

Tendring
District Council



**ANNUAL CAPITAL AND
TREASURY STRATEGY
2020/21**

PART 1 – CAPITAL STRATEGY 2020/21 to 2022/23

1. Introduction

SECTION A - Achieving Outcomes / Delivering Against Priorities

2. Corporate Priorities and Links to Other Key Strategies
3. Roles and Responsibilities in Respect of the Capital Strategy and the Formulation and Monitoring of the Capital Programme

SECTION B - Capital Investment and Sources of Funding

4. Capital Investment Considerations
5. Sources of Funding

Annex 1 – Quick Reference Guide – Information Expected to be Included in Capital Investment Decisions Where Relevant

Annex 2 – General Fund and Housing Revenue Account Capital Programmes 2020/21 to 2023/24

PART 2 – TREASURY STRATEGY FOR 2020/21

1. Introduction
2. Treasury Limits for 2020/21 to 2022/23
3. Prudential and Treasury Indicators for 2020/21 to 2022/23
4. Current Portfolio Position
5. Borrowing Requirement
6. Economic Position
7. Interest Rates
8. Borrowing strategy
 - 8.1 External v internal borrowing
 - 8.2 Gross and Net Debt Positions
 - 8.3 Policy on borrowing in advance of need
9. Debt Rescheduling
10. Annual Investment Strategy
 - 10.1 Investment Policy
 - 10.2 Creditworthiness Policy
 - 10.3 Credit Limits
 - 10.4 Country Limits
 - 10.5 Investment Strategy
 - 10.6 Allocation of Investment returns between GF and HRA.
 - 10.7 End of year investment report

PART 1 – CAPITAL STRATEGY

INTRODUCTION

The Capital Strategy is an overarching document that sets out the Council's approach to Capital Investment and how it seeks to deliver value for money against the following underlying key principle, which is subject to review by the Council's External Auditor each year:

The Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources which comprises of:

1. *Taking informed decisions;*
2. *Deploying resources in a sustainable manner; and*
3. *Working with partners and other third parties.*

Against this backdrop, the Capital Strategy is divided into two sections:

Section A provides an introduction and sets out the context for the Capital Strategy. It sets out how the plan links to corporate priorities and shows how they link to other key resource strategies and the related roles and responsibilities of members and officers.

Section B covers the framework within which capital financing decisions are considered and provides background to the funding sources available to meet the costs of capital projects that are included within the Capital Programme.

The Capital Programme is the term used for the Council's rolling plan of investment in assets. The programme spans a number of years and contains a mix of individual schemes.

Investment can include expenditure on:

- *Infrastructure such as open spaces, coast protection*
- *New build*
- *Enhancement of buildings through renovation or remodelling;*
- *Major plant, equipment and vehicles;*
- *Capital contributions to other organisations enabling them to invest in assets that contributes to the delivery of the Council's priorities.*

The Capital Programme is distinct from the Council's revenue budget which funds day-to-day services, but they are both linked and are managed together.

There is a strong link with the Treasury Management Strategy set out in PART 2 that provides a framework for the borrowing and lending activity of the Council.

The Council has set a de-minimus level of £10,000, below which expenditure is not classed as capital expenditure, but is charged instead to the revenue account.

SECTION A - ACHIEVING OUTCOMES/DELIVERING AGAINST PRIORITIES

CORPORATE PRIORITIES

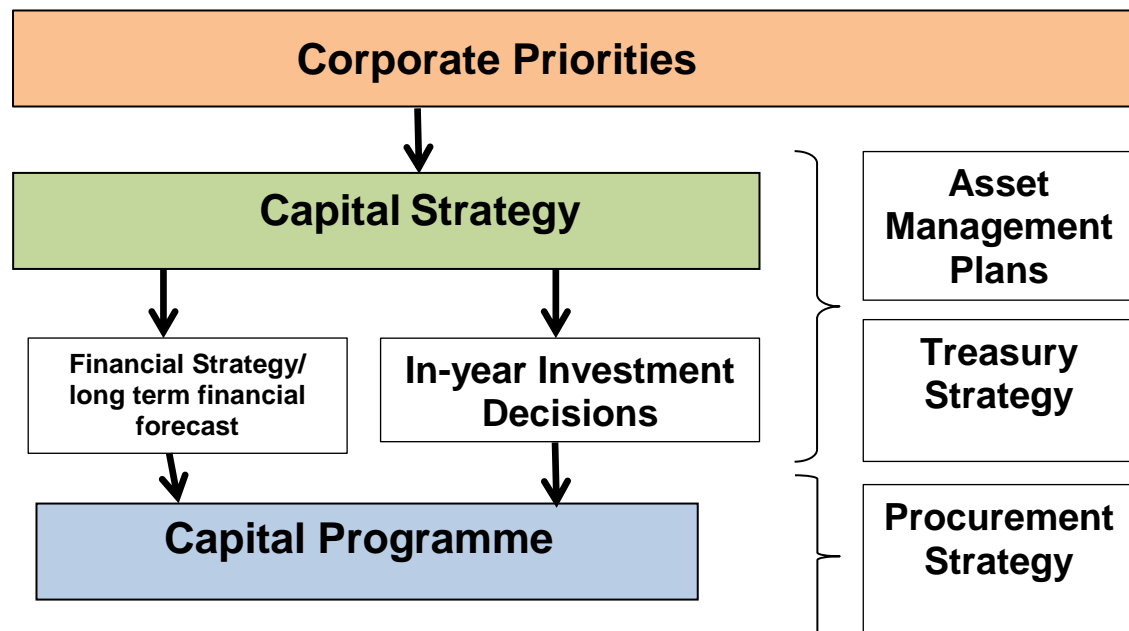
The Capital Strategy is subject to ongoing review and has a key role in supporting the delivery of the Council's Corporate Priorities

