A.1 APPENDIX

CABINET

12 MARCH 2024

A.4 ANNUAL CAPITAL AND TREASURY STRATEGY FOR 2024/25 (INCLUDING PRUDENTIAL AND TREASURY INDICATORS)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT
To agree the Annual Capital and Treasury Strategy for 2024/25 (including Prudential And Treasury Indicators) for submission to Council on 19 March 2024.

EXECUTIVE SUMMARY

- The Local Government Act 2003 and supporting regulations require the Council to set out its treasury strategy for borrowing, and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act) that sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments, "having regard" to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice. Revised editions of both documents were issued in December 2021, which come into force in 2023/24.

- The Capital Strategy continues to be combined with the Treasury Strategy into one document, which is required to be updated / approved annually.

- The Annual Capital and Treasury Strategy for 2024/25, including Prudential and Treasury Indicators, was approved by the Finance and Governance Portfolio Holder on 26 February 2024 for consultation with the Resources and Services Overview and Scrutiny Committee.

- The Resources and Services Overview and Scrutiny Committee are due to consider the Strategy at its meeting on 5 March 2024. Their comments will be presented separately.

- The proposed Annual Capital and Treasury Strategy for 2024/25 is set out in **Appendix A.** *(For completeness,* ***Appendix A*** *also includes the report considered by the Finance and Governance Portfolio Holder that was considered when approving the strategy on 26 February 2024 for consultation with the Resources and Services Overview and Scrutiny Committee)*.

- The Capital Strategy element of the combined document covers the various elements surrounding capital investment decisions and the key criteria that investment decisions should be considered against.

- The Treasury Strategy element of the combined document covers the various elements that satisfy the requirements of the various codes that govern the borrowing and investment activities of the Council and has been prepared in the light of advice received from the Council's Treasury advisors and reflects the latest codes and guidance.

- Prudential and Treasury indicators are included as an Annexe to the combined strategy and are therefore included within **Appendix A.**

- Under the Prudential Code the Council has freedom over capital expenditure as long as it is prudent, affordable and sustainable. The Prudential Indicators either measure the expected activity or introduce limits upon the activity and reflect the underlying capital appraisal systems and enable the Council to demonstrate that it is complying with the requirements of the Prudential Code.

- The Council's investments will be undertaken in accordance with its Treasury Management Practices.

- It is worth highlighting the new requirements introduced by the Levelling Up and Regeneration Act 2023 that relate to 'trigger points' and risk thresholds, which if breached would see the Government provide risk mitigation directions to Local Authorities. These are set out in more detail within the attached report that was considered by the Portfolio Holder for Finance and Governance on 26 February 2024.

RECOMMENDATION(S)

That Cabinet:

a) Notes the report of the Portfolio Holder for Finance and Governance attached; and
b) subject to a) above, agrees that the Annual Capital and Treasury Strategy for 2024/25 (including Prudential and Treasury Indicators) attached within Appendix A be submitted to Council for approval.

REASON(S) FOR THE RECOMMENDATION(S)

To support the process of ensuring that a Capital and Treasury Strategy for 2024/25 is approved by Full Council before 1 April 2024.

ALTERNATIVE OPTIONS CONSIDERED

Not applicable given the requirements set out elsewhere in this report.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

The adoption of the Capital and Annual Treasury Strategy for 2024/25 will ensure that the Council's Investment and Treasury Management activities are carried out and managed in accordance with best practice, thereby safeguarding money held by the Council and making an appropriate contribution to the Council's overall financial position.

OUTCOME OF CONSULTATION AND ENGAGEMENT

The Strategy is planned to be considered by the Resources and Services Overview and

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Scrutiny Committee at their meeting on 5 March 2024.

LEGAL REQUIREMENTS (including legislation & constitutional powers)

<table>
<tr><td rowspan="2">Is the recommendation a Key Decision (see the criteria stated here)</td><td rowspan="2">Yes</td><td>If Yes, indicate which by which criteria it is a Key Decision</td><td>X Significant effect on two or more wards
X Involves £100,000 expenditure/income
☐ Is otherwise significant for the service budget</td></tr>
<tr><td>And when was the proposed decision published in the Notice of forthcoming decisions for the Council (must be 28 days at the latest prior to the meeting date)</td><td>This item has been included within the Forward Plan for a period in excess of 28 days.</td></tr>
</table>

The Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 include the requirement for local authorities to have regard to CIPFA guidance. By adopting / approving an Annual Treasury Strategy and a Capital Strategy based on the requirements of the relevant and updated codes, the Council is complying with the regulations.

S78 of the Levelling Up and Regeneration Act 2023 inserted new sections 12A to 12D into the Local Government Act 2003, which came into force on 31st January 2024. These new sections cover capital finance risk management and include risk mitigation directions, risk thresholds, restrictions of power to give risk-mitigation directions and a duty to cooperate with independent expert. These changes essentially seek to respond to the financial crisis that some local Authorities have found themselves in over the last year or two. A summary of each section is set out in the attached report that was considered by the Portfolio Holder for Finance and Governance as part of their associated decision on 26 February 2024.

As set out in para 4.3 Part 3.37 of the Constitution, the Portfolio Holder for Finance and Governance has delegated authority to agree the Capital and Treasury Strategy for consultation with the Resources and Services Overview and Scrutiny Committee.

YES	**The Monitoring Officer confirms they have been made aware of the above and any additional comments from them are below:**

Since last year's Capital and Treasury Strategy was agreed by Full Council in March 2023, the Best Value Inspection of Thurrock Council has been published, which included some significant learning points that are worth reviewing in light of this Council's own strategy and governance arrangements. Those significant points included the following:

- The positioning of their Investment Strategy at the heart of their strategy to tackle significant funding pressures - there was clearly some confusion within the Council as to the clarity and purpose of the strategy.
- A significant level of delegation was given to their Section 151 Officer to place investments in 'business' type investments such as solar farms etc. at a scale that the review described as 'extraordinary'. The delegation was also made without

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consideration of the experience and skills that would be needed - experience and skills that did not exist within their Council.

- Lack of managerial / political oversight and limited or no reporting of the performance of the investment programme to their Management Team or Cabinet.
- Internal checks were weak or wholly absent.
- The level of risk associated with their investment programme was never properly identified or made explicit within strategic risk reports and there was no focus from their internal audit function.
- Lack of transparency e.g. where members did request information it was denied internally and only minimal / high level information was provided within other reports etc. with no explanatory information. External challenge and criticism was readily dismissed and downplayed within the Council.
- The Council had not set a clear and consistent strategic direction. Their Cabinet avoided difficult choices on the prioritisation of resources. In years when budget savings had to be identified, Cabinet members rejected all savings options, leaving it to officers to develop plans to achieve a balanced budget.

The above places significant importance on the capital and treasury plans of local authorities which for Tendring District Council are encapsulated within the Annual Capital and Treasury Strategy and Treasury Management Practices. These two documents set out the governance framework in which capital spend, borrowing and investments are made. Clear roles and responsibilities are set out in the strategy and it is important to highlight that there is no delegation to any single Officer, such as the Section 151 Officer to undertake any investments outside of the more ‘traditional’ money market activities such as lending to other Local Authorities and depositing money in banks and building societies. In terms of these latter investments, the parameters in which the Section 151 Officer can make such investments are set out within the documents referred to above and include a number of criteria such as overall lending / borrowing limits and minimal credit ratings etc.

Treasury performance is reported during the year by way of an outturn report for the preceding year along with quarterly updates during the year, which includes a more detailed half yearly update in September / October.

Any decision to invest in ‘non-traditional’ money market activities or to undertake any borrowing activities would be subject to separate reports to Cabinet / Council as necessary, which would set out various issues such as risks and resource implications including the level of skill and expertise to manage any associated investments.

The Best Value Duty relates to the statutory requirement for local authorities and other public bodies defined as best value authorities in Part 1 of the Local Government Act 1999 to *“make arrangements to secure continuous improvement in the way in which functions are exercised, having regard to a combination of economy, efficiency and effectiveness*”. Best Value authorities must demonstrate good governance, including a positive organisational culture, across all their functions and effective risk management. Failure to deliver best value can occur within any aspect of governance, delivery of services or financial management. Unlawful or excessively risky borrowing and investment practices with no adequate risk management strategy in place for financial losses is an indicator of potential failure under the Use of Resources definition for a Best Value authority, within the Government’s draft statutory guidance on Best Value Standards and Intervention, issued in 2023.

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Members need to be satisfied with the governance arrangements set out within the strategy, which can be supported via training etc. as necessary.

The Council does employ external treasury management advice and to date they have not raised any concerns / issues with the Council's borrowing / investment activities. Early in 2024/25, the Council should be receiving the new External Auditor's Value for Money commentary which should also provide additional assurances to members. Access to both of these parties can be made directly and not via any one Officer such as the Section 151 Officer, which also supports the transparency / independent view of the various treasury activities undertaken by the Council.

