those priorities where we need to give specific attention. It will help us target better our dwindling capital and revenue resources and helps direct and focus any bids for external grant support. The Plan also provides a framework against which we can assess our progress to support the needs of our customers and communities.

1.7 Underpinning the Corporate Plan is the day-to-day business that departments undertake, and which will be reflected in departmental Service Plans. All

Service Plans are linked to the Corporate Plan. These plans will also include the performance measures by which the delivery of wider improvement activity can be managed. The priorities within the Corporate Plan were developed by talking with, and listening to the community, Elected Members, staff and other key stakeholders all of whom have helped to shape the content of the Plan.

3. Strategic Objectives

1.8 The Capital Strategy is a key strategic document for the Council, linking and supporting several of the Council's other key strategies and policies including;

- Corporate Plan
- Medium Term Financial Strategy (MTFS)
- Treasury and Investment Strategy
- Property Investment Strategy (PIS)
- Local Development Plan (LDP)
- Environment Strategy
- Financial Sustainability Programme (FSP)
- Housing, Homelessness and Rough Sleeping Strategy
- Risk management framework

1.9 The aim of the Capital Strategy is to drive the authority's capital investment ambition, ensuring capital expenditure, capital financing and treasury management are appropriately aligned and managed to support the Corporate Plan priorities whilst also enabling sustainable, long term delivery of services.

1.10 To enable delivery of this aspiration the following key objectives have been identified;

- To take a long-term perspective on capital investment and to ensure this contributes to the achievement of the Corporate Plan through allocation of funding to key priorities;
- To ensure investment is prudent, affordable, and sustainable over the medium term and adheres to the Prudential Code and other regulatory requirements;
- To maintain the arrangements and governance for investment decision-making through the established Committees and governance boards;
- To make the most effective and appropriate use of the funds available in long term planning and using the most optimal annual financing solutions; and
- To establish a clear methodology to prioritise capital proposals to ensure the Council's resources are focussed in the most appropriate way.

1.11 The Council will achieve this by ensuring;

- Our resources are allocated to meet our short, medium and longer term Corporate priorities;
- We encourage and support invest to save and invest to earn initiatives and projects which generate an ongoing revenue return and/or economic benefit;
- Development of an Asset Management Plan (AMP) to help manage and understand ongoing revenue maintenance costs and how capital investment can help to reduce these while identifying surplus or poor

performing assets which can move through a disposal process to generate new capital resources;

- Capital spending plans are affordable and integrated with the Medium-Term Financial Plan (MTFP);
- Inward investment into the district is encouraged and innovative approaches to investment such as partnerships with the private sector, collaborative arrangements with other local authorities and creation of new delivery vehicles are actively explored; and
- We demonstrate the Council works within the Prudential Code framework and demonstrates robust and linked capital and treasury management.

4. Capital Investment Ambition

1.12 The Authority continually seeks to identify assets that are surplus to requirements and to undertake disposals accordingly. This not only generates a capital receipt, but also reduces maintenance costs and liabilities. As a principle we will review and dispose of underutilised or poorly performing assets and ensure that the top performing assets are adequately maintained.

1.13 The Council produced a Property Investment Strategy (PIS) in 2018 which was subsequently updated in 2020. It established an initial capital budget of £35m to support the programme to enable the delivery of the Council's regeneration ambitions which support the rationale for acquiring property, and regeneration objectives have underpinned the acquisitions that have been undertaken. To date, about £30.0m has been expended or committed on 15 properties/sites. Income of approximately £1.6m (£1.1m 2022/23) is included within 2023/24 revenue budget for assets acquired as part of the PIS.

1.14 All the properties that have been acquired have been located within Rother District, and comprise a mix of retail, industrial and office properties, along with development sites.

1.15 Rother DC Housing Company Ltd (RDCHC) has been established to undertake development of the Council's land to improve housing outcomes with the ultimate aspiration to deliver 1,000 new homes by 2035.

1.16 For each RDCHC project, subject to agreement, the Council will provide a shareholder loan which will earn interest at market rates, supporting the Council's revenue budget. The Council may also provide a land purchase loan and an additional construction loan, subject to agreement.

1.17 The company has been established to meet several key strategic objectives which are as follows:

a) Speed up the rate of policy compliant development to meet Local Plan targets
b) Improve the environmental standard of local homes
c) Develop affordable/social rented housing
d) Develop housing for affordable ownership
e) Delivering stalled sites
f) Produce a return to the Council
g) Discharge statutory homelessness duty

1.18 Council approved a loan facility of £80m for the housing company, which is included within the current capital programme but as outlined above, release of funding is based upon individual assessment of relevant sites and successful business cases. The sites initially shortlisted for consideration were Blackfriars, Cyprus Place, Putting Green, Mount View Street and King Offa.

Investment in Service and for Regenerative Purposes

1.19 Investments for service or commercial purposes are together referred to as non-treasury investments. In the past, the Council has made, on occasion, investments through loans to assist local public services, such as the Hastings Furniture Service.

1.20 The Council currently invests in existing property but is also open to delivery of new property within the District. Due to the low net returns (target in the region of 2% after all costs), the main driver for the activity is to support the areas economic sustainability by retaining employment space and delivering new employment opportunities. This activity is driven through the Council's Property Investment Strategy (PIS) outlined above. This current activity is in addition to historic investments the Council has made to providing commercial work space.

1.21 Recommendations regarding property investments are made by officers and are subject to the support and agreement of the Property Investment Panel (PIP). The Panel comprises five Members and four officers. Property investments are capital expenditure and purchases will therefore need to be approved as part of the Capital Programme through the formal committee structures.

1.22 With this type of investment, the Council accepts higher risk on property investment than with treasury investments. These risks are actively managed. It is important that property investments remain proportionate to the size of the authority and contingency plans are in place, which include disposing of assets and restructuring debt arrangements, should expected yields not materialise. Decisions on service investments are made by the PIP, Cabinet and Council.

1.23 The authority complies with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest primarily for financial return. All the Council's current investments are for regeneration purposes, where the focus is on improving the outcomes for the District rather than on maximising yield.

5. Current Capital Forecasts

1.24 In 2023/24, the Council is planning capital expenditure of £114m (based on the current estimates for slippage), tables 1 and 2 within Appendix B provide a high-level summary of the forecast expenditure and financing. The main capital projects in 2023/24 include the housing development schemes to be delivered by RDCHC, Property Investment Strategy investments and Temporary Accommodation acquisitions.

1.25 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing or leasing for example). The Council is currently reviewing its financing of those schemes where funding is yet to be identified.