The Capital Strategy aims to set out the arrangements and processes in place to manage capital resources, the relationship with the Council's other key resource strategies and the practical/sustainable outcomes of those arrangements and processes by:

1. Setting out how schemes are evaluated and prioritised within the resources available.
2. Ensuring that any investment decision is prudent, sustainable and affordable in accordance with the prudential code and therefore represents value for money.
3. Setting out the performance processes in place to ensure that projects are delivered on time and within budget.
4. Ensuring that expected outcomes are delivered and lessons learnt from previous investment decisions.

LINKS TO OTHER KEY STRATEGIES

The ability of the Council to undertake capital investment to deliver its corporate objectives will be influenced or have direct links to a number of strategies, with the key 'links' set out below:



The above sets out the strategies/processes that are more closely aligned to the capital investment decision but are by no means exhaustive. Although subject to changes over the life of this Strategy, other key strategies and

policies may also need to be reflected in the investment decision such as those associated with workforce/staff capacity and ICT delivery. Decision making must therefore reflect these requirements where relevant/necessary.

In respect of ICT within the Council, associated strategies or requirements set out how the Council intends to use technology to support service delivery and transform the way it delivers its services. ICT is therefore recognised as a key enabler in supporting capital investment and delivering sustainable outcomes.

The **long term financial forecast** plays a pivotal role in developing and delivering capital investment. The long term financial forecast not only determines the financial resources available to fund capital investment, both in terms of the initial investment and any revenue consequences of the capital investment itself, it also provides a framework for the consideration and prioritisation of capital projects. It is however recognised that to remain flexible to take advantage of investment opportunities that may arise during the year decisions may be required in line with the Council's Financial Procedure Rules. The long term financial forecast is reported to Cabinet each quarter, which allows this flexibility. To ensure consistency, such decisions should also follow the same requirements set out within the Capital Strategy.

The Treasury Strategy is also highlighted above as a key influence as it sets out the Council's overall approach to debt and borrowing. This approach along with affordability form part of the investment decisions that are brought together via the long term financial forecast process on a rolling basis through the year.

Other significant influences include the Local Development Framework (LDF) which sets out the Council's vision for change and new growth in the Tendring District in the long term which could present the Council with investment opportunities for consideration alongside other investment options.

ROLES AND RESPONSIBILITIES IN RESPECT OF THE CAPITAL STRATEGY AND THE FORMULATION AND MONITORING OF THE CAPITAL PROGRAMME

Management Team – As the most senior officer team of the Council the Management Team approves the Capital /Treasury Strategy for submission to Cabinet and having regard to the Council's priorities, recommends projects for inclusion in the Capital Programme in consultation with Portfolio Holders/ Cabinet (via the long term financial forecast process). Management Team also considers all *significant* investment decisions via a *project initiation / development process* prior to formal reporting to Members, especially those associated with in-year investment decisions.

Departments support Management Team in the above process through the development and investigation of investments opportunities and submitting

reports / *project initiation and development documentation* in support of the associated capital projects.

Cabinet (including Portfolio Holders acting within approved delegations)

– The Cabinet recommends the 5 year capital programme to Council. The Cabinet and the *Corporate Finance and Governance* Portfolio Holder can, within the limits set by the Council's Financial Procedure Rules, approve supplementary estimates or approve virements between schemes during the year as part of separate investment decisions. The Cabinet is required to approve the Capital / Treasury Strategy each year.

Council – Approves the 5 year Capital Programme as part of the budget setting process in February each year and approves the Capital / Treasury Strategy in March each year.

Subject to the limits set out in the Council's Financial Procedure rules, Council may be required to approve supplementary estimates to increase the costs of approved schemes or add new schemes over and above amounts that individually or on aggregation are over and above those amounts ordinarily agreed by Cabinet as part of in-year investment decisions.

CONSULTATION

The views of the local community and stakeholders are an important element in developing the priorities for the Council and identifying capital investment opportunities. This can be achieved in a number of ways depending on the specific investment that is considered, which may include a budget consultation exercise as part of the long term financial forecast process.

Departments are expected to review the need to undertake consultation and the scale of that consultation, as appropriate, as part of the investment decision making process.