FINANCE AND OTHER RESOURCE IMPLICATIONS

Treasury and Capital Management Strategies and procedures will ensure that the Council's investments and borrowing will be undertaken in such a way as to minimise the Council's exposure to risk. At the same time, they will seek to maximise income from investments and minimise the costs of borrowing within the Council's accepted level of risk.

YES	**The Section 151 Officer confirms they have been made aware of the above and any additional comments from them are below:**

The S151 Officer is the author of this report.

USE OF RESOURCES AND VALUE FOR MONEY

The following are submitted in respect of the indicated use of resources and value for money indicators:

A) Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;	This is addressed in the body of the report and appendices where relevant.
B) Governance: how the body ensures that it makes informed decisions and properly manages its risks, including; and	
C) Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.	

MILESTONES AND DELIVERY

This has been highlighted elsewhere within this report.

ASSOCIATED RISKS AND MITIGATION

The placing of investments involves a number of risks. These risks and how the Council will manage them are set out in the Council's Treasury Management Practices.

As highlighted elsewhere within the attached, investments are undertaken within an overall risk-averse approach, which is reflected in Treasury Management Practices. With this in mind, a significant level of investment is undertaken with other Local Authorities and with the Government.

As with recent examples, money lent to other Local Authorities is not at risk of not being repaid, as ultimately the Government would take the necessary steps to ensure liabilities are met as part of any intervention. The risk of lending money to another Local Authority is therefore not the same as lending money to a commercial / private organisation, which is one of the reasons why Councils lending to other Councils is common practice nationally.

As part of the mid-year treasury management review that Cabinet considered in November 2023, an update on the money lent to Birmingham City Council was set out in the context of their S151 Officer issuing a S114 report. At the time it was reported that the Council had lent them **£6.000m** in total, with **£4.000m** due to be repaid in February 2024 and the balance of **£2.000m** repayable in June 2024. In terms of providing a further update to the information set out within the attached, the **£4.000m** due to repaid in February has now been received and there are no further changes that impact on the underlying low risk associated with the outstanding **£2.000m** loan repayment.

When undertaking lending to other Local Authorities, the Council continues to apply as much ‘market intelligence’ as possible, which would include any adverse reporting in the markets, the media, the risk of S114 reports being issued along with information from our own External Treasury Advisors. The new measures and metrics that have been introduced via the Levelling Up and Regeneration Act 2023 as set out earlier along with any potential indicators introduced by OFLOG will also likely be additional ‘tools’ that can be used to complement information already applied in managing the Council’s day to day treasury management activities. This will be considered as part of developing the strategy in future years.

As reported previously, the investment property in Clacton is performing satisfactorily against the financial target set out within the original decision to purchase the property, with budgeted investment income continuing to be achieved each year. It is important to highlight that the rental payments can be seen as paying back the original investment made in purchasing the property. The budget for 2024/25 that was agreed by Full Council on 13 February 2024 includes an adjustment to reflect the potential for rental income to reduce once the current lease held by the existing tenant expires.

Within the above context, the overall performance of the investment therefore needs to take into account such considerations over the life of the Council’s ownership of the property rather any shorter term position in isolation. It is also important to highlight that the latest valuation of the property set out in **Appendix A,** is an ‘accounting’ valuation and not a direct value that would be achieved on the market if it was sold.

It is also worth highlighting that the Council’s Commercial Property Investment Policy is underpinned by robust risk management actions, which will respond to any changes to the situation. With the latter point in mind and as set out within the Commercial Property Investment Policy, the Council’s wider treasury management activities are designed to ensure that the Council is not faced with a position of having to sell the property for cash flow purposes. This in turn ensures that the Council remains in control of when the property is ever exposed to the market rather than potentially having to sell the property during a period where there may be a downturn in commercial property prices.

EQUALITY IMPLICATIONS

There are no direct implications.

SOCIAL VALUE CONSIDERATIONS

There are no direct implications.

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IMPLICATIONS FOR THE COUNCIL'S AIM TO BE NET ZERO BY 2030
There are no direct implications.
OTHER RELEVANT CONSIDERATIONS OR IMPLICATIONS
Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

Crime and Disorder	Please see comments above
Health Inequalities	
Area or Ward affected	

PART 3 – SUPPORTING INFORMATION

BACKGROUND AND CURRENT POSITION

The Annual Capital and Treasury Strategy for 2024/25 is set out in **Appendix A** and is based on the most up to date Treasury Management Code of Practice and the revised Prudential Code, both of which were published by CIPFA in December 2021.

Also attached is the covering report considered by the Portfolio Holder for Finance and Governance as part of their associated decision on 26 February 2024, which sets out additional important details / points and includes the following:

- Changes to the code last year, which continue to be reflected in the proposed Strategy for 2024/25;
- There have been no major changes required to the Strategy for 202425, with only timely updates required along with the introduction of new technical accounting adjustments relating to assets that the Council leases in. The changes required are shaded in grey and are in italic font within **Appendix A**.
- By approving the Annual Capital and Treasury Strategy for 2024/25, the Council will be adopting the latest CIPFA Code of Practice for Treasury Management in the Public Services. (the '2021 code').
- The need to borrow money may arise in future years to reflect the Council's current commitments, corporate priorities and strategies. If the need / option to borrow money was identified, then it would form part of associated and separate decision-making process and would be considered within the overall Treasury Strategy framework.
- The Council maintains a very low risk appetite approach to its treasury activities. However, set against this context, officers will still continue to explore opportunities to maximise investment returns in 2024/25.
- Draft Prudential Indicators are set out in **Annex 1 to Part 2** of the Capital and Treasury Strategy. **Annex 2 to Part 2** of the Treasury Strategy sets out the specified and Non-Specified investments the Council may use in 2024/25.

PREVIOUS RELEVANT DECISIONS

The previous Capital and Treasury Strategy for 2023/24 was agreed by Full Council at its meeting on 2 March 2023.

Treasury Management Performance 2022/23 was reported to Cabinet at its 21 July 2023

meeting. A mid-year Treasury Performance review was presented to Cabinet at its 10 November 2023 meeting. On 26 February 2024, the Portfolio Holder for Finance and Governance agreed the Annual Capital and Treasury Strategy 2024/25 for consultation with the Resources and Overview Scrutiny Committee on 5 March 2024.
BACKGROUND PAPERS AND PUBLISHED REFERENCE MATERIAL
None

APPENDICES
Appendix A – Annual Capital and Treasury Strategy for 2024/*25 (including Prudential and Treasury Indicators and the covering report considered by the Finance and Governance Portfolio Holder on 26 February 2024)*

REPORT CONTACT OFFICER(S)	
Name	**Richard Barrett**
Job Title	**Assistant Director Finance and IT**
Email/Telephone	**rbarrett@tendringdc.gov.uk** **686521**

FINANCE AND GOVERNANCE PORTFOLIO HOLDER

26 FEBRUARY 2024

A.4 ANNUAL CAPITAL AND TREASURY STRATEGY FOR 2024/25 (INCLUDING PRUDENTIAL AND TREASURY INDICATORS)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT
To seek the agreement of the Portfolio Holder for Finance and Governance to the Annual Capital and Treasury Strategy for 2024/25 (including the Prudential and Treasury indicators) for consultation with the Resources and Services Overview and Scrutiny Committee.

EXECUTIVE SUMMARY

- The Local Government Act 2003 and supporting regulations require the Council to set out its treasury strategy for borrowing, and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act) that sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments, "having regard" to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice. Revised editions of both documents were issued in December 2021, which come into force in 2023/24.

- The Capital Strategy continues to be combined with the Treasury Strategy into one document, which is required to be updated / approved annually.

- The proposed Annual Capital and Treasury Strategy for 2024/25 is set out in **Appendix A** and it continues to reflect the various changes set out in the latest Codes mentioned above.

- The Capital Strategy element of the combined document covers the various elements surrounding capital investment decisions and the key criteria that investment decisions should be considered against.

- The Treasury Strategy element of the combined document covers the various elements that satisfy the requirements of the various codes that govern the borrowing and investment activities of the Council and has been prepared in the light of advice received from the Council's Treasury advisors and reflects the latest codes and guidance**.**

- Prudential and Treasury indicators are included as an Annexe to the combined strategy and are therefore included within **Appendix A.**

- Under the Prudential Code the Council has freedom over capital expenditure as long as it is prudent, affordable and sustainable. The Prudential Indicators either measure the expected activity or introduce limits upon the activity and reflect the underlying capital appraisal systems and enable the Council to demonstrate that it is complying with the requirements of the Prudential Code.

- The Council's investments will be undertaken in accordance with its Treasury Management Practices. These include the use of non-specified investment in property to yield both rental income and capital gains. The new Codes require clear separation of commercial investments from treasury investments. As the Council only has one such investment, which will be clearly identified within the Strategy and the TMPs, a separate suite of Investment Management Practices is not proposed to be produced.

- As is always the case, other 'quality' investment opportunities will always be explored during the year in consultation with the Council's external advisors to maximise returns on investments within a continuing and overall risk-averse approach.