1.26 Debt is a temporary source of finance in that loans and leases must be repaid, from revenue or via capital receipts, generally from selling assets. The Minimum Revenue Provision (MRP) is the calculation used to repay the debt or use of the asset and is charged to the revenue budget annually.

1.27 The Council's cumulative outstanding amount of debt finance is measured by its Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR (table 3 – Appendix B) is expected to be £140m during 2023/24.

1.28 Projected levels of the Council's total outstanding debt are shown within table 4 (appendix B) and are compared with the CFR. Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from the table, the Council expects to comply with this in the medium term.

1.29 The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit (Table 11, App B).

1.30 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs, which is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants (Table 6, App B).

1.31 Further details on the borrowing strategy is contained in the Councils treasury management strategy.

6. Available resources

1.32 This section explains how we will manage our capital resources to deliver our current and foreseeable capital programme. From 2023/24 to 2032/33 the Council will need to invest to advance the priorities stated within the Corporate Plan and future plans and will adopt a responsive and flexible approach to how we invest in services.

1.33 The Council will set a de-minimis limit of £10,000 for expenditure to be considered for capitalisation providing it meets the criteria for capitalisation as per the capital regulations (SI 3146) and the CIPFA Accounting Code.

1.34 Regulations state that expenditure on repair and maintenance which does not increase the life, value or extent of use of an asset is not deemed as capital expenditure. The de-minimis is not applicable to capital grants which may be of any value and are made as a contribution to a larger capital scheme. The Council sometimes receives directives that grant contributions are to be applied as Capital expenditure. Should such directives be received, the Council will treat the grant as capital expenditure if the spend is deemed to meet grant conditions.

1.35 Appendix B Table 3 sets out the position of the Capital Financing Requirement (CFR), adjusted for expected capital programme spend and forecast sources of funding as at February 2022.

Capital Receipts

1.36 The forward availability of capital receipts is an important part in both the timing and scope of the capital programme. The Council is looking to manage its assets in such a way as to obtain Best Value and deliver improved outcomes. Surplus assets are reviewed for potential disposal with re-investment in better performing and new assets.

Section 106 (S106) – Planning obligations

1.37 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 principle is that 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 through section 106 agreements.

Community Infrastructure Levy (CIL)

1.38 The idea of CIL is that it is fairer, faster and more certain than the system of S106 planning obligations, which are negotiated on a case-by-case basis. Under the system of S106 planning obligations, only 6% of all planning permissions nationally made any contribution to the cost of supporting infrastructure. The council must use the CIL receipts passed to it to support the development of the Council’s area by funding the provision, improvement, replacement, operation or maintenance of infrastructure; or anything else that is concerned with addressing demands that development places on the area.

External Grants and Contributions

1.39 The partnership approach to service delivery is a core belief of the Council. Through its services, partnership working, supportive funding and innovation, the Council will seek to attract investment into the district. 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 can make better use of Council money. Central government funding is likely to be constrained as capital for existing and new programmes continues to be reduced or other areas are prioritised for “Levelling Up”.

Revenue contributions

1.40 The Council’s budget and MTFP sets out the approach to the allocation of reserve balances and this Council’s approach to managing its surplus cash. The budget makes provision for annual revenue contributions in support of some capital expenditure. Where applicable specific contributions are identified from reserves or revenue contributions from specific services.

Balances and Reserves

1.41 The Council continues to hold a level of specific reserves. This reflects the robust financial management and policy decisions made in recent years and enables internal borrowing and cash flow to be managed. The availability of reserves to finance capital expenditure is however limited given the Council's current financial position.

7. Affordability

1.42 The Council considers all finances from a prudent perspective; this includes the assessment of affordability of all capital investments. At the point of approval of a scheme, both the funding implications and any ongoing revenue implications are evaluated to enable informed decisions to be made regarding investment opportunities and this includes consideration of the whole life cost of an asset.

1.43 The short, medium and longer-term impacts are all assessed considering any other wider policy implications which could impact on the decision. As much of the capital programme is funded by borrowing, assumptions and decisions on the cost and affordability of the Council's borrowing is linked to the Public Works Loan Board (PWLB) interest rates, prudential indicators and the approved borrowing strategy as set out in the Treasury Management Strategy 2023/24.

1.44 The Council's main objectives when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between short-term and long-term fixed rate loans where the future cost is known but higher.

1.45 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by short term borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing, this is known as 'internal borrowing'.

Revenue Budget Implications

1.46 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs, which is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants (see table 6 - within Appendix B). Further details on the revenue implications of capital expenditure are contained in the 2023/24 revenue budget.

1.47 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Chief Finance Officer is satisfied that the proposed Capital Programme is prudent, affordable and sustainable because borrowing is linked to assets that will make a financial return sufficient to meet these costs. This position is kept under review and there are contingency plans in place where this does not turn out to be the case, such as asset disposals.

8. Capacity to deliver

Knowledge and Skills

1.48 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Chief Finance Officer is a qualified accountant with over 20 years' post qualification experience and the Property Investment and Regeneration Manager is a qualified Chartered Surveyor with approximately 30 years post qualification experience.

1.49 The Council has access to specialist legal, valuation, surveying and procurement advice services. The Council pays for junior staff to study towards relevant professional qualifications including Chartered Institute of Public Finance and Accountancy, Association of Accounting Technicians, Royal Institution of Chartered Surveyors and other relevant qualifications.

1.50 Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Link Asset Services as treasury management advisers. This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

9. Monitoring performance

1.51 In terms of governance around new capital items, Services can request that projects be included in the Capital Programme during the budget setting process. However, for the programme to be flexible, bids can be prepared and evaluated at other times of the year. Strategic Leadership Team (SLT) appraises all bids and will assess their relevant priority against other schemes and the affordability of any associated financing costs. All new bids are reported to Cabinet for approval and recommendation to Full Council.

1.52 The best practice assessment process for the allocation of capital funding involves the following steps and it is important that the Council follows this, working closely with the Corporate Programme Board;

- The assessment of the available funding resources
- Assessment of proposed schemes and business cases
- Prioritisation of schemes
- Recommendations of approval of schemes within the programme
- Approval of change control to Capital schemes where this changes funding requirements

1.53 Following approval of a capital project there are several functions associated with the management of the approved Capital Programme as follows;

- Allocation of capital funding and funding mix (to maximise Value for Money for the taxpayer)
- Monitoring and reporting of delivery of the capital programme

1.54 These functions will be undertaken by the Senior Leadership Team (SLT), Cabinet, Overview and Scrutiny and Full Council which allows a continuous cycle of monitoring and forecasting.