MONITORING OF THE CAPITAL INVESTMENT/CAPITAL PROGRAMME

In terms of performance and monitoring the delivery of capital investment, this is primarily achieved through the existing and comprehensive financial processes such as the long term financial forecast and budget setting process, outturn review and the quarterly financial performance reporting. In respect of the quarterly financial performance reports, an update on the delivery of projects and the position against the budget is included, which is reported to both Cabinet and the relevant Overview and Scrutiny Committee during the year. Some capital projects may also form part of the Council's separate Performance Monitoring process that is also reported to Members on a quarterly basis. The decision to include items in the performance report will be based on risk, materiality, scale and associated governance arrangements and will be determined as part of the annual performance plan process that involves Departments, Management Team and Members.

Where capital investment is material, the scheme or project may be subject to review by internal audit which would be at the discretion of the *Internal Audit Manager* as part of the annual Internal Audit Plan or if required by other key stakeholders.

SECTION B – CAPITAL INVESTMENT AND SOURCES OF FUNDING

CAPITAL INVESTMENT CONSIDERATIONS

The Council's capital investments are made in accordance with the Prudential Code, which aims to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable, which should also include where necessary a prioritisation and appraisal process. Under the Code the Council is free to determine the amount it borrows to finance capital investment.

All of the Council's capital investment is managed in accordance with the requirements of the Prudential Code. The prioritisation of capital investment is directly linked to the long term financial forecast and/or in-year budget amendment processes as previously explained, which are undertaken in an open and transparent manner.

Schemes that are agreed but not funded as part of the long term financial forecast process should where relevant/practical be considered a prioritised list which in effect becomes a 'live' schedule of investment opportunities against which further investment opportunities should be considered during the year.

The Council faces ongoing significant financial challenges over the period of this Capital Strategy due to the significant reductions in Government Funding since 2010 and ongoing. The long term financial forecast for *2020/21* to 2026/27 is showing a net budget surplus towards the end of the forecasted period, with the Forecast Risk Fund being used to support the budget position until that time. To deliver the level of efficiencies and transformation that will in turn support the delivery of the long term forecast, the following key principles have been identified which should be a key consideration of capital investment decisions:

Design schemes/projects to limit as far as possible any negative impact on the Council's on-going revenue budget.

Promote capital investment which allows either invest to save outcomes or generates a revenue and/or capital return and/or generates additional external grant (e.g. new homes bonus) or core funding (e.g. Business Rates) whilst clearly setting out how it contributes to the Council's Corporate Priorities

Foster effective working relationships with potential funders/partners.
Carefully consider value for money and efficiency of projects and associated outcomes.
Project risk is fully explored and mitigating actions identified and taken as necessary.
Ensure appropriate project management tools <i>and documentation</i> are used and the Council has the capacity to deliver the project.
Responsibility for the delivery of the project is clearly defined and understood.
<i>How the proposed investment contributes to the Council's commitment to be carbon neutral by 2030.</i>

Although not always necessarily subject to formal reporting, *as part of the Council's project management processes*, Departments are expected to evidence the outcome from any investment undertaken against the key criteria set out within this Capital Strategy to inform future investment decisions with high level information being available within the usual performance/budget monitoring reports.

To promote consistency, a quick reference guide for detailed information that is expected to form part of any investment decisions is set out as **Annex 1**.

Impact Assessments

Impact assessments may be required depending on the specific capital investment decisions being considered. Therefore, *as part of the Council's project management processes*, Departments are expected to consider whether it is necessary to complete an impact assessment based on the Council's usual processes and documentation at the time a decision is made.

SOURCES OF FUNDING

Capital investment will have to be undertaken within the Council's limited resources and challenging financial environment.

In limited cases the cost of capital investment is supported by external grants/contributions. Any other capital investment the Council wishes to make has to be funded from its own resources or by borrowing (the revenue cost being met entirely by the Council). The Council's Financial Strategy/long term financial forecast includes consideration of a ten-year forecast, taking into account the revenue implications of capital investment plans and the resources available to fund capital investment. The level of capital investment will be constrained by the available resources identified via the long term financial forecast process including revenue contributions or the ability to attract external funding and the generation of capital receipts. Any decision to invest in capital

projects will need to match the available resources against criteria set out above, including how it meets corporate priorities.

In planning any capital investment to contribute towards the achievement of the Council's priorities, the following resources are available:

- a) **Revenue Funding (Including Reserves)** – This continues to be limited each year given the challenging financial environment and on-going government grant reductions. This funding stream will need to be considered within the overall financial planning processes each year, including that for the HRA which operates under a self-financing environment where changes in Government Policy have led to limited revenue contributions being available to support capital investment.
- b) **Capital grants/contributions** – These have contributed significantly to past and current capital projects and many aspects of the Council's and its partners' objectives can only be met if this funding source continues to be pursued. Recent community objectives have been met by successful grant applications. Section 106 money flowing from the planning process is also a significant source of external funding.
- c) **General Fund Capital Receipts** – It is acknowledged that the Council's current property/land holdings are not of significant high value or volume. Nevertheless the Council recognises this important funding source and continually reviews its assets as part of the separate asset management plans which provide the context to consider opportunities to dispose of any assets that are surplus to requirements and/or not contributing to the delivery of the Council's priorities or where they provide alternative investment opportunities.
- d) **Borrowing within the Prudential Framework (Prudential Borrowing)** – The Council has the freedom to borrow to finance its capital expenditure provided it can demonstrate the prudence of the investment and its affordability and sustainability.