- It is worth highlighting the new requirements introduced by the Levelling Up and Regeneration Act 2023 that relate to 'trigger points' and risk thresholds, which if breached would see the Government provide risk mitigation directions to Local Authorities. Although further details are set out within the legal section later on in this report, at the present time the thresholds that would class as a breach against each of the newly introduced metrics have not been specified by the Government. Once received, future reports will look to set out the Council's position against each one. Although such 'trigger' events would be managed via the Council's existing financial governance and control arrangements, based on the Council's current position, there is effectively no risk of breaching any of the new metrics at the present time.

RECOMMENDATION(S)

That the Portfolio Holder for Finance and Governance approves the Annual Capital and Treasury Strategy for 2024/25 (including Prudential and Treasury Indicators) for consultation with the Resources and Services Overview and Scrutiny Committee.

REASON(S) FOR THE RECOMMENDATION(S)

To support the process of ensuring that a Capital and Treasury Strategy for 2024/25 is approved by Full Council before 1 April 2024.

ALTERNATIVE OPTIONS CONSIDERED

Not applicable given the requirements set out elsewhere in this report.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

The adoption of the Capital and Annual Treasury Strategy for 2024/25 will ensure that the Council's Investment and Treasury Management activities are carried out and managed in accordance with best practice, thereby safeguarding money held by the Council and making an appropriate contribution to the Council's overall financial position.

OUTCOME OF CONSULTATION AND ENGAGEMENT

It is currently planned to consult the Resources and Services Overview and Scrutiny Committee at their meeting on 5 March 2024.

LEGAL REQUIREMENTS (including legislation & constitutional powers)			
Is the recommendation a Key Decision (see the criteria stated here)	**Yes**	**If Yes, indicate which by which criteria it is a Key Decision**	X **Significant effect on two or more wards** X **Involves £100,000 expenditure/income** ☐ **Is otherwise significant for the service budget**
		And when was the proposed decision published in the Notice of forthcoming decisions for the Council (must be 28 days at the latest prior to the meeting date)	This item has been included within the Forward Plan for a period in excess of 28 days.

The Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 include the requirement for local authorities to have regard to CIPFA guidance. By adopting / approving an Annual Treasury Strategy and a Capital Strategy based on the requirements of the relevant and updated codes, the Council is complying with the regulations.

S78 of the Levelling Up and Regeneration Act 2023 inserted new sections 12A to 12D into the Local Government Act 2003, which came into force on 31st January 2024. These new sections cover capital finance risk management and include risk mitigation directions, risk thresholds, restrictions of power to give risk-mitigation directions and a duty to cooperate with independent expert. These changes essentially seek to respond to the financial crisis that some local Authorities have found themselves in over the last year or two, with a summary a brief summary of each section as follows:

Risk Mitigation Directions (Section 12A) - The Secretary of State may give one or more risk-mitigation directions to a local authority in England, for the purpose of reducing or mitigating the financial risk to the authority, if a trigger event has occurred in relation to the local authority, and the Secretary of State is satisfied that the direction is appropriate and proportionate to the level of that financial risk.

A "trigger event" occurs if a risk threshold is breached by the local authority, a report is made by the Chief Finance Officer of the local authority under section 114(3) of the Local Government Finance Act 1988, where the Secretary of State gives a direction in response to a request for expenditure to be, or not be, treated as capital by a local authority, or the Secretary of State makes a grant to the local authority under an enactment for the purpose of preventing circumstances arising that would require such a report to be made.

The following are "risk-mitigation directions:
(a) a direction that sets limits in relation to the borrowing of money by the local authority;
(b) a direction that requires the local authority to take action specified in the direction. This could include a requirement for a local authority to take action to divest itself of a specified asset.

The Secretary of State may not give a risk-mitigation direction unless they have given the local authority notice of the proposed direction, and of the right of the local authority to make written representations to the Secretary of State about it within the period specified in the notice, and has considered any representations made by the local authority to the Secretary of State within that period.

References to financial risk means the risk that the expenditure of the local authority (including expenditure it proposes to incur) in the current or any future financial year is likely to exceed, or further exceed, the resources (including sums borrowed) available to it to meet that expenditure.

Risk Thresholds (Section 12B) – A risk threshold is breached by a local authority in England if (and when) a capital risk metric for the local authority breaches the specified threshold for the following metrics:

- the total of a local authority's debt (including credit arrangements) as compared to the financial resources at the disposal of the authority;
- the proportion of the total of a local authority's capital assets which is investments made, or held, wholly or mainly in order to generate financial return;
- the proportion of the total of a local authority's debt (including credit arrangements) in relation to which the counter-party is not central government or a local authority;
- the amount of minimum revenue provision charged by a local authority to a revenue account for a financial year;
- any other metric specified by regulations made by the Secretary of State.

The Secretary of State may, by regulations, make further provision including specifying whether the specified threshold for a particular metric is breached by a failure to reach that threshold or by that threshold being exceeded and about how the metrics specified are to be calculated for the purpose of determining whether the specified threshold for that metric has been breached.

Before making such regulations the Secretary of State must consult all local authorities in England.

Restriction of power to give risk-mitigation directions (Section 12C) – The Secretary of State is required to give a cessation notice where at least 12 months have elapsed since the they last became aware of a trigger event having occurred in relation to the authority, any risk-mitigation direction given to the authority has been complied with or revoked, and the Secretary of State is satisfied no further risk-mitigation direction is likely to be required in the foreseeable future for the purpose of reducing or mitigating the financial risk to the authority,

Duty to cooperate with independent expert (Section 12D) – Where a trigger event has occurred and the Secretary of State has appointed an independent expert to review the level of the financial risk to the local authority, the local authority must, so far as reasonably practicable, co-operate with the independent expert in any way that the independent expert considers necessary or expedient for the purposes of the conduct of the review.

The above metrics may overlap with the work of the OFLOG who may introduce their own metrics, including those relating to the financial standing etc. At the present time it is understood that within the work of OFLOG, they do not want to replicate or cut across the metrics above, but they may wish to set out complimentary metrics in the future, which will be reviewed accordingly. It is also likely that the OFLOG will 'collect' the relevant data against each of the metrics set out above as part of their overall regulatory activities.

As set out in para 4.3 Part 3.37 of the Constitution, the Portfolio Holder for Finance and Governance has delegated authority to agree the Capital and Treasury Strategy for consultation

with the Resources and Services Overview and Scrutiny Committee.

YES	**The Monitoring Officer confirms they have been made aware of the above and any additional comments from them are below:**

Since last year's Capital and Treasury Strategy was agreed by Full Council in March 2023, the Best Value Inspection of Thurrock Council has been published, which included some significant learning points that are worth reviewing in light of this Council's own strategy and governance arrangements. Those significant points included the following:

- The positioning of their Investment Strategy at the heart of their strategy to tackle significant funding pressures - there was clearly some confusion within the Council as to the clarity and purpose of the strategy.
- A significant level of delegation was given to their Section 151 Officer to place investments in 'business' type investments such as solar farms etc. at a scale that the review described as 'extraordinary'. The delegation was also made without consideration of the experience and skills that would be needed - experience and skills that did not exist within their Council.
- Lack of managerial / political oversight and limited or no reporting of the performance of the investment programme to their Management Team or Cabinet.
- Internal checks were weak or wholly absent.
- The level of risk associated with their investment programme was never properly identified or made explicit within strategic risk reports and there was no focus from their internal audit function.
- Lack of transparency e.g. where members did request information it was denied internally and only minimal / high level information was provided within other reports etc. with no explanatory information. External challenge and criticism was readily dismissed and downplayed within the Council.
- The Council had not set a clear and consistent strategic direction. Their Cabinet avoided difficult choices on the prioritisation of resources. In years when budget savings had to be identified, Cabinet members rejected all savings options, leaving it to officers to develop plans to achieve a balanced budget.

The above places significant importance on the capital and treasury plans of local authorities which for Tendring District Council are encapsulated within the Annual Capital and Treasury Strategy and Treasury Management Practices. These two documents set out the governance framework in which capital spend, borrowing and investments are made. Clear roles and responsibilities are set out in the strategy and it is important to highlight that there is no delegation to any single Officer, such as the Section 151 Officer to undertake any investments outside of the more 'traditional' money market activities such as lending to other Local Authorities and depositing money in banks and building societies. In terms of these latter investments, the parameters in which the Section 151 Officer can make such investments are set out within the documents referred to above and include a number of criteria such as overall lending / borrowing limits and minimal credit ratings etc.

Treasury performance is reported during the year by way of an outturn report for the preceding year along with quarterly updates during the year, which includes a more detailed half yearly update in September / October.

Any decision to invest in 'non-traditional' money market activities or to undertake any borrowing activities would be subject to separate reports to Cabinet / Council as necessary, which would set out various issues such as risks and resource implications including the level of skill and expertise to manage any associated investments.