1.55 In summary, the capital budget is agreed annually along with any revenue implications, which are factored into revenue planning. The budget is set in accordance with the timetable laid out in the MTFP. The programme is approved by Full Council in February to allow schemes to commence during the following year. The capital bidding process continues to be developed and improved in conjunction with the Corporate Programme governance structures.

1.56 Release of funding will not require further approval unless the Constitution requires it or there are specific caveats put in the business case, such as individual scheme loan allocations for RDCHC. Officers are expected to accurately report progress on their allocated capital funding and spend to their service accountants each month which is then reviewed by the committees on a quarterly basis as part of the budget monitoring process. This should include detailing any issues arising that may affect delivery of the project as anticipated when funding was allocated.

1.57 Monitoring and reporting of progress of the delivery of Capital Programme involves the following tasks:

- Regular review of project progress and forecasting including achievement of key milestones, outputs and outcomes
- Management of risks and issues
- Removal of barriers to delivery
- Approval of any changes to schemes not requiring funding changes
- Reporting on required funding changes
- Post implementation review (depending on the scale of the project) taking account of any corporate learning opportunities

1.58 Budgets for individual schemes are assigned to lead officers who are responsible for delivering the project on time and to budget. The lead officers are responsible for managing capital projects, including capital proposals, risk assessment, checking parameters, project initiation documents (PID's), procurement, contract management, delivery and post implementation reviews.

1.59 Progressing schemes in accordance with agreed timescales is an important aspect to managing the capital programme and can also impact on cash flow forecasting and potential investments returns through our treasury activities. Costs incurred compared to budget are monitored on a monthly basis in line with revenue budgetary control.

1.60 Financial progress against the capital programme is reported to Cabinet and Overview and Scrutiny on a quarterly basis as a minimum and more often as required. This allows a continuous cycle of monitoring and forecasting.

1.61 In order to deliver the Corporate Plan priorities, we need to deliver efficiencies, seek additional funding and periodically review both the use of our capital resources and our stated priorities. We will ensure this happens through following 6 core principles;

1. *Transparent decision making*

    - Ensuring that due diligence has been carried out on all non-financial investments and is in accordance with the risk appetite of the authority
    - Maintaining a schedule of financial and non-financial investments
    - Using Treasury Management Strategy Statements (TMS's) which specifically deal with how non treasury investments will be carried out and managed

2. *Effective approval and pre/post appraisal*

    - Ensuring appropriate use of project management tools relative to the project scale and complexity which help to objectively assess scheme prioritisation
    - Use of standardised capital request templates, appraisal and business case methodology
    - Robust financial evaluation to assess the whole life costs of projects, due diligence, risk and Value for Money

3. *Revenue budget implications*

    - Setting a rolling 10-year capital programme (from 2024/25) annually, identifying future risks/unfunded items to support longer term decision making/prioritisation
    - Promoting capital investment which allows either invest to save outcomes or generates revenue/capital income to support the corporate objectives of the Council
    - Ensuring capital investment decisions do not place additional pressure on the revenue budget and our Medium Term Financial Plan

4. *Effective reporting*

    - Ensuring responsibility for the delivery of the capital programme is clearly defined and the relevant parties have adequate expertise to deliver
    - Reporting the capital programme alongside the quarterly revenue budget monitoring to Cabinet and Overview and Scrutiny

5. *Sustainable investments*

    - Assessing environmental impacts of capital schemes, seeking expert advice to inform decision making and mitigating any impacts as appropriate

6. *Optimising use of capital resources*

    - Disposal of surplus or poor performing assets and reinvesting the proceeds

- Accessing external funding wherever possible
- Working in partnership wherever possible to improve outcomes and increase additionality

10. Risk

1.62 The Council is faced with diminishing capital finance and reduced grants which means we will need to monitor spend against available funds carefully to ensure that we do 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 MTFP and the Treasury Management Strategy which contains the Council's Prudential Indicators.

1.63 Significant capital projects are managed through the Council's Corporate Programme Board. 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.

1.64 Emerging legislation such as the Environment Act 2021, which deals with food waste (and other areas of waste services) may add further pressure to available finances and this will be reviewed to ensure any further cost pressures are identified as soon as practicable.

1.65 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 partial exemption calculation and represents 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.

Inflation

1.66 Inflation is significantly eroding the Council's spending power, the Bank of England's Monetary Policy Committee (MPC) has updated projections which show Consumer Price Index (CPI) inflation falling back sharply from its current very elevated level, of 10.5% in December, in large part owing to past increases in energy and other goods prices falling out of the calculation of the annual rate. At the meeting of the Bank of England's Monetary Policy Committee (MPC) on 1st February, it was agreed to increase the bank base rate by a further 0.5% to 4.0% to help control inflation.

1.67 Annual CPI inflation is expected to fall to around 4% towards the end of this year, alongside a much shallower projected decline in output than in the November Report forecast. In the latest forecast, the Bank Rate is projected to rise to around 4.5% in mid-2023, falling back to just over 3.25% in three years' time.

1.68 Both new and existing proposals will need to take account of the impact inflation will have on the viability and affordability of business cases and assumptions will need to be tested and reviewed as projects and proposals progress through the various governance process to ensure schemes continue to remain viable.

1.69 Where this is not the case the Council may need to take the decision not to progress certain schemes and to re-allocate capital resources to alternative projects.

Risk appetite

1.70 Risks must be assessed against the Council's risk appetite. Risk appetite can be defined as the level of risk that an organisation is willing to accept, tolerate, or be exposed to in pursuit of its objectives.

1.71 A risk appetite has been formalised as part of the Council's updated Risk Management Policy which provides clear guidance to all officers, Members and partners on the level of risk which can be accepted. It should be used to ensure consistency in, and accountability for:

- The reporting and management of existing or emerging risks;
- The extent of governance arrangements and controls required; and
- Assessments of the suitability of proposals (savings, strategies, policies etc).

1.72 A high-level summary of the Council's current risk appetite is shown below;

Risk Appetite	Statement
Cautious/Open (Medium/High Risk)	The Council's ambitions makes it necessary to be open to a certain level of risk. However, we will be cautious not to jeopardise our ability to sustainably deliver social value and our political promises to our community. In this effort, we will only accept minimal risk to our environmental goals and to our technology infrastructure.

11. Other considerations

1.73 There are several other factors which must be taken into account when considering capital investment including;

Sustainability

1.74 The Council declared a Climate Emergency in September 2019 and subsequently agreed the Environment Strategy in September 2020 the vision for which is: "The air will be cleaner as the need to travel will be reduced and those of us that do travel will travel by bike, public transport, electric vehicle, or on foot. The natural and built environment will be enhanced and protected for current and future communities. The council has declared its commitment to be net zero as an organisation by 2030. All capital projects are now required to assess their environmental impacts and to identify suitable mitigation measures to address those impacts.