CAPITAL STRATEGY CONCLUSIONS

The Capital Strategy sets out the high level arrangements and processes to ensure that capital investment is managed within the Council's overall financial framework. It aims to ensure that its limited resources are applied consistently and effectively towards delivering the priorities of the Council. It links together the capital expenditure implications of various plans and strategies.

PART 1 - ANNEX 1

QUICK REFERENCE GUIDE – Information Expected to be Included in Capital Investment Decisions Where Relevant

Formal Investment Considerations/Decisions/Business Cases
Link to priorities (<i>including commitment to be carbon neutral by 2030</i>) and/or 'safeguarding' of a Council Asset and what are the measurable benefits of the planned investment
Return on Investment/Net Present Value
Whole Life Costing/Revenue Consequences
Payback Periods
Key risks and how they will be managed
Alternative Options/Opportunity Costs
Sustainability
Financial Resources Available/Funding Options
Impact assessment where relevant
Capacity/Deliverability
Other considerations/important information to discuss/share with relevant internal department(s) and/or for inclusion in the formal decision making process if significant
Cash Flow Forecasts
VAT Arrangements/Implications
Insurance issues
Risk Management implications
Procurement processes

PART 1 - ANNEX 2

General Fund Capital Programme 2020/21 to 2022/23

Capital Expenditure - General Fund £000s	2018/19 Actual	2019/20 Revised	2020/21 Estimate	2021/22 Forecast	2022/23 Forecast
Total Capital Expenditure	4831	13,767	1,024	816	824
Financing - General Fund					
External contributions	(203)	(67)	-	-	-
Section 106	(168)	(15)	-	-	-
Coast protection grant	(2,609)	(2,108)	-	-	-
Other Government grants	-	(322)	-	-	-
Disabled Facilities Grant	(1,077)	(4,727)	(757)	(757)	(757)
Capital receipts	(41)	(907)	-	-	-
Direct revenue contributions	(165)	(418)	(55)	(55)	(55)
Earmarked reserves	(568)	(5,203)	(212)	(4)	(12)
Total Capital Financing	(4,831)	(13,767)	(1,024)	(816)	(824)
Net Financing need (External Borrowing)	0	0	0	0	0

HRA Capital Programme 2020/21 to 2023/24

Housing Revenue Account Capital Schemes £000	2018/19 Actual	2019/20 Revised	2020/21 Estimate	2021/22 Forecast	2022/23 Forecast
Total Capital Expenditure	4,283	6,712	3,176	3,176	3,176
Financing - Housing Revenue Account					
Major repairs reserve	(3,224)	(3,754)	(3,176)	(3,176)	(3,176)
Direct revenue contributions	(342)	(2,891)	(281)	-	-
Capital receipts	(37)	-	-	-	-
External contributions	(600)	(67)	-	-	-
Government grant	(80)	-	-	-	-
Total Capital Financing	(4,283)	(6,712)	(3,457)	(3,176)	(3,176)
Net Financing need (External Borrowing)	0	0	0	0	0

PART 2 – TREASURY STRATEGY

1. Introduction

The Local Government Act 2003 (the Act) and supporting regulations require the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. Both CIPFA Codes were revised in December 2017 and this treasury strategy has been drawn up with regard to the revised Codes.

The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act) which sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The Council's risk appetite is low and it takes a risk-averse approach to Treasury Management, with the security and liquidity of the investment the prime concern, and the budget for income from investments being formulated on this basis. The Annual Strategy for 2020/21 is based on this risk-averse approach continuing.

For a number of years the Council has engaged the services of treasury advisors to provide its officers with advice on treasury management issues. The current advisors are Link Asset Services, Treasury solutions. However the final decision and responsibility for the actions taken sits with the Council's own officers after considering that advice.

The details of the delegations and responsibilities for treasury management are contained within the Council's Constitution as follows:-

- Part 3 – delegated powers – The Executive / *Corporate Finance and Governance* Portfolio Holder
- Part 5 – Financial Procedure Rules

2. Treasury Limits for 2020/21 to 2022/23

It is a statutory duty under Section 3 of the Act and supporting regulations for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales the Authorised Limit represents the legislative limit specified in the Act.

The Council must have regard to the Prudential Code when setting the Authorised Limit of external debt, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is 'acceptable'. Capital investment must be considered in the light of the overall strategy and

resources available, with decisions made with sufficient regard to the long term financing implications and potential risks.

Whilst termed an “Affordable Borrowing Limit”, the capital plans to be considered for funding must include both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years. Details of the Authorised Limit can be found in Annex 1 of this part of the report.

The authorised limit reflects the additional borrowing requirement as part of the Housing Revenue Account (HRA) self-financing reforms. The Housing self-financing reforms also set an overall ‘debt cap’ for the HRA which in itself reflects an affordability level based on the Government’s model of how much debt can be supported by the HRA after considering the forecast of income from rents and management and maintenance costs over a 30 year period. The HRA debt cap for Tendring was £60,285,000, but the Government announced the abolition of the HRA debt cap from 29 October 2018.