The Best Value Duty relates to the statutory requirement for local authorities and other public bodies defined as best value authorities in Part 1 of the Local Government Act 1999 to *“make arrangements to secure continuous improvement in the way in which functions are exercised, having regard to a combination of economy, efficiency and effectiveness*”. Best Value authorities must demonstrate good governance, including a positive organisational culture, across all their functions and effective risk management. Failure to deliver best value can occur within any aspect of governance, delivery of services or financial management. Unlawful or excessively risky borrowing and investment practices with no adequate risk management strategy in place for financial losses is an indicator of potential failure under the Use of Resources definition for a Best Value authority, within the Government’s draft statutory guidance on Best Value Standards and Intervention, issued in 2023.

Members need to be satisfied with the governance arrangements set out within the strategy, which can be supported via training etc. as necessary.

The Council does employ external treasury management advice and to date they have not raised any concerns / issues with the Council’s borrowing / investment activities. Early in 2024/25, the Council should be receiving the new External Auditor’s Value for Money commentary which should also provide additional assurances to members. Access to both of these parties can be made directly and not via any one Officer such as the Section 151 Officer, which also supports the transparency / independent view of the various treasury activities undertaken by the Council.

FINANCE AND OTHER RESOURCE IMPLICATIONS

Treasury and Capital Management Strategies and procedures will ensure that the Council’s investments and borrowing will be undertaken in such a way as to minimise the Council’s exposure to risk. At the same time, they will seek to maximise income from investments and minimise the costs of borrowing within the Council’s accepted level of risk.

YES	**The Section 151 Officer confirms they have been made aware of the above and any additional comments from them are below:**

The S151 Officer is the co-author of this report.

USE OF RESOURCES AND VALUE FOR MONEY

The following are submitted in respect of the indicated use of resources and value for money indicators:

A) Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;	This is addressed in the body of the report and appendices where relevant.
B) Governance: how the body ensures that it makes informed decisions and properly manages its risks, including; and	
C) Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.	

MILESTONES AND DELIVERY

This has been highlighted elsewhere within this report.

ASSOCIATED RISKS AND MITIGATION

The placing of investments involves a number of risks. These risks and how the Council will manage them are set out in the Council's Treasury Management Practices.

As highlighted elsewhere in this report, investments are undertaken within an overall risk-averse approach, which is reflected in Treasury Management Practices. With this in mind, a significant level of investment is undertaken with other Local Authorities and with the Government.

As with recent examples, money lent to other Local Authorities is not at risk of not being repaid, as ultimately the Government would take the necessary steps to ensure liabilities are met as part of any intervention. The risk of lending money to another Local Authority is therefore not the same as lending money to a commercial / private organisation, which is one of the reasons why Councils lending to other Councils is common practice nationally.

As part of the mid-year treasury management review that Cabinet considered in November 2023, an update on the money lent to Birmingham City Council was set out in the context of their S151 issuing a S114 report. At the time it was reported that the Council had lent them **£6.000m** in total, with **£4.000m** due to be repaid in February 2024 and the balance of **£2.000m** repayable in June 2024. In terms of providing a further update, the **£4.000m** due to repaid in February is due back on 29 of the month and there are no further changes that impact on the underlying low risk associated with the outstanding loan repayment.

When undertaking lending to other Local Authorities, the Council continues to apply as much 'market intelligence' as possible, which would include any adverse reporting in the markets, the media, the risk of S114 reports being issued along with information from our own External Treasury Advisors. The new measures and metrics that have been introduced via the Levelling Up and Regeneration Act 2023 as set out earlier along with any potential indicators introduced by OFLOG will also likely be additional 'tools' that can be used to complement information already applied in managing the Council's day to day treasury management activities. This will be considered as part of developing the strategy in future years.

As reported previously, the investment property in Clacton is performing satisfactorily against the financial target set out within the original decision to purchase the property, with budgeted investment income continuing to be achieved each year. It is important to highlight that the rental payments can be seen as paying back the original investment made in purchasing the property. The budget for 2024/25 that was agreed by Full Council on 13 February 2024 includes an adjustment to reflect the potential for rental income to reduce once the current lease held by the existing tenant expires.

Within the above context, the overall performance of the investment therefore needs to take into account such considerations over the life of the Council's ownership of the property rather any shorter term position in isolation. It is also important to highlight that the latest valuation of the property set out in **Appendix A,** is an 'accounting' valuation and not a direct value that would be achieved on the market if it was sold.

It is also worth highlighting that the Council's Commercial Property Investment Policy is underpinned by robust risk management actions, which will respond to any changes to the situation. With the latter point in mind and as set out within the Commercial Property Investment Policy, the Council's wider treasury management activities are designed to ensure that the

Council is not faced with a position of having to sell the property for cash flow purposes. This in turn ensures that the Council remains in control of when the property is ever exposed to the market rather than potentially having to sell the property during a period where there may be a downturn in commercial property prices.	
EQUALITY IMPLICATIONS	
There are no direct implications.	
SOCIAL VALUE CONSIDERATIONS	
There are no direct implications.	
IMPLICATIONS FOR THE COUNCIL'S AIM TO BE NET ZERO BY 2030	
There are no direct implications.	
OTHER RELEVANT CONSIDERATIONS OR IMPLICATIONS	
Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.	
Crime and Disorder	Please see comments above
Health Inequalities	
Area or Ward affected	

PART 3 – SUPPORTING INFORMATION

BACKGROUND AND CURRENT POSITION

The Annual Capital and Treasury Strategy for 2024/25 is set out in **Appendix A** and is based on the most up to date Treasury Management Code of Practice and the revised Prudential Code, both of which were published by CIPFA in December 2021.

Last year, the Annual Capital and Treasury Strategy was subject to a number of changes to reflect the latest codes mentioned above, with a summary of those changes as follows:

- Changes to the definition of investments, splitting them between treasury investments, commercial investments and service investments, with commercial and service investments arrangements being separated out in reporting and supported by investment management practices. Tendring currently has no service investments and just one commercial investment, the investment property in Clacton, so separate documentation has not been produced but instead the Strategy clearly reflects issues which relate to the investment property.
- Local authorities must not borrow to invest for the primary purpose of financial return.
- Local authorities must consider as part of the decision-making whether to divest any commercial investments before deciding to borrow.
- Introduction of a liability benchmark indicator which is in the form of a chart showing approved capital programmes and approved borrowing to maturity.
- A new affordability indicator showing the ratio of income from commercial and service investments as a proportion of the Council's net revenue stream.
- Requirement to include the Council's policy and practices relating to environmental, social and governance (ESG) investment considerations within TMP1 on risk management.
- Requirement to report treasury quarterly, which the Council already does via the

Corporate Budget Monitoring process.

- Various wording changes and amendments resulting from the new Codes on TMPs, which are reflected in the current TMPs.
- Amendments in areas such as the general economic outlook and interest rate forecasts.

It is important to highlight that the changes to the Codes highlighted above did not require the Council to take any direct action / remedial activities in terms of its investment / treasury processes.

In terms of 2024/25, there have been no major changes required, with only timely updates required along with the introduction of new technical accounting adjustments relating to assets that the Council leases in. The changes required are shaded in grey and are in italic font within **Appendix A**.

In terms of the technical accounting adjustments associated with leases referred to above, these will be treated as borrowing within the Council's accounts, although in reality it is does not change the Council's overall liabilities, with the 'borrowing' being 'repaid' each year to reflect the actual lease payments made.

By approving the Annual Capital and Treasury Strategy for 2024/25, the Council will be adopting the latest CIPFA Code of Practice for Treasury Management in the Public Services. (the '2021 code').

The need to borrow money may arise in future years to reflect the Council's current commitments, corporate priorities and strategies. If the need / option to borrow money was identified, then it would form part of associated and separate decision-making process and would be considered within the overall Treasury Strategy framework.

The Council maintains a very low risk appetite approach to its treasury activities. However, set against this context, officers will still continue to explore opportunities to maximise investment returns in 2024/25.

In terms of sources of funding, the Government introduced a significant new constraint in terms of borrowing from the Public Works Loan Board (PWLB) in 2020/21. If a local authority purchases assets or plans to purchase assets over a future three-year period to generate investment income, then they will no longer be able to borrow money from the PWLB. This applies to all such purchases regardless of how they are funded. Although no such purchases are currently planned, this constraint may need to be considered in the future, as the Council could lose access to the preferential rates available from the PWLB.

Draft Prudential Indicators are set out in **Annex 1 to Part 2** of the Capital and Treasury Strategy. **Annex 2 to Part 2** of the Treasury Strategy sets out the specified and Non-Specified investments the Council may use in 2024/25.

In accordance with the relevant codes, the Capital and Treasury Strategy is subject to consultation with the Resources and Services Overview and Scrutiny Committee before being recommended to Council for approval before the start of each financial year.