Procurement

1.75 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-off of assets are contained in the Constitution which is continuously reviewed.

Value for Money

1.76 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 are 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 look to include robust outcome indicators as part of post project reviews.

Disposals

1.77 When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets, enhancing current assets or to repay debt. Repayments of capital grants, loans and investments provided by the Council also generate capital receipts. The Council has a number of small potential disposals in 2023/24. However, it is prudent not to rely on these until the sale is agreed.

1.78 Any proceeds from the disposal of assets, such as land in excess of £10,000 are determined to be a ‘capital receipt’. The policy to sell small pockets of land often brings in income of less than £10,000. This income is classed as ‘revenue income’ and is posted to the revenue income and expenditure account.

Asset management

1.79 To ensure that capital assets continue to be of long-term use, the Council is currently developing an Asset Management Plan (AMP) which will;

- set out the Council’s strategy for acquisitions, disposals, and development to meet our Corporate Plan objectives and statutory requirements;
- take a proactive approach to acquisitions to invest in the local economy and generate income to the Council, in accordance with the Council’s updated Property Investment Strategy (PIS);
- identify surplus and underperforming assets for disposal which will then provide new capital receipts to fund priority assets;
- establish the approach to maintaining our assets in a usable state of repair informed by better use and management of property data; and
- address issues relating to governance, risk management, performance management and monitoring.

12. Improvement Plan

1.80 The Council is continually trying to improve governance, approval and assessment process, both pre and post project completion. The following table however summarises some areas which have been highlighted as requiring further development to help improve the overall management, prioritisation and allocation of capital resources to ensure outcomes are maximised.

Improvement area	Issue	Recommendation	Action
Long-term capital forecasting and prioritisation	Without a sufficiently long-term view there is a risk that capital resources are not properly prioritised	Set a rolling 10-year capital programme from 2024/25, identifying future risks/ unfunded items to support longer term decision making/ prioritisation	Officer – Chief Finance Officer Date – February 2024
Capital assessment process	Without a thorough capital assessment process there is a risk that resources are allocated to schemes which are not the top priorities	Working closely with the Corporate Programme Board ensure that; • The assessment of the available funding resources • Assessment of proposed schemes and business cases • Prioritisation of schemes • Recommendations of approval of schemes within the programme • Approval of change control to Capital schemes where this changes funding requirements	Officer – Chief Finance Officer Date – February 2024

Treasury Management Strategy for 2023/24

1. The strategy covers two main areas:

   a. Capital
   - the capital expenditure plans and the associated prudential indicators;
   - the Minimum Revenue Provision policy.

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

2. These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MRP Guidance (Department for Levelling Up, Housing and Communities (DLUHC)), the CIPFA Treasury Management Code and the DLUHC Investment Guidance.

Training

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

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

5. The scale and nature of this will depend on the size and complexity of the organisation’s treasury management needs. Organisations should consider how to assess whether treasury management staff and board/ council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

6. As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

   - Record attendance at training and ensure action is taken where poor attendance is identified.
   - Prepare tailored learning plans for treasury management officers and board/council members.

- Require treasury management officers and board/council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis."

7. In further support of the revised training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management', which is available from the CIPFA website to download.

8. Training was undertaken by members on 20 June 2022 and further training will be arranged as required.

9. The training needs of treasury management officers are periodically reviewed.

10. A formal record of the training received by officers central to the Treasury function will be maintained by the Chief Finance Officer.

Treasury management consultants

11. The Council uses Link Asset Services, Treasury Solutions as its external treasury management advisors.

12. Responsibility for treasury management decisions always remains with the Council, which ensures that undue reliance is not placed upon its advisors. Decisions will be undertaken with regards to all available information, including that of the advisors.

13. There is a value in employing external advisors in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed, documented and subjected to regular review.

14. The scope of investments within the Council's operations includes treasury management investmentsand service type investments. The latter are investments in property in the district to support the Council's regeneration objectives expressed in the Property Investment Strategy (PIS) updated in 2020. These investments require specialist advisors and the Council uses appropriately qualified companies in relation to this activity.

Expected Investment Returns 2023/24

14. The 2023/24 Revenue Budget reported to Cabinet on the 6 February 2023 assumes income of £586k (£342k 2022/23) from treasury activities. This assumes an average rate of return across the portfolio of 1.98% (1.64% 2022/23). The forecast for the next five years sees returns increasing until 2024/25 with a peak at around £700k due to increasing rates of return, then levelling off at around £500k by 2027/28 based on the forecast use of cash balances.

The Capital Prudential Indicators

15. The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in

the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

Capital expenditure

16. This prudential indicator is a summary of the Council's capital expenditure plans approved by Members (table 1).

	2021/22 Actual	2022/23 forecast	2023/24 Budget	2024/25 Budget	2025/26 Budget	2026/27 Budget	2027/28 Budget
	£ (000)	**£ (000)**	**£ (000)**	**£ (000)**	**£ (000)**	**£ (000)**	**£ (000)**
Regeneration Investments	851	1,551	23,324	0	0	0	0
Housing development schemes	7,208	6,390	81,726	0	0	0	0
General Fund Services	4,198	4,760	8,750	2,687	1,880	1,880	1,880
Total	**12,257**	**12,701**	**113,799**	**2,687**	**1,880**	**1,880**	**1,880**

17. Table 2 below summarises the above capital expenditure plans and how they will be financed. Any shortfall in resources is funded from borrowing.

	2021/22 Actual	2022/23 forecast	2023/24 Budget	2024/25 Budget	2025/26 Budget	2026/27 Budget	2027/28 Budget
	£ (000)	**£ (000)**	**£ (000)**	**£ (000)**	**£ (000)**	**£ (000)**	**£ (000)**
Capital receipts	0	0	0	0	0	0	0
Capital Grants	3,982	5,700	3,844	2,375	1,625	1,625	1,625
Capital reserves	0	0	0	0	0	0	0
Revenue	678	321	1,192	187	130	130	130
Net financing need for the year	**7,597**	**6,680**	**108,764**	**125**	**125**	**125**	**125**
Total	12,257	12,701	113,799	2,687	1,880	1,880	1,880

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

18. The Council's Capital Financing Requirement (CFR) is shown in table 3 and represents the total historic capital expenditure, which has not yet been paid for from either revenue or capital resources. It is a measure of the Council's indebtedness and thus its underlying borrowing need. Any capital expenditure which has not immediately been financed by revenue, grants or capital receipts will increase the CFR. It does not increase indefinitely because it is reduced by the statutory annual MRP charge to the revenue budget. It broadly reduces indebtedness in line with each asset's life.