3. Prudential and Treasury Indicators for 2020/21 to 2022/23

Prudential and Treasury Indicators are relevant for the purposes of setting an integrated Treasury Management Strategy. The latest revisions to the CIPFA Code of Practice on Treasury Management and to the CIPFA Prudential Code are effectively adopted via the approval of this Strategy which reflects the most up to date codes and guidance.

4. Current Portfolio Position

The Council’s treasury position at the end of December 2019 comprised:

- GF borrowing from The Public Works Loan Board (PWLB) of £0.257 million at fixed rates at an average rate of interest of 7.81%
- HRA borrowing from the PWLB of £40.397 million at fixed rates at an average rate of 3.42%
- Investments of cash flow surpluses, which include reserves and capital receipts, on a short-term basis (less than 1 year) totalling £66.494 million at an average rate of interest of 0.84%.

5. Borrowing Requirement

No new, alternative or replacement borrowing is currently reflected in the budgets for both the General Fund and HRA for the period **2020/21** to 2022/23. This position therefore excludes any assumptions on additional borrowing, which would be subject to further consideration as necessary set against the underlying principle of the Council’s borrowing requirement being kept under on-going review to respond to any new / future burdens or priorities and overall financial position.

6. Economic Position

The Council's Treasury Advisors provide economic updates during the year with the latest position set out as follows:

World economy

World growth fell in 2019 in all economies including the USA, the Eurozone and China. The ongoing trade dispute between the US and China is seen as depressing world growth, and in the EU it is particularly impacting on Germany. However, a phase one deal has been agreed between the US and China to roll back some of the tariffs, which gives some hope of resolving this dispute.

UK economy

The Bank of England Monetary Policy Report (formerly called the quarterly inflation report) issued on 7 November 2019 highlighted increasing concerns about weak global economic growth and the potential for uncertainties around Brexit delaying economic recovery. If global growth does not pick up or Brexit uncertainties intensify, a cut in interest rates becomes more likely, but conversely if risks do recede, then a more rapid recovery of growth will require gradual and limited rate rises. The inflation forecasts were revised down to 1.25% in 2019, 1.5% in 2020 and 2.0% in 2021.

The wage inflation three month average excluding bonuses was 3.6% in September, meaning that wage rates are higher than CPI inflation. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

Investment returns are likely to remain low during 2020/21 and beyond, although the increase in the Bank Rate to 0.75% in August 2018 has led to an increase in investment income, with the base budget for 2020/21 being increased by £50,000 to £386,420. This is based on a general assumption of no change in the Base Rate from the current 0.75%. The policy of avoiding new borrowing by using cash balances has served well over the last few years. However, this needs to be carefully balanced to avoid incurring higher borrowing costs in later times, when authorities may not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt. The unexpected raise in PWLB interest rates across the board in October 2019 has pushed up the potential cost of this form of borrowing.

7. Interest Rates

The following table gives the Council's External Treasury Advisor's view on Bank Rate movements and their forecast for the PWLB new borrowing rate based on that view. The PWLB rates are based on the 'Certainty Rate' introduced by the Government for local authorities providing improved information and transparency on their locally-determined long-term borrowing and associated capital spending plans. Investment returns are likely to remain low during 2020/21 and beyond.

	Bank Rate	LIBID (London Interbank Bid Rate)*			PWLB Borrowing Rate			
		3 month	6 month	12 month	5 yr.	10 yr.	25 yr.	50 yr.
Mar 2020	0.75	0.70	0.80	0.90	2.30	2.50	3.00	2.90
Jun 2020	0.75	0.70	0.80	0.90	2.30	2.50	3.00	2.90
Sep 2020	0.75	0.80	0.90	1.00	2.40	2.60	3.10	3.00
Dec 2020	0.75	0.80	1.00	1.10	2.40	2.60	3.20	3.10
Mar 2021	0.75	0.90	1.00	1.20	2.50	2.70	3.30	3.20
Jun 2021	1.00	1.00	1.10	1.30	2.60	2.80	3.40	3.30
Sep 2021	1.00	1.00	1.20	1.40	2.70	2.90	3.50	3.40
Dec 2021	1.00	1.10	1.30	1.50	2.80	3.00	3.60	3.50
Mar 2022	1.00	1.20	1.40	1.60	2.90	3.10	3.70	3.60

* LIBID – the rate at which a bank is willing to borrow from other banks

8. Borrowing Strategy

8.1 External v Internal Borrowing

The main Prudential Indicator relevant to capital investment is the Capital Financing Requirement (CFR). This is the total outstanding capital expenditure that has not yet been funded from either revenue or capital resources and is therefore a measure of the Council's underlying borrowing need after taking into account the provision included in the revenue budgets for the repayment of outstanding debt.

The borrowing to finance the capital expenditure can be either from external sources or the Council can use its own internal resources.