PREVIOUS RELEVANT DECISIONS

The previous Capital and Treasury Strategy for 2023/24 was agreed by Full Council at its

meeting on 2 March 2023. Treasury Management Performance 2022/23 was reported to Cabinet at its 21 July 2023 meeting. A mid-year Treasury Performance review was presented to Cabinet at its 10 November 2023 meeting.
BACKGROUND PAPERS AND PUBLISHED REFERENCE MATERIAL
None

APPENDICES
Appendix A - Annual Capital and Treasury Strategy 2024/25

REPORT CONTACT OFFICER(S)	
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Tendring District Council

PRO BONO OMNIUM
FOR THE GOOD OF ALL

ANNUAL CAPITAL AND TREASURY STRATEGY 2024/25

March 2024

PART 1 – CAPITAL STRATEGY 2024/25 to 2026/27

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

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

Part 1 Annex 2 – General Fund and Housing Revenue Account Capital Programmes 2024/25 to 2026/27

PART 2 – TREASURY STRATEGY FOR 2024/25

1. Introduction
2. Treasury Limits for 2024/25 to 2026/27
3. Prudential and Treasury Indicators for 2024/25 to 2026/27
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 2 Annex 1 – Proposed Prudential Indicators 2023/24 revised, 2024/25 and forecasts for 2025/26 to 2026/27

Part 2 Annex 2 – Specified and non-specified investments

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 in 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 Corporate Investment Plan along with the Capital Programme forms the basis of the Council's rolling plan of investment in assets. The Capital 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

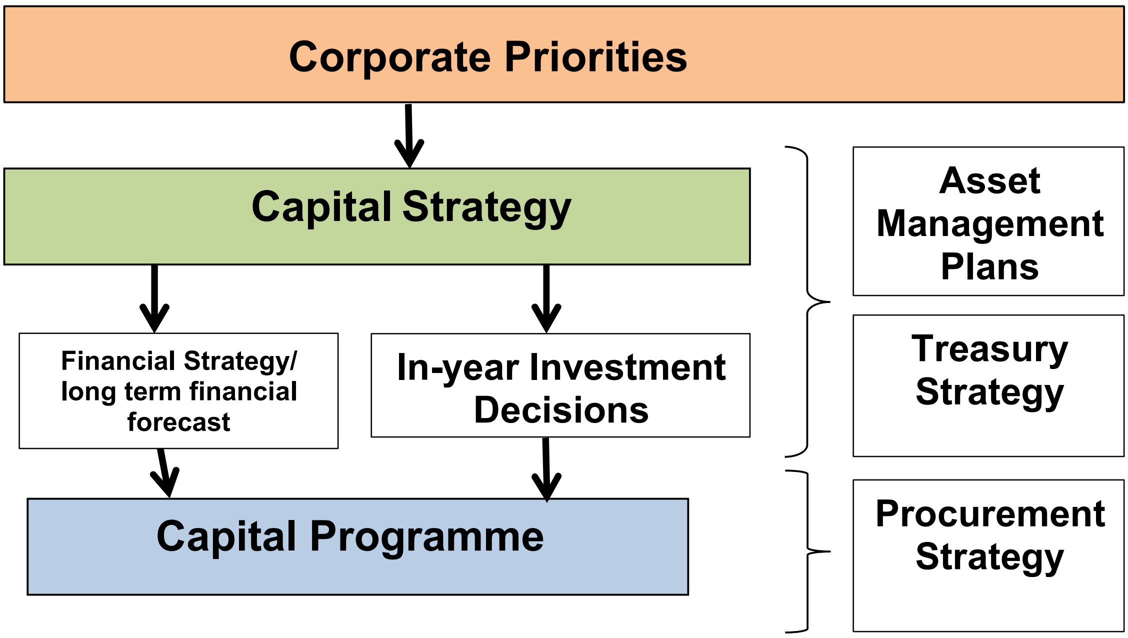
The Capital Strategy is subject to ongoing review and has a key role in supporting the delivery of the Council's Corporate Priorities

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 key element within the framework for considering and prioritising 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 Council's cost pressure and investment plans also forms a key element within the framework above as it forms a further link between the Corporate Priorities and the Financial Strategy and complements the development of the long-term forecast and prioritised projects that are included within the Capital Programme.

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 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 a multi-year Capital Programme as part of the budget setting process in February each year and approves the Capital / Treasury Strategy in March each year or as soon as possible thereafter.

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 should be complemented by wider consultation exercises such as those associated with the development of corporate priorities and the long-term forecast/corporate investment plans where necessary.

In addition to the above, 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 during the year.

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 is complemented by the Council's cost pressure and investment plans, all of which will be undertaken in an open and transparent manner.

Schemes that are agreed but not funded as part of the long-term financial forecast process will be considered as part of a prioritised list within wider cost pressure and investment plans and be 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 over recent years, the current high levels of inflation and the potential longer impact of the COVID 19 pandemic on Council funding. The latest long-term financial forecast for 2024/25 to 2026/27 reflects annual deficits over the remaining period of plan, which is supported by the Forecast Risk Fund. 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 and documentation are used and that project timescales are adequately matched to the capacity to deliver the project, both internally and externally (where internal, this needs to include services such as Legal, Finance and HR).
Responsibility for the delivery of the project is clearly defined and understood.
How the proposed investment contributes to the Council's commitment to be carbon neutral by 2030.

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**.

As highlighted above, the Corporate Investment Plan forms part of the overall governance framework in terms of linking corporate priorities and strategies to investment priorities. This framework takes into account a number of key priority 'drivers' such as financial viability / sustainability, non-financial consequences such as reputation / health and safety, the outcome from external assessment / regulatory reviews along with being outcome driven.

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 within wider cost pressure and investment plans. The process also includes consideration of, where appropriate, whether to divest any commercial investments, in accordance with the requirements of the updated Prudential and Treasury Management Codes.

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 limited the revenue contributions 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. The delivery of the Council's priorities and commitments continue to be supported 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 separate asset management / investment 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. During 2020/21 the rules governing borrowing from the PWLB were amended such that from 25 November 2020 no borrowing from the PWLB is allowed if an authority has purchased assets for yield in its capital programme for the following three years. Neither the General Fund nor the Housing Revenue Account capital programmes for 2024/25 to 2026/27 involve any such schemes. This means the Council is still able to access PWLB funding at preferential rates if it is prudent, affordable and sustainable.

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 (including commitment to be carbon neutral by 2030) 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 2023/24 to 2026/27

Capital Expenditure - General Fund £000s	2022/23 Actual	2023/24 Revised	2024/25 Estimate	2025/26 Forecast	2026/27 Forecast
Total Capital Expenditure	**3.931**	**15,362**	**827**	**827**	**827**
Financing - General Fund					
External contributions	(505)	(889)	-	-	-
Section 106	(80)	(224)	-	-	-
Government grants	(242)	(846)	-	-	-
Disabled Facilities Grant	(993)	(10,260)	(757)	(757)	(757)
Capital receipts	-	(1,000)	-	-	-
Direct revenue contributions	(178)	(196)	(70)	(70)	(70)
Earmarked reserves	(1.933)	(1,947)	-	-	-
Total Capital Financing	**(3,931)**	**(15,292)**	**(827)**	**(827)**	**(827)**
Net Financing need (External Borrowing)	**0**	**0**	**0**	**0**	**0**

HRA Capital Programme 2023/24 to 2026/27

Housing Revenue Account Capital Schemes £000	2022/23 Actual	2023/24 Revised	2024/25 Estimate	2025/26 Forecast	2026/27 Forecast
Total Capital Expenditure	**7,351**	**11,920**	**3,928**	**3,928**	**3,928**
Financing - Housing Revenue Account					
Major repairs reserve	(3,940)	(3,764)	(3,314)	(3,314)	(3,314)
Direct revenue contributions	(43)	(2,431)	(614)	(614)	(614)
Section 106	(328)	(159)	-	-	-
Capital receipts	-	(4,114)	-	-	-
External contributions	(2,745)	(1,452)	-	-	-
Government grant	(295)	-	-	-	-
Total Capital Financing	**(7,351)**	**(11,920)**	**(3,928)**	**(3,928)**	**(3,928)**
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 2021 *and adopted by the Council in* 2023/24. The revised codes had the following implications:

- A requirement to adopt a new debt liability benchmark treasury indicator
- They clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate, however it is important to highlight that none of Tendring's borrowing falls within the inappropriate category
- A requirement to address environmental, social and governance (ESG) considerations in the Capital Strategy and in Treasury Management Practice 1 (TMP1).
- Implementation of a policy to review commercial property, with a view to divest where appropriate.
- Create new Investment Practices to manage risks associated with non-treasury investment (for Tendring this is the single Investment Property held *so separate documents were not considered appropriate, instead the TMPs were expanded*) that are similar to the current TMPs
- Expansion of the knowledge and skills register for individuals involved in treasury management, proportionate to the size and complexity of the work involved.
- All investments and investment income to be split between:
    - those held for treasury management arising from cash flows
    - those held for delivery of services such as housing, regeneration and local infrastructure – the Council has none in this category at present
    - those held for commercial return – i.e. investment property

The Act 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 2024/25 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 / Finance and Governance Portfolio Holder
- Part 5 – Financial Procedure Rules

2. Treasury Limits for 2024/25 to 2026/27

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. The updated HRA Business Plan reported to Members in December 2023 and January 2024 as part of the HRA budget, reflected the financing of maturing loan debts via internal borrowing instead of external borrowing and there were no maturities in 2023/24. More loan debt matures in future years and decisions to address these will need to be confirmed during the year.