	2021/22 Actual £ (000)	2022/23 forecast £ (000)	2023/24 Budget £ (000)	2024/25 Budget £ (000)	2025/26 Budget £ (000)	2026/27 Budget £ (000)	2027/28 Budget £ (000)
Capital financing requirement							
Regeneration Investments	269	1,364	23,494	0	0	0	0
Housing development schemes	5,893	2,741	81,075	0	0	0	0
General Fund Services	1,435	2,575	4,196	125	125	125	125
Total CFR	**25,552**	**31,896**	**140,030**	**135,174**	**130,315**	**125,451**	**120,583**
Movement in CFR	7,384	6,344	108,134	(4,855)	(4,860)	(4,864)	(4,868)
Movement in CFR represented by							
Net financing need for the year (above)	7,597	6,680	108,764	125	125	125	125
Less MRP/VRP and other financing movements	(213)	(336)	(630)	(4,980)	(4,985)	(4,989)	(4,993)

19. The CFR includes long-term liabilities such as Private Finance Initiatives and finance leases. Whilst these increase the CFR, and therefore the Council's borrowing requirement these types of schemes include a borrowing facility by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes The Council currently does not have any such arrangements.

Table 4 below shows the planned external borrowing anticipated over the coming years.

External borrowing	2021/22 Actual £ (000)	2022/23 forecast £ (000)	2023/24 Budget £ (000)	2024/25 Budget £ (000)	2025/26 Budget £ (000)	2026/27 Budget £ (000)	2027/28 Budget £ (000)
Regeneration Investments	4757	1,364	23,494	0	0	0	0
Housing development schemes	1,403	2,741	81,075	0	0	0	0
General Fund Services	1,437	2,575	4,196	125	125	125	125
Total	**7,597**	**6,680**	**108,764**	**125**	**125**	**125**	**125**

Liability Benchmark

20. A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB) and is shown in table 5 below. The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

21. There are four components to the LB: -

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

Affordability Prudential Indicator

22. Prudential indicators are required to assess the affordability of capital investment plans. These provide an indication of the impact of the capital plans on the Council's overall finances. The **Ratio of Financing Costs to Net Revenue Stream** indicator below in table 6 shows the trend in the level of financing costs, (net of investment income), against the net revenue stream.

	2021/22 actual	2022/23 estimate	2023/24 budget	2024/25 budget	2025/26 budget	2026/27 budget	2027/28 budget
Net Financing costs (£000)	281	1,542	744	1,301	1,448	1,427	1,535
Proportion of net revenue stream (%)	2.03	11.38	5.07	9.00	9.93	9.55	10.04

23. The table shows that the proportion of the Council's net revenue stream (council tax, share of business rates and grants) peaks at 8.36% in 2025/26, which is largely due to the investments made under the Property Investment Strategy and other Capital Programme projects.

Incremental Impact of Capital Investment Decisions on Band D Council Tax

24. This indicator (table 7) identifies the revenue costs associated with the capital programme, net of treasury investment returns. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a five-year period.

2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget	2026/27 budget	2027/28 budget
£10.88	£16.46	£27.23	£30.43	£29.47	£29.09

Core Funds and Expected Investment Balances

25. The application of resources either to finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are increased by, for example, the sale of assets. Table 8 below details estimated year-end balances for each resource:

Year End Resources	2021/22 Actual £(000)	2022/23 Estimate £(000)	2023/24 Estimate £(000)	2024/25 Estimate £(000)	2025/26 Estimate £(000)	2026/27 Estimate £(000)	2027/28 Estimate £(000)
Fund balances / reserves	13,209	11,088	7,528	5,416	4,735	3,768	7,528
Capital receipts	0	0	0	0	0	0	0
Provisions	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Other							
Total core funds	**14,409**	**12,288**	**8,728**	**6,616**	**5,935**	**4,968**	**8,728**
Working capital*	9,000	9,000	9,000	9,000	9,000	9,000	9,000
Under/(over) borrowing	(1,760)	(93)	(7,076)	25,144	20,500	15,860	11,222
Expected investments	**25,169**	**21,381**	**24,804**	**(9,528)**	**(5,565)**	**(1,892)**	**6,506**

**Working capital balances shown are estimated year-end; these may be higher mid-year*

Minimum Revenue Provision (MRP) Policy Statement

26. The Council pays off an element of the capital expenditure financed through loan debt (the CFR) each year through the statutory revenue charge known as the MRP. It may also make additional voluntary payments if desired (Voluntary Revenue Provision - VRP).

27. DLUHC regulations require the full Council to approve an MRP Statement in advance of each financial year. A variety of calculation methods are available, and the Council can choose whichever one suits it best, so long as it is deemed to be prudent. The Council is recommended to approve the following MRP policy statement:

Asset life method (straight line) – MRP will be based on the estimated life of the assets, in accordance with the regulations. This provides for a reduction in the borrowing need over the assets' life.

Asset life method (annuity) - For investments supporting the Council's PIS, the MRP will be based on an annuity-based method over the asset's life.

For schemes which provide capital expenditure for the acquisition of share capital to third parties, repayment(s) of the loans using the asset life method or return(s) received from the share capital for 20 years will be set aside in lieu of MRP.

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

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

28. **MRP Overpayments** – DLUHC guidance allows for any VRP charges to be reclaimed in later years and used in the revenue budget if deemed necessary or prudent. The policy must disclose annually any such charges made. Up until the 31 March 2022 the total VRP overpayments were nil.

Borrowing

29. The treasury management function ensures the Council's cash is managed in accordance with the relevant professional codes and that sufficient cash is available to meet the requirements of its revenue budget and capital strategy. This involves both the organisation of the cash flow and appropriate borrowing facilities. The strategy covers the relevant treasury and prudential indicators, current and projected debt positions and the Annual Investment Strategy.

Current Portfolio Position

30. The overall treasury management portfolio as at 30/01/22 and the position as at 30/01/2023 are shown in table 9 below for both borrowing and investments.