The planned external debt compared to the CFR over 5 years is shown in the following table, the difference between the two being the amount the Council has funded from internal resources. This is also set out separately for the GF and the HRA. This excludes other long term liabilities such as long term creditors and pensions which form part of the separate Financial Strategy process of the Council from a prudential perspective.

Total External Debt

	Actual 2018/19	Revised 2019/20	Estimate 2020/21	Forecast 2021/22	Forecast 2022/23
	£000's	£000's	£000's	£000's	£000's
Debt as at 1 April	43,898	42,076	40,313	38,592	36,921
Estimated change in debt	(1,822)	(1,763)	(1,721)	(1,671)	(2,222)
Estimated debt as at 31 March	42,076	40,313	38,592	36,921	34,699
CFR as at 31 March	47,446	45,555	43,672	41,799	39,383
Difference - internally financed	5,370	5,242	5,080	4,878	4,684

General Fund External Debt

	Actual 2018/19	Revised 2019/20	Estimate 2020/21	Forecast 2021/22	Forecast 2022/23
	£000's	£000's	£000's	£000's	£000's
Debt as at 1 April	464	306	207	151	144
Estimated repayment of debt	(158)	(99)	(56)	(7)	(8)
Estimated debt as at 31 March	306	207	151	144	136
CFR as at 31 March	5,676	5,449	5,231	5,022	4,820
Forecast of internal financing	5,370	5,242	5,080	4,878	4,684

HRA External Debt

	Actual 2018/19	Revised 2019/20	Estimate 2020/21	Forecast 2021/22	Forecast 2022/23
	£000's	£000's	£000's	£000's	£000's
Debt as at 1 April	43,434	41,770	40,106	38,441	36,777
Estimated repayment of debt	(1,664)	(1,664)	(1,665)	(1,664)	(2,214)
Estimated debt as at 31 March	41,770	40,106	38,441	36,777	34,563

CFR as at 31 March	41,770	40,106	38,441	36,777	34,563
Forecast of internal financing	0	0	0	0	0

In respect of the General Fund, the Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with external loans, as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy remains prudent, as investment returns are low and counterparty risk is *relatively* high, and will be continued.

The Council's officers have made an assessment, based on advice from treasury advisors, of the amount of internal resources that it is prudent to use to finance capital expenditure and it is felt, taking into account the Council's financial position, that approximately £4m-£5m would at the present time and over the medium term be an appropriate level of internal borrowing. A maturity loan of £1m fell due for repayment in 2014 but this was not replaced which has led to the current internal borrowing position running just ahead of the £5m level. However given the continuing low return on investments and no *significant increases* in PWLB interest rates in the immediate future, (*although 1% was unexpectedly added to all PWLB rates in October 2019*) it is felt prudent to maintain this position in the short term although this will be kept under review in consultation with the Council's external advisors.

The use of internal resources is only a temporary solution as, in time, these reserves and capital receipts will be utilised to finance service initiatives and capital investment and at that point will not be available. This will need to be balanced against the replacement external borrowing which will be required at some point in the future which may attract higher rates of interest, so timing of such borrowing will need to consider forecasted rates of interest against the various types of borrowing structure to determine the most advantageous approach. Against this approach consideration may be required to borrow in advance of need, as set out in section 8.3 below, so as to reduce the need to borrow when interest rates may be higher.

8.2 Gross Debt v Investments

A comparison between the Council's gross and net borrowing position helps to assess the credit risk that would apply if the Council has surplus resources invested at a low interest rate which could be used to repay existing debt or to negate the need for additional new debt if at higher interest rates than that being achieved on the investments.

The table below sets out the Council's probable position taking account of both the individual GF and HRA debt figures.

Comparison of gross and net debt positions at year end	2018/19	2019/20	2020/21	2021/22	2022/23
	Actual	Probable out-turn	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
General Fund external debt (gross)	306	207	151	144	136
HRA external debt (gross)	41,770	40,106	38,441	36,777	34,563
Investments	59,470	55,895	15,200	15,000	15,000
Net debt	(17,394)	(15,582)	23,392	21,921	19,699

The net debt positions show that the Council does not have underlying excess resources which could be used to repay long term debt – the surpluses and high current investment figures represent carry forwards and the current level of reserves / one-of budgets.

If opportunity arises, external debt will be repaid early, although this is difficult under current arrangements as set out in section 9. If borrowing is required then any requirement will be considered whilst balancing internal resources and forecasted interest rates within the parameters previously set out.

Against this background caution will be ***maintained*** within the 2020/21 treasury operations. Interest rates will be monitored and a pragmatic approach adopted to changing circumstances with appropriate action taken in accordance with the Council's Financial Procedure Rules.

8.3 Policy on borrowing in advance of need

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

In determining whether borrowing will be undertaken in advance of need the Council will;

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need;
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered;
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- consider the merits and demerits of alternative forms of funding;

- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use;
- consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

9. Debt Rescheduling

Officers together with the treasury advisors examine on a regular basis the potential for undertaking early repayment of some external debt to the PWLB in order to maximise any potential financial advantages to the Council. However, the continuing and significant difference between new borrowing and repayment rates has meant that large premiums would be incurred by such action and cannot be justified on value for money grounds. This situation will be monitored in case the differential is narrowed by the PWLB or repayment rates change substantially.