Due to a proposed technical accounting change relating to assets the Council leases in from 1 April 2024, for 2024/25 and beyond, these assets will be recognised on the Council's balance sheet as right of use assets, matched by a corresponding lease liability. They will count as a type of borrowing and will be written down each year.

Work is ongoing to finalise the list of assets that these changes relate to. At the present time they are all expected to be within the General Fund, be relatively short term with a maximum life of five years, so will be written down in line with the actual lease repayment made. This means that the total spend of the Council counted against the General Fund balance will be unchanged, but the spend will move to a different line in the Council's accounts and be split between Minimum Revenue Provision and interest.

The amounts currently identified suggest that at 1 April 2024 the total to bring onto the balance sheet will be some £0.265 million, although this will change as further information is obtained and when the 1 April 2024 PWLB rates are available, as these change on a daily basis and are used as part of the associated calculations. The authorised limit and operational boundary already identified are considered sufficient to cover this increase. The overall Capital Financing Requirement (CFR) of the Council for the General Fund will increase, but the loans CFR, which is referred to in the remainder of this Strategy, will not change.

3. Prudential and Treasury Indicators for 2023/24 to 2026/27

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 2023 comprised:

- GF borrowing from The Public Works Loan Board (PWLB) of £0.132 million at fixed rates at an average rate of interest of 7.04%
- HRA borrowing from the PWLB of £33.315 million at fixed rates at an average rate of 3.57%
- Investments of cash flow surpluses, which include reserves and capital receipts, on a short-term basis (less than 1 year) totalling £80.644 million at an average rate of interest of 4.61%.

5. Borrowing Requirement

No new, alternative or replacement borrowing is currently reflected in the budget for the General Fund or for the HRA.

6. Economic Position

The Council's Treasury Advisors provide economic updates during the year with their latest update summarised as follows:

World economy

The large increases in energy costs experienced in 2022 and early 2023 have begun to fall, although have risen again since the start of unrest elsewhere across the globe. Interest rates have risen around the world, although in the United States the Fed have indicated that they consider the peak in rates has occurred and the next move will be down. Over the next twelve months the faltering recovery in other major economies and the ongoing unrest referred to above, will weigh on world economies.

UK economy

The Bank of England Monetary Policy Committee (MPC) increased the bank rate in the first half of 2023/24 from 4.25% to 5.25% but this may prove to be the peak in the tightening cycle. CPI inflation fell from 8.7% in April to 3.9% in November 2023, the lowest since September 2021. There has been a cooling in labour market conditions during 2023, although wage inflation remains higher than the MPC would like and represents an upside risk to wage inflation. GDG for Q3 of 2023 fell to 0% suggesting that underlying growth has lost momentum since earlier in the year. As the growing drag from higher interest rates intensifies over the next six months, the Council's external treasury management advisers consider that the economy could fall into a mild recession. They expect that interest rates will remain at the probable peak of 5.25% until the second half of 2024. Gilt yields, and therefore PWLB rates which are linked to them, have remained high, and as a result the Council has continued to replace maturing HRA loans with further internal 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 *rose sharply over the course of 2023/24 due to increases in the bank base rate, and this higher level of return is expected to be maintained through the first part of 2024/25 before starting to drop back.*

	Bank Rate	Average earnings rate projected by the Council's External Advisors			PWLB Borrowing Rate			
		3 month	6 month	12 month	5 yr.	10 yr.	25 yr.	50 yr.
Mar 2024	5.25	5.30	5.20	5.00	4.50	4.70	5.20	5.00
Jun 2024	5.25	5.30	5.10	4.90	4.40	4.50	5.10	4.90
Sep 2024	4.75	5.00	4.80	4.60	4.30	4.40	4.90	4.70
Dec 2024	4.25	4.50	4.30	4.10	4.20	4.30	4.80	4.60
Mar 2025	3.75	4.00	3.80	3.70	4.10	4.20	4.60	4.40
Jun 2025	3.25	3.50	3.30	3.20	4.00	4.10	4.40	4.20
Sep 2025	3.00	3.30	3.20	3.20	3.80	4.00	4.30	4.10
Dec 2025	3.00	3.00	3.10	3.10	3.70	3.90	4.20	4.00
Mar 2026	3.00	3.00	3.10	3.10	3.60	3.80	4.20	4.00
Jun 2026	3.00	3.00	3.10	3.10	3.60	3.70	4.10	3.90
Sep 2026	3.00	3.00	3.10	3.10	3.50	3.70	4.10	3.90
Dec 2026	3.00	3.00	3.10	3.20	3.50	3.70	4.10	3.90
Mar 2027	3.00	3.00	3.10	3.20	3.50	3.70	4.10	3.90

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 2022/23	Revised 2023/24	Estimate 2024/25	Forecast 2025/26	Forecast 2026/27
	£000's	£000's	£000's	£000's	£000's
Debt as at 1 April	36,921	34,699	33,277	30,653	28,232
Estimated repayment of debt	(2,222)	(1,422)	(2,624)	(2,421)	(2,421)
Estimated debt as at 31 March	34,699	33,277	30,653	28,232	25,811
CFR as at 31 March	**40,183**	**38,576**	**36,977**	**35,385**	**33,800**
Difference - internally financed	5,484	5,299	6,324	7,153	7,989

General Fund External Debt

	Actual 2022/23	Revised 2023/24	Estimate 2024/25	Forecast 2025/26	Forecast 2026/27
	£000's	£000's	£000's	£000's	£000's
Debt as at 1 April	144	136	128	119	112
Estimated repayment of debt	(8)	(8)	(9)	(7)	(66)
Estimated debt as at 31 March	136	128	119	112	46
CFR as at 31 March	**4,820**	**4,627**	**4,442**	**4,264**	**4,093**
Forecast of internal financing	4,684	4,499	4,323	4,152	4,047

HRA External Debt

	Actual 2022/23	Revised 2023/24	Estimate 2024/25	Forecast 2025/26	Forecast 2026/27
	£000's	£000's	£000's	£000's	£000's
Debt as at 1 April	36,777	34,563	33,149	30,534	28,120
Estimated repayment of debt	(2,214)	(1,414)	(2,615)	(2,414)	(2,355)
Estimated debt as at 31 March	34,563	33,149	30,534	28,120	25,765

CFR as at 31 March	**35,363**	**33,949**	**32,535**	**31,121**	**29,707**
Forecast of internal financing	800	800	2,001	3,001	3,942

~~In respect of the General Fund,~~ The Council is currently maintaining an under-borrowed position *for both the General Fund and the HRA*. 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 PWLB rates are currently elevated above what the Council's treasury management advisors consider to be a baseline level*.

Further HRA maturity loans of £1.200 million end in 2024/25 and £1.000 million end in 2025/26, which are planned to be met from internal borrowing, although this postion will remain under review as part of the on-going development of the HRA Business Plan.

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. The HRA maturity loan repayments shown in the table have increased the level of internal borrowing beyond the limit identified above. However, given the significant increases in PWLB interest rates in 2022/23 and 2023/24, 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	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Probable out-turn	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
General Fund external debt (gross)	136	128	119	112	46
HRA external debt (gross)	34,563	33,149	30,534	28,120	25,765
Investments	74,350	57,810	38,870	30,800	15,000
Net debt	**(38,651)**	**(24,533)**	**(8,217)**	**(2,568)**	**10,811**

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.