TREASURY PORTFOLIO				
	actual **31.3.22**	actual **31.3.22**	current **30.01.23**	current **30.01.23**
Treasury investments	£000	%	£000	%
Lloyds Call Accounts	32,357,485	64%	16,597,410	41%
Bank of Scotland Call	16	0%	16	0%
Barclays Call	4,998,147	10%	5,046,272	12%
Santander Call	2,999,214	6%	2,999,214	7%
Santander 31 Days Notice Account	2,001,868	4%	2,000,000	5%
LA Loan (Thurrock BC)	0	0%	6,000,000	15%
Total managed in house	**42,356,731**	**84%**	**32,642,912**	**80%**
Property Funds				
CCLA Local Authority	5,000,000	10%	5,000,000	12%
HERMES	2,999,998	6%	2,999,998	7%
Total managed externally	**7,999,998**	**16%**	**7,999,998**	**20%**
Total treasury investments	**50,356,729**	**100%**	**40,642,910**	**100%**
Treasury external borrowing				

Local Authorities	0	0%	5,000,000	16%
PWLB	27,311,599	100%	26,998,543	84%
Total external borrowing	**27,311,599**	**100%**	**31,998,543**	**100%**
Net treasury investments / (borrowing)	**23,045,130**	**0**	**8,644,368**	**0**

31. The prudential indicators include those that ensure the Council operates its activities within certain limits. One of these is to ensure that the Council gross debt does not exceed, (except in the short term), the total of its CFR in the preceding year plus its estimated CFR for the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes

32. The Council's forward projections for borrowing are summarised in table 10, which shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR).

£000	**2021/22 Actual**	**2022/23 Forecast**	**2023/24 Budget**	**2024/25 Budget**	**2025/26 Budget**	**2026/27 Budget**	**2027/28 Budget**
Debt at 1 April	11,869	27,312	31,989	115,242	110,031	109,815	109,591
Expected change in debt	15,443	4,677	115,117	(5,211)	(216)	(224)	(230)
Actual gross debt at 31 March	**27,312**	**31,989**	**147,106**	**110,031**	**109,815**	**109,591**	**109,361**
Capital Financing Requirement (CFR)	25,552	31,896	140,030	135,174	130,315	125,451	120,583
Under / (over) borrowing	(1,760)	(93)	(7,076)	25,144	20,500	15,860	11,222

33. The Chief Finance Officer reports that the Council has complied with this prudential indicator in 2022/23 and does not envisage difficulties in future years. This view takes account of current commitments, existing plans, and the budget proposals.

Treasury Indicators: limits to borrowing activity

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

35. **The authorised limit for external debt**. This prudential indicator is a control on the maximum level of borrowing. It is a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It effectively gives the Council some limited headroom over its operational boundary limit.

36. Section 3 (1) of the Local Government Act 2003 allows the Government to retain the option to control either the total of all council's plans, or those of a specific council, although this power has not yet been exercised.

37. Members are asked to approve the limits contained within table 11 below:

£000	2022/23 limit	2023/24 limit	2024/25 limit	2025/26 limit	2026/27 limit	2027/28 limit
Authorised limit - total external debt	169,012	192,833	194,770	196,050	196,050	196,050
Operational boundary - total external debt	160,012	183,833	185,770	187,050	187,050	187,050

Prospects for interest rates

38. The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Table 12 below gives their view, as at 08 November 2022, of rates at the 31 March. We are expecting adjustments to these forecasts in view of the recent decision of MPC to raise the interest rate to 4%.

	31 March 23	31 March 24	31 March 25	31 March 26
	%	%	%	%
Bank Rate	4.25	4.00	3.00	2.50
3 Month average earnings	4.30	4.00	3.00	2.50
6 Month average earnings	4.50	4.10	3.00	2.60
12 Month average earnings	4.70	4.20	3.10	2.70
5 Year PWLB	4.30	3.90	3.40	3.10
10 Year PWLB	4.50	4.00	3.50	3.20
25 Year PWLB	4.70	4.30	3.70	3.50
50 Year PWLB	4.40	4.00	3.40	3.20

Investment and borrowing rates

39. Investment returns improved in 2022/23 as the Bank of England’s Monetary Policy Committee (MPC) progressively increases the Bank Rate. Borrowing interest rates roughly doubled compared to last year but the volatility of the second part of 2022/23 seems to have eased and they have already started to come down. Caution must be exercised in respect of all interest forecasts. Link will monitor events and will update their forecasts as and when appropriate.

40. The policy of avoiding new borrowing by using cash balances has served the Council well in recent years but further borrowing will be unavoidable in 2023/23 if the Council is to deliver the Capital Strategy.

Borrowing Strategy

41. The Council is currently maintaining an under-borrowed position in that its CFR has not been fully funded by loans because the Council has been able to use cash reserves and balances as a temporary measure. This is a prudent strategy because medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy.

42. Against this background and the risks within the economic forecast, caution will continue to be adopted with the 2023/24 treasury operations. The CFO will

monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances, for example:

- if there is a significant risk of a sharp FALL in long and short-term rates, long term borrowing plans may be postponed;
- if there is a significant risk of a sharp RISE in long and short-term rates fixed rate borrowing may be drawn whilst interest rates are lower than forecasted.

43. Any decisions will be reported to Cabinet and the Audit and Standards Committee at the soonest available opportunity.

Policy on borrowing in advance of need

44. The Prudential Code and CIPFA guidance says that the Council must not borrow more than or in advance of their needs purely to profit from the investment of the extra sums borrowed. This does not apply to its PIS investments, which are essentially focused on the delivery of economic sustainability and regeneration in the Rother district.

45. However, the Council has some flexibility to borrow funds in advance of need for use in future years. The CFO may do this under delegated power whereby, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the CFO will adopt a cautious approach, where there is a clear business case for doing so, borrowing may be undertaken to fund the approved Capital Programme.

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

Debt rescheduling

47. The main reasons for debt rescheduling are to generate cash savings or to rebalance the debt portfolio maturity.

48. Rescheduling of the current borrowing in the Council's debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates. Any rescheduling will be reported to the Audit & Standards Committee and Cabinet at the earliest opportunity.

New Financial Institutions as a Source of Borrowing and / or Types of Borrowing

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

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

- UK Municipal Bonds Agency and UK infrastructure Bank may also be considered if may be advantageous.

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

Proportionality

51. The Council will consider proportionality alongside affordability needs when analysing funding projects through borrowing. The costs and risks associated with borrowing will be reviewed with reference to the overall financial position so that the Council does not undertake a level of borrowing, which exposes the it to an excessive level of risk.

ANNUAL INVESTMENT STRATEGY

Investment policy – management of risk

1. The DLUHC and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed under treasury management). Non-financial investments, the purchase of income yielding assets, are covered in the Capital Strategy.