As short term borrowing rates will usually be cheaper than longer term rates there may be some potential for some residual opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the size of premiums incurred, their short term nature, and the likely cost of refinancing these short term loans once they mature compared to the current rates of longer term debt in the existing portfolio.

Any opportunities for debt rescheduling will be considered if such action would be advantageous to the Council. The reasons for any rescheduling to take place will include:

- the generation of cash savings and/or discounted cash flow savings
- helping to fulfil the strategy outlined above
- enhance the balance of the portfolio

Consideration will also be given to identifying if there is any residual potential left for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

10. Investment Strategy

10.1 Investment Policy

The Council will have regard to the Department of Communities and Local Government's (CLG) Guidance on Local Government Investments, the latest CIPFA Treasury Management in Public Services Code of Practice and Guidance Notes (the Code) along with any relevant revisions or updates. The Council's investment priorities when investing are: -

- The security of capital and
- The liquidity of its investments.

The Council will also aim to achieve the optimum return on its investments commensurate with these main priorities. It is important to note that the borrowing of monies purely to invest or on-lend and make a return is unlawful.

Investment instruments identified for use in the financial year are listed in Annex 2 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

The majority of the Council's investments will be in Specified Investments although the Council has limited investments in Non- Specified investments.

During 2017/18 the Council purchased an investment property in Clacton, which is a Non-Specified investment. The historic cost (including stamp duty) of this asset was £3.245 million and it is financed from revenue. The property was purchased with the aim of yielding rental income and with the potential for capital gains. This investment does not have a defined maturity date and it is an illiquid investment as the Council would need to sell the underlying asset to redeem the investment.

The property will be subject to annual revaluation to reflect current value under the requirements of the Accounting Code of Practice and this will be reported in the Statement of Accounts. At 31 March 2019 the carrying value of the property was reduced by the Council's external Valuer to £2.300 million. The anticipated return on the property through rental income compared to the historic cost is forecast to remain in line with the figures included in the report to Cabinet where the decision to purchase was made. Although the property is currently not being used for trading, the terms of the lease require payment of the rent until the end of the lease term.

The Council has adopted a Commercial Property Investment Policy which will be maintained as a separate document within the wider Treasury Strategy framework.

The Council does not intend to use derivative instruments as part of its treasury activities during the year.

Given the above commitment relating to seeking the optimum return on its investments within the context of security and liquidity, the Council will be exploring the use of property investment funds in 2020/21. Further information and potential risks of investing in a property fund are set out in Part 2 - Annex 2. If such an investment was proposed during the year, it would be subject to a separate Member decision.

10.2 Creditworthiness Policy and changes to the credit rating methodology

This Council uses credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors. In determining the appropriate credit rating the Council will use the lowest rating available to determine the investment limits both in terms of amount and period for a particular counterparty. This is in accordance with the recommendations of The Code. Counterparties rated by only one agency will not be used.

One of the credit rating agencies may be more aggressive in giving lower ratings than the other two agencies and this could result in the Council's counterparty list becoming too restrictive. If this happens the position will be discussed with the Council's treasury advisors and the Treasury Management Practices may need to be revised in accordance with delegated powers set out in the Council's Constitution.

- All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the Creditworthiness Service provided by the Council's external advisors which is downloaded from Link Asset Services website each morning and uploaded to the Treasury Management system.
- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use for a new investment will be withdrawn immediately.

The Code also recommends that credit ratings are not the sole determinant of creditworthiness and therefore the Council will also use available market information from a variety of sources including

1. The Creditworthiness Service utilises movements in Credit Default Swaps against the iTraxx benchmark and other market data on a weekly basis. This creditworthiness service information will be used to confirm the assessed creditworthiness derived from the three ratings agencies. Where the information from this service indicates a lower standing for a particular counterparty than that derived via the credit ratings then the investment limits and length of investments applicable to that counterparty will be adjusted accordingly or the counterparty removed from the list.
2. Market data and information,
3. Information on government support for banks and the credit ratings of that government support

10.3 Credit Limits

Through its approved Treasury Management Practices the Council will set maximum limits for the amount that can be invested with any counterparty. This limit will be determined by reference to the counterparty's credit rating

and other criteria. In addition the amount invested in building societies and Certificates of Deposit is also limited to 50% of the total investment portfolio.

100% of the Council's investments may be in Treasury Bills or Gilts or invested with the Government's Debt Management Office (DMO). Although these sums are very secure the rate of interest is usually lower than the market rate, however Treasury Bills are a valuable tool in providing security and liquidity whilst the DMO offers a variety of investment terms and is a valuable source of investment should credit ratings of other financial institutions result in a reduction in the number of counterparties that meet the Council's minimum credit rating criteria. There is no limit on the amount that can be invested with other local authorities in total, although there is a limit of £6 million with each individual local authority.

10.4 Country Limits

The Council has determined that it will only use approved counterparties from the UK and additionally those countries with a minimum sovereign credit rating of AA or equivalent from the relevant rating agencies.