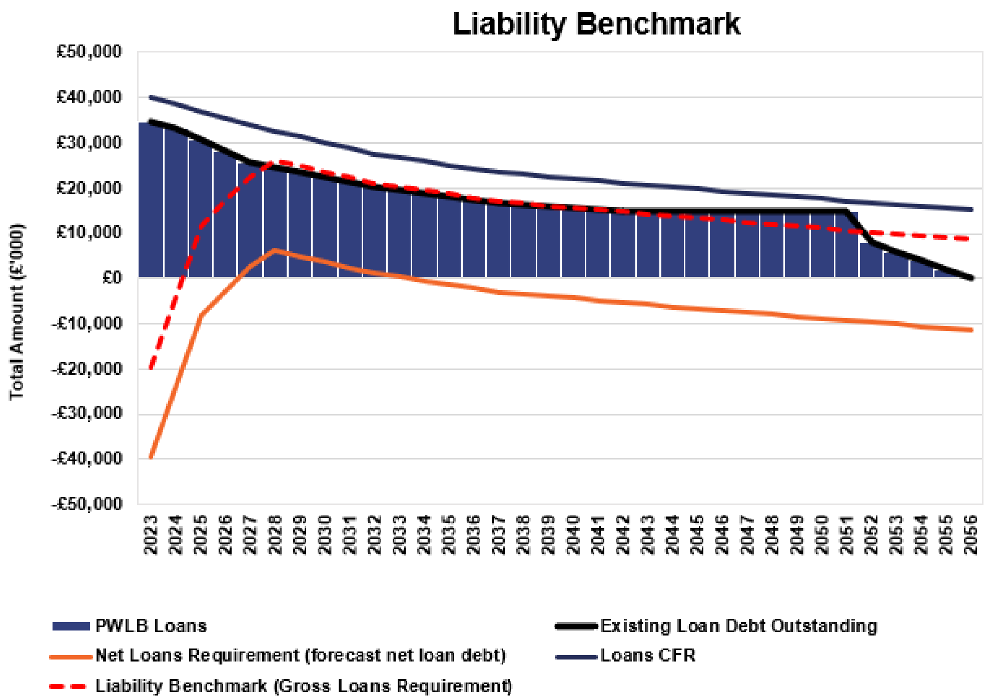
If opportunity arises, external debt will be repaid early, although this is difficult under current arrangements as set out in section 9. If borrowing is required then any requirement will be considered whilst balancing internal resources and forecasted interest rates within the parameters previously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

Against this background caution will be maintained within the 2024/25 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.

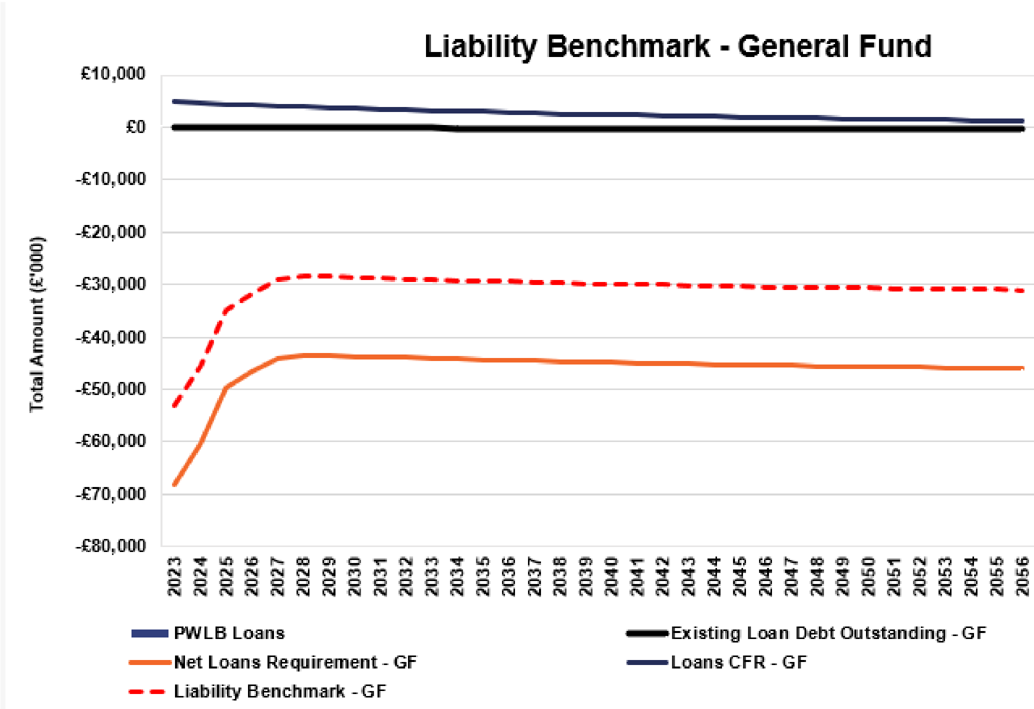
8.3 Liability Index

The tables in sections 8.1 and 8.2 are now required to be shown graphically for a minimum of 10 years and ideally to maturity of loan debt under the 2021 Prudential Code. The charts below show the overall position for the Council and then split over General Fund and HRA.

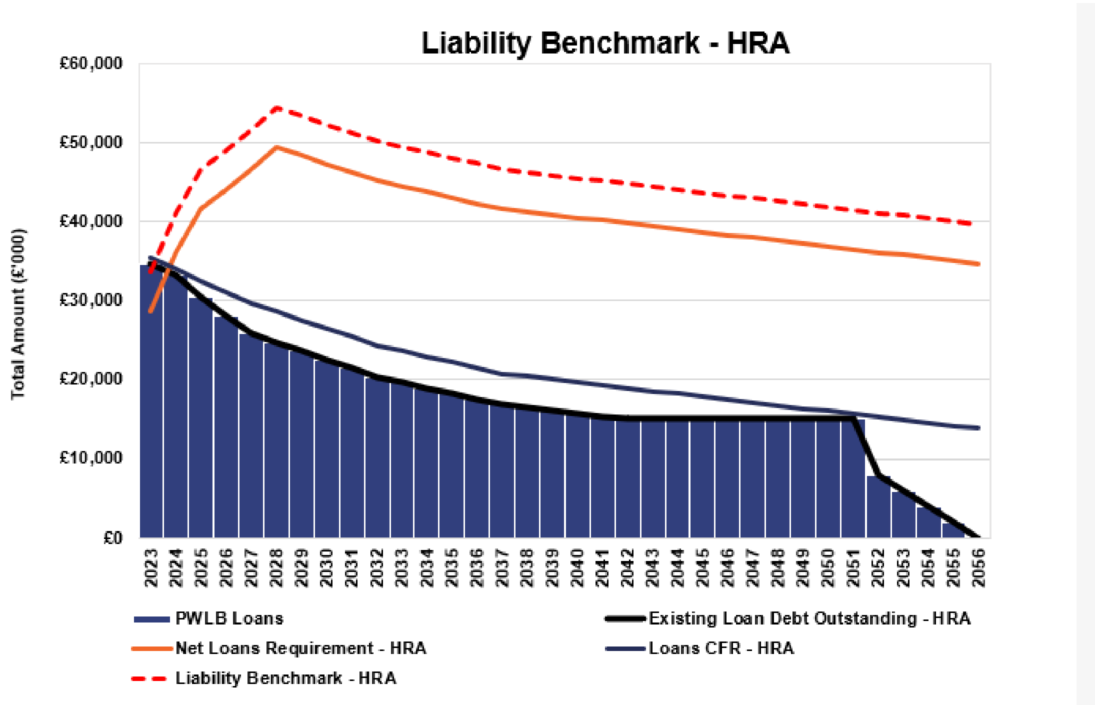
Total



The gap between the red dotted line and the PWLB loans shows the Council is under-borrowed. The net loans requirement line shows loans less anticipated investment balances. The Council needs to maintain some investment balances for liquidity purposes.



The low level of General Fund PWLB debt is demonstrated by this chart, with the bars falling below the blue PWLB loans line. Again, this shows the level of General Fund under-borrowing as set out in the table in section 8.1 above.



The HRA chart shows also that the HRA is under-borrowed, at least until 2051, unless maturity loans that end over the next few years are re-financed.

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 Government's 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 (a commercial 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 2023 the carrying value of the property was assessed by the Council's external Valuer at £2.354 million and at 30 September 2023 the carrying value was reduced to £2.283 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. Regardless of whether or not the property is 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 Capital and Treasury Strategy framework.

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

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 increased from 4.25% in April 2023 to 5.25% in September 2023. The rate is expected to remain at this level until later in 2024 before beginning to fall. (see Section 7). The Council will ~~avoid locking into~~ *consider entering suitable low risk* longer term deals *before rates begin to fall* without compromising the Council's priority of security of the investments.

For 2024/25 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, Money Market Funds 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 *lower* rates, 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.

Proposed Prudential Indicators 2023/24 revised, 2024/25 and forecasts for 2025/26 to 2026/27

Indicators for Prudence

CAPITAL EXPENDITURE

This is an estimate of the amount of investment planned over the period. As can be seen, not all investment necessarily has an impact on the Council Tax, schemes funded by grants, capital receipts or external contributions mean that the effect on the Council Tax is greatly reduced.