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

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

3. The Council's investment priorities will be security first, portfolio liquidity second and then return.

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

   a. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and avoids a concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

   b. **Other information -** ratings will not be the sole determinant of the quality of an institution. It is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets (credit defaults swaps). To achieve this, the Council will engage with its advisors to monitor market pricing and consider that information in addition to credit ratings.

   c. **Other information sources** used will include the financial press, share prices and other relevant information in order to establish a robust scrutiny process on the suitability of potential investment counterparties.

   d. The council has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in Appendix D, namely, 'specified' and 'non-specified' investments.

      - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally, they were classified as being non-specified investments solely due to the maturity period exceeding one year.

      - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments, which require greater consideration by Members and officers before being authorised for use.

e. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as shown in Appendix D.

f. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 7 below.

g. **Transaction limits** are set for each type of investment.

h. This authority will set a limit for its investments which are invested for **longer than 365 days**.

i. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**.

j. This authority has engaged **external consultants**, to provide expert advice on how to achieve an appropriate balance of security, liquidity and return, given the risk appetite of the Council in the context of the level of cash balances and need for liquidity throughout the year.

k. All investments will be denominated in **sterling**.

l. In November 2018, the DLUHC, concluded a consultation for a temporary override to allow English local authorities time to adjust their investments portfolio by announcing a delay to the implementation of IFRS 9 until the 31 March 2023. This statutory override has been extended until 31 March 2025. Any such future changes could impact on the revenue budget as the proposed requirement is for Council's to consider the implications on its investments that could result in an adverse change in their value and subsequent charge to the General Fund at the end of the financial year.

5. The Council will pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be reported to the Audit & Standards Committee during the financial year.

Creditworthiness policy

6. The Council uses the creditworthiness service provided by the Link Group. This is a sophisticated model, which utilises credit ratings from the three main credit rating agencies, namely Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following information:

- 'watches' and 'outlooks' from credit rating agencies;
- Credit Default Swap (CDS) spreads to warn of likely changes in ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

7. This approach combines the above to produce a weighted score, which is combined with CDS data to produce a series of colour coded bands indicating the creditworthiness of counterparties. The Council uses the colour codes to

determine the suggested duration for investments. It will therefore use counterparties within the following durational bands:

- Yellow 5 years
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

8. Typically, the minimum credit ratings criteria the Council use will be short-term (Fitch or equivalents) of F1 and a long-term rating of A-. Counterparty ratings can marginally vary between agencies but may still be used. In these instances, the whole range of ratings, or other market information will be used.

9. Credit ratings are monitored weekly and reported to the Chief Executive. The Council is alerted to changes of all three agencies through its use of the Link creditworthiness service. If a downgrade means the counterparty/investment scheme no longer meeting the minimum criteria, its use as a new investment will be withdrawn. In addition to the use of credit ratings the Council will be advised each day of movements in CDS spreads against the iTraxx European Senior Financials benchmark and other market data the 'Passport' website, (a portal provided exclusively by Link to its customers). Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

10. Sole reliance will not be placed on the use of this external service. The Council will also use market data and market information as well as information on any external support for banks to help support its decision-making process.

11. The time and monetary limits for institutions on the Council's counterparty list are as shown within table 13 below, (these will cover both specified and non-specified investments).

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long-term rating where applicable)	Maximum Value and/or % limit	Transaction limit	Time limit
Banks *	Yellow	£5m / 10%	£5m	5yrs
Banks	Purple	£5m / 10%	£5m	2 yrs
Banks	Orange	£10m / 30%	£10m	1 yr
Banks – part nationalised	Blue	£10m / 30%	£10m	1 yr

Banks	Red	£10m / 50%	£10m	6 mths
Banks	Green	£10m / 50%	£10m	100 days
Banks	No Colour	Not to be used	£Xm	
Limit 3 category – Authority's banker (where "No Colour")	XXX	£ Unlimited / 100%	£30m	1 day
Other institutions limit	-	£10m / 30%	£10m	1 yr
DMADF	UK sovereign rating	unlimited	£10m	6 months
Local authorities	n/a	£10m / 50%	£10m	2 yrs
Housing associations	Colour bands	£5m / 10%	£5m	As per colour band
Money Market Funds CNAV	AAA	£10m / 90%	£10m	liquid
Money Market Funds LVNAV	AAA	£10m / 90%	£10m	liquid
Money Market Funds VNAV	AAA	£10m / 90%	£10m	liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	Dark Pink / AAA	£5m / 30%	£5m	liquid
Ultra-Short Dated Bond Funds with a credit score of 1.50	Light Pink / AAA	£5m / 30%	£5m	liquid

Country limits

12. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA-. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix E. This list will be amended by officers should ratings change in accordance with this policy.

13. Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, more recently the UK sovereign debt rating has been placed on Negative Outlook by the three major rating agencies in the wake of the Truss/Kwarteng unfunded tax-cuts policy. Although the Sunak/Hunt government has calmed markets, the outcome of the rating agency reviews is unknown at present, but it is possible the UK sovereign debt rating will be downgraded. Accordingly, when setting minimum sovereign debt ratings, this Council will not set a minimum rating for the UK.

Non-specified treasury management investment limit.

14. The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being 10% of the total treasury management investment portfolio.

Other limits

15. In addition: -

- no more than 30% will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies/institutions; and
- sector limits will be monitored regularly for appropriateness.

Use of additional information other than credit ratings

16. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decisions. This information will be applied to compare the relative security of different investment opportunities.

Investment Strategy

17. Investments will be made with reference to cash flow requirements and the outlook for short-term interest rates. Greater returns are usually obtainable by investing for longer periods. While cash balances are required to manage the ups and downs of cash flow, where cash sums can be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed. If it is thought that bank rate is likely to rise significantly within the time horizon being considered, most investments will be short term or variable. Conversely, if it is thought that bank rate is likely to fall, consideration will be given to locking in higher rates currently obtainable, for longer periods.

18. There is the prospect of Bank Rate peaking in the first half of 2023 and possibly reducing as early as the latter part of 2023 so an agile investment strategy would be appropriate to optimise returns.

Investment returns expectations

19. The bank rate is forecast to reach 4.50% by June 2023. The suggested rates for returns on investments placed for periods up to about three months during each financial year are shown with table 14 below:

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

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

20. **Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. These limits are set regarding the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end. The Council is asked to approve the treasury indicator and limits contained in table 15 below:

Maximum principal sums invested > 365 days			
	2023/24	2024/25	2025/26
Principal sums invested > 365 days	£10,000,000	£10,000,000	£10,000,000
Current investments as at 31.01.2023 in excess of 1 year maturing in each year	nil	nil	nil

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

Investment risk benchmarking

22. The Council will use an investment benchmark to performance of its cash deposit investments with a maturity date of up to one year.