In a similar way that individual counterparties have a maximum investment limit, countries other than the UK will also have a limit.

10.5 Investment Strategy

The Council's funds are managed in-house and are mainly cash flow based but there is a core balance that could be available for investment for longer periods (2-3 years). Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months) and in respect of commercial property investment, this will be limited to the amount included in the Capital Programme.

The bank rate rose in August 2018 but no further increases are forecast until March 2021 and then to remain unchanged until March 2022 with gradual steady rises from thereon expected (see Section 7). The Council will avoid locking into longer term deals while investment rates are down at historically low levels unless exceptionally attractive rates are available which make longer term deals worthwhile without compromising the Council's priority of security of the investments.

For 2020/21 the Council has budgeted for investment returns based on the principles set out in this strategy including the forecast position on interest rates.

For its cash flow generated balances the Council will seek to utilise its business reserve accounts and short dated deposits (overnight to three months) in order to benefit from the compounding of interest. At the present

time these short dated deposits are paying interest rates below base rate but they provide a good level of liquidity to help manage the Council's cash flow.

10.6 Allocation of Investment returns between GF and HRA

As part of the introduction of HRA Self Financing a policy on the allocation of investments returns across the GF and HRA now forms part of the Annual Treasury Strategy.

The HRA holds balances and would benefit from cash flow advantages, which are amalgamated for the purposes of the overall investment activity of the Council. At the end of each year the transfer to the HRA of its share of the authority's overall investment returns will be agreed by the S151 Officer in consultation with the relevant officers based on the following principles:

- Equity
- Risk Sharing
- Minimising volatility between years

Returns from *directly* investing in commercial property will be allocated to the relevant fund where the Capital Programme / investment were made from.

10.7 End of year investment report

At the end of the financial year the Cabinet will receive a report on its investment activity.

GLOSSARY OF TERMS

Affordable borrowing limit – limit that the Council has to set under the CIPFA Prudential Code that shows how much the Council considers it can afford to borrow taking all its outgoings into consideration and how much income it considers it can generate.

Alternative financing arrangements – how the Council intends to finance its capital expenditure by other means besides borrowing.

Authorised limit – the amount the Council determines is the maximum that can be borrowed that is affordable and has been calculated in accordance with the legislation behind the CIPFA Prudential Code.

Borrowing requirement – how much the Council considers it needs to borrow to fund its spending plans.

CFR – Capital Financing Requirement – this calculation shows how much the Council needs to borrow or finance by some other measure to meet its planned capital spend.

Counterparty – the other party that participates when a loan or investment is placed.

CPI – Consumer Price Index – the Government's preferred measure of inflation, based on a set basket of goods and services. It excludes housing costs such as mortgage interest payments and council tax.

Credit arrangement – any quasi-loan, to ensure the legislation and Code pick up any unusual arrangements to provide funding other than from a straightforward loan

Credit default swap - A swap designed to transfer the credit exposure of fixed income products between parties. A credit default swap is also referred to as a credit derivative contract, where the purchaser of the swap makes payments up until the maturity date of a contract. Payments are made to the seller of the swap. In return, the seller agrees to pay off a third party debt if this party defaults on the loan. A CDS is considered insurance against non-payment. A buyer of a CDS might be speculating on the possibility that the third party will indeed default.

Credit limit – the maximum amount that can be lent to an individual organisation or group of organisations.

Credit rating – provided by one of the three credit rating agencies, an assessment of how likely the organisation is to repay any monies lent to it.

Creditworthiness - An assessment of the likelihood that a borrower will default on their debt obligations. It is based upon factors, such as their history of repayment and their credit score. Lending institutions also consider the availability of assets and extent of liabilities to determine the probability of default.

Debt cap (HRA) – the limit on the amount that can be borrowed by the HRA, set by central government.

Earmarked reserves – reserves that have been set aside for a specified purpose.

GDP – Gross Domestic Product – measures the output from the economy, if it rises then the economy is growing, if it falls the economy is in recession.

iTraxx - A group of international credit derivative indexes that are monitored by the International Index Company (IIC). The credit derivatives market that iTraxx provides allows parties to transfer the risk and return of underlying assets from one party to another without actually transferring the assets. iTraxx indexes cover credit derivatives markets in Europe, Asia and Australia.

Illiquid investment – An investment that cannot easily be sold or exchanged for cash without a substantial loss in value.

Non-specified investment – as defined in Annex 2.

Prudential indicators – a series of calculated figures specified in the CIPFA Prudential Code which are used to assess how affordable and realistic the Council's spending and financing plans are.

PWLB – Public Works Loans Board – central government lending to other public sector bodies, specifically local government.

PWLB Certainty Rate – The PWLB sets various rates for borrowing. From 1 November 2012 the Government reduced the interest rates on loans from PWLB to Councils who provide information as required on their planned long-term borrowing and capital spending by 0.20%. This reduced rate is called the Certainty Rate.

Replacement borrowing – borrowing taken out to replace other borrowing or other forms of credit that have been repaid.

RPI – Retail Price Index – another inflation index, this one includes the cost of housing.

Specified investments – as defined in Annex 2.