Capital Expenditure - General Fund £000s	2022/23 Actual	2023/24 Revised	2024/25 Estimate	2025/26 Forecast	2026/27 Forecast
Total Capital Expenditure	**3,931**	**15,362**	**827**	**827**	**827**
Financing - General Fund					
External contributions	(505)	(889)	-	-	-
Section 106	(80)	(224)	-	-	-
Government grants	(242)	(846)	-	-	-
Disabled Facilities Grant	(993)	(10,260)	(757)	(757)	(757)
Capital receipts	-	(1,000)	-	-	-
Direct revenue contributions	(178)	(196)	(70)	(70)	(70)
Earmarked reserves	(1,933)	(1,947)	-	-	-
Total Capital Financing	**(3,931)**	**(15,362)**	**(827)**	**(827)**	**(827)**
Net Financing need (External Borrowing)	**0**	**0**	**0**	**0**	**0**

Housing Revenue Account Capital Schemes £000	2022/23 Actual	2023/24 Revised	2024/25 Estimate	2025/26 Forecast	2026/27 Forecast
Total Capital Expenditure	**7,351**	**11,920**	**3,928**	**3,928**	**3,928**
Financing - Housing Revenue Account					
Major repairs reserve	(3,940)	(3,764)	(3,314)	(3,314)	(3,314)
Direct revenue contributions	(43)	(2,431)	(614)	(614)	(614)
Section 106	(328)	(159)	-	-	-
Capital receipts	-	(4,114)	-	-	-
External contributions	(2,745)	(1,452)	-	-	-
Government grant	(295)	-	-	-	-
Total Capital Financing	**(7,351)**	**(11,920)**	**(3,928)**	**(3,928)**	**(3,928)**
Net Financing need (External Borrowing)	**0**	**0**	**0**	**0**	**0**

CAPITAL FINANCING REQUIREMENT

Each year, the Council finances the capital programme by a number of means, one of which could be borrowing. The Capital Financing Requirement (CFR) represents the cumulative amount of borrowing that has been incurred to pay for the Council's capital assets, less amounts that have been set aside for the repayment of debt over the years. The Council is only allowed to borrow long term to support its capital programme. It is not allowed to borrow long term to support its revenue budget.

CAPITAL FINANCING REQUIREMENT	2022/23 Actual	2023/24 Revised	2024/25 Estimate	2025/26 Forecast	2026/27 Forecast
	£000	£000	£000	£000	£000
General Fund	4,820	4,627	4,442	4,264	4,093
Housing Revenue Account	35,363	33,949	32,535	31,121	29,707
Total	**40,183**	**38,576**	**36,977**	**35,385**	**33,800**

GROSS DEBT AND THE CAPITAL FINANCING REQUIREMENT

This indicator compares the Capital Financing Requirement to the level of external debt and shows how much of the capital programme is financed from internal resources. The capital programme is partially funded in the short to medium term by internal resources when investment interest rates are significantly lower than long term borrowing rates. Net interest payments are, therefore, optimised.

PRUDENTIAL INDICATOR	2022/23 Actual	2023/24 Revised	2024/25 Estimate	2025/26 Forecast	2026/27 Forecast
	£000	£000	£000	£000	£000
Capital Financing Requirement	40,183	38,576	36,977	35,385	33,800
External debt	34,699	33,277	30,654	28,232	25,811
Internal borrowing	5,484	5,299	6,323	7,153	7,989

OPERATIONAL BOUNDARY AND AUTHORISED LIMIT

The Council must set an operational boundary and authorised limit for external debt. The operational boundary is based on the Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. It reflects the decision on the amount of debt needed for the Capital Programme for the relevant year. It also takes account of other long term liabilities, which comprise finance leases, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt. The Council has none of these at present.

The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

PRUDENTIAL INDICATOR	2022/23 Actual	2023/24 Revised	2024/25 Estimate	2025/26 Forecast	2026/27 Forecast
	£000	£000	£000	£000	£000
Operational boundary - borrowing	67,723	65,584	69,030	69,859	69,364
Authorised limit - borrowing	76,333	75,609	77,878	78,870	78,542

Indicators for Affordability

RATIO OF FINANCING COSTS TO NET REVENUE STREAM

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. *Investment income is no longer deductable from cost from 2022/23 revised onwards*

ESTIMATE OF THE RATIO OF FINANCING COSTS TO NET REVENUE	2022/23 Actual	2023/24 Revised	2024/25 Estimate	2025/26 Forecast	2026/27 Forecast
	%	%	%	%	%
General Fund	1.81	1.43	1.28	1.23	1.17
Housing Revenue Account	42.14	44.39	40.18	38.89	37.66

RATIO OF COMMERCIAL AND SERVICE INVESTMENTS TO NET REVENUE STREAM

This is a new indicator from 2023/24 and highlights how much of the Council's net revenue spend is financed by income from commercial and service investments. The Council has one commercial investment and no service investments

ESTIMATE OF THE RATIO OF COMMERCIAL INVESTMENTS TO NET REVENUE	2022/23 Actual	2023/24 Revised	2024/25 Estimate	2025/26 Forecast	2026/27 Forecast
	%	%	%	%	%
General Fund	-1.93	-1.62	-1.55	-1.57	-1.61

INTEREST RATE EXPOSURE

Tendring District Council currently has all its borrowings at fixed rate and usually has a mixture of fixed and variable rate investments. This indicator is set to control the Council's exposure to interest rate risk.

PRUDENTIAL INDICATOR	2022/23 Actual	2023/24 Revised	2024/25 Estimate	2025/26 Forecast	2026/27 Forecast
	£000	£000	£000	£000	£000
Upper limit for Fixed Interest Rates on debt	40,183	38,576	36,977	35,385	33,800
Upper limit for Variable Interest Rates on debt (based on 30% of the fixed rate limit)	12,055	11,573	11,093	10,616	10,140

TOTAL PRINCIPAL SUMS INVESTED FOR PERIODS LONGER THAN 364 DAYS (excluding property)

Interest rate risk is also affected by the proportion of the investments invested at fixed rates for longer periods, especially in a period when rates are expected to rise.

PRUDENTIAL INDICATOR	2022/23 Actual	2023/24 Revised	2024/25 Estimate	2025/26 Forecast	2026/27 Forecast
	£000	£000	£000	£000	£000
Limits on the total principal sum invested to final maturities longer than 364 days	3,500	3,500	3,500	3,500	3,500

MATURITY STRUCTURE OF FIXED RATE BORROWING

This indicator is set to control the Council's exposure to refinancing risk. The limits are set for each age range to ensure that the Council avoids too many fixed rate loans being matured at one time and spreads the maturity across several periods. The percentages for the upper and lower limits do not add up to 100% as they do not represent an actual allocation.

PRUDENTIAL INDICATOR	Upper limit	Lower limit	Estimated outstanding debt maturity % at			
	%	%	31/03/2024	31/03/2025	31/03/2026	31/03/2026
Under 12 months	25	0	7.88%	7.90%	8.58%	4.22%
12 months and within 24 months	30	0	7.28%	7.90%	3.86%	4.22%
24 months and within 5 years	60	0	13.83%	10.67%	11.59%	12.67%
5 years and within 10 years	75	0	14.07%	14.02%	13.86%	13.68%
10 years and above	95	25				
10-20 years			11.86%	10.58%	8.98%	7.09%
20-30 years			33.06%	42.41%	53.13%	58.12%
>30 years			12.02%	6.52%	0.00%	0.00%

TREASURY INDICATOR - EXPOSURE TO CREDIT RISK

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) using the rating applicable when it is taken out and taking the arithmetic average, weighted by the size of each investment. Investments in government instruments such as DMO, treasury bills and in local authorities are scored as 1.

TREASURY INDICATOR	2022/23 Actual	2023/24 to 31/12	2024/25 Upper limit
Average credit score for investments	1.17	1.16	2.00

SPECIFIED AND NON-SPECIFIED INVESTMENTS

This schedule sets out the specified and Non-Specified investments the Council may use in 2024/25.

Investments may be in the form of direct deposits, Certificates of Deposits (CDs), property (including property funds) or the purchase of financial instruments such as Treasury Bills, Bonds and Gilts.

SPECIFIED INVESTMENTS:
An investment is a Specified Investment if all of the following apply

1. The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling
2. The investment is not a long-term investment which is one that is due to be repaid within 12 months of the date on which the investment is made or one which the local authority may require to be repaid within that period.
3. The investment is not defined as capital expenditure by regulations
4. The investment is made with a body or in an investment scheme of high credit quality or the investment is made with the following public sector bodies.
    a. UK Government
    b. Local authority
    c. Parish council or community council

Where an investment is being made with a UK nationalised or part nationalised bank this will be treated for the purposes of classification as a Specified or Non-specified investment as being invested with the UK Government.

High credit quality
For a counterparty to meet the high credit quality criteria for specified investments, that counterparty must meet as a minimum the ratings of the three credit rating agencies listed below, and not be the subject of any adverse indications from the following sources.

- Credit Default Swap index
- The quality financial press
- Market data
- Information on government support for banks and
- The credit ratings of that government support

Ratings	Fitch	Moodys	Standard & Poors
Short term	F1	P-1	A-1
Long term	A-	A3	A

NON SPECIFIED INVESTMENTS

A maximum of £3.5m may be held, in aggregate, in Non-Specified Investments

The only non-Specified investments that the Council will use in 2024/25 are investments for periods of longer than 12 months with any institution or investment instrument that would have been classed as a Specified Investment if the investment had been for less than 12 months or property. The Council currently holds an investment property in Clacton. The historic cost of this property (including stamp duty) is £3.245 million. *The most up to date valuation received by the Council's external valuer is £2.283 million.* The purchase of the property was financed from revenue resources.