End of year investment report

23. At the end of the financial year, the Council will report to Audit & Standards Committee on its investment activity as part of its Annual Treasury Report.

External Fund Managers

24. The Council may choose to invest in funds managed by External Fund Managers in which case the fund manager will comply with the Annual Investment Strategy. The agreement(s) between the Council and the fund manager(s) will additionally stipulate guidelines on duration and other limits in order to contain and control risk.

25. £8m of funds are externally managed on pooled basis by CCLA and Hermes.

26. The Council fully appreciates the importance of monitoring the activity and resultant performance of its appointed external fund manager. In order to aid this assessment, the Council is provided with a suite of regular reporting from its manager. This includes: monthly factsheets, quarterly / semi-annual and annual reports, statements.

27. In addition to formal reports, the Authority also meets with representatives of the fund manager on an annual basis. These meetings allow for additional scrutiny of the manager's activity as well as discussions on the outlook for the fund as well as wider markets.

Policy on the use of external service providers

28. The Council uses the Link Group as its external treasury management advisors.

29. It recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

30. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and assessment of their value are properly agreed and documented.

Scheme of delegation

31. Please see Appendix F.

Role of the Chief Finance Officer

32. Please see Appendix G.

TREASURY MANAGEMENT PRACTICE – CREDIT AND COUNTERPARTY RISK

Specified Investments:

1. All such investments will be in sterling, with maturities up to maximum of one year, meeting the minimum 'high' quality criteria where applicable.

2. A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the following categories shown below:

	Min credit criteria / colour band	**** Max % of total investments/ £ limit per institution whichever is lower**	**Max. maturity period**
DMADF – UK Government	Yellow	**100%**	**6 months**
UK Government gilts	Yellow	50%/£10m	Year subject to guidance
UK Government Treasury bills	Yellow	20%/£10m	1 year subject to guidance
Bonds issued by multilateral development banks	Yellow	20%/£10m	1 year subject to guidance
Money Market Funds CNAV	AAA	90%/£10m	Liquid
Money Market Funds LVAV	AAA	90%/£10m	Liquid
Money Market Funds VNAV	AAA	90%/£10m	Liquid
Ultra-Short Dated Bond Funds, credit score of 1.25	AAA	30%/£5m	Liquid
Ultra-Short Dated Bond Funds, credit score of 1.5	AAA	30%/£5m	Liquid
Local authorities	Yellow	50%/ £10m	1 year
Term Deposits with Housing Associations	Refer to Creditworthiness Policy	10%/£5m	1 year
UK Banks and building societies	Refer to Creditworthiness Policy	100%, Unlimited with Council's own banker, £10m limit in UK banks and building societies	1 year
Term deposits with banks and building societies	Refer to Creditworthiness Policy	100%/£10m limit in UK banks and building societies£2m in foreign banks	1 year

CDs or corporate bonds with banks and building societies	Refer to Credit worthiness Policy	100%/£10m limit in UK banks and building societies£2m in foreign banks	1 year

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

	Minimum credit criteria / colour band	**** Max % of total investments/ £ limit per institution whichever is lower**	**Max. maturity period**
DMADF – UK Government	Yellow	10% / £10m	5 years subject to guidance
UK Government gilts	Yellow	10% / £10m	5 years subject to guidance
UK Government Treasury bills	Yellow	10% / £10m	5 years subject to guidance
Bonds issued by multilateral development banks	Yellow	10% / £10m	5 years subject to guidance
Local authorities	Yellow	10% / £10m	2 years
Term Deposits with Housing Associations	Refer to Creditworthiness Policy	10% / £5m	2 years
UK Banks and building societies	Refer to Creditworthiness Policy	10% / Unlimited with Council's own banker, £10m limit in UK banks and building societies	5 years subject to guidance
Term deposits with banks and building societies	Refer to Creditworthiness Policy	10% / £5m limit in UK banks and building societies, £2m in foreign banks	5 years subject to guidance
CDs or corporate bonds with banks and building societies	Refer to Creditworthiness Policy	10% / £5m limit in UK banks and building societies, £2m in foreign banks	5 years subject to guidance
Property funds –	The use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. This Council will seek guidance on the status of any fund it may consider using.Specific authorisation required from Members		
Property purchases.	The criteria for any purchase of property for investment purposes will meet the following broad criteria in the approved Property Investment Strategy (PIS). Appropriate due diligence will also be undertaken before investment of this type is undertaken.		

APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher, and also, (except at the time of writing for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service.

Based on lowest available rating from Fitch, Moody's and S&P

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

AA+
- Canada
- Finland
- U.S.A.

AA
- Abu Dhabi (UAE)
- France

AA-
- Belgium
- Qatar
- U.K

***As at 2 December 2022**

1. **Full Council**

- receiving and reviewing reports on treasury management policies, practices and activities; and
- approval of annual strategy.

2. **Cabinet**

- approval of/amendments to the organization's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities; and
- approving the selection of external service providers and agreeing terms of appointment.

3. **Audit and Standards Committee**

- reviewing the treasury management policy and procedures and making recommendations to the responsible body; and
- receiving and reviewing regular monitoring reports and acting on recommendations.

4. **Chief Executive and the Chief Finance Officer (as Section 151 Officer)**

- In the event that a counterparty, subsequent to an investment being made, falls below the minimum ratings required, the following action is delegated to the Chief Executive or in their absence the Chief Finance Officer;
    - Fixed term deposits – allow the investment to mature and not withdraw its funding unless advised otherwise by the Council's treasury advisors;
    - In all situations the Chief Executive and Chief Finance Officer will take the best course of action to protect the value of the investment based on advice received from the Council's treasury advisors.

The Treasury Management role of the Chief Finance Officer Appendix G

The Chief Finance Officer's duties include:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance,
- submitting regular treasury management policy reports,
- submitting budgets and budget variations,
- receiving and reviewing management information reports,
- reviewing the performance of the treasury management function,
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function,
- liaising with external audit,
- recommending the appointment of external service providers,
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe,
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long-term and provides value for money,
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority,
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing,
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing, which exposes the authority to an excessive level of risk compared to its financial resources,
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities,
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees,
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority,
- ensuring that the authority has adequate expertise, both in house and external, to carry out the above,
- creation of Treasury Management Practices as set out in the Treasury Management code, which specifically deal with how non- treasury investments will be carried out and managed, to include the following:

    - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
    - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
    - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
    - Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;
    - Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.