CABINET

11 APRIL 2025

A.3 ANNUAL CAPITAL AND TREASURY STRATEGY FOR 2025/26 (INCLUDING PRUDENTIAL AND TREASURY INDICATORS)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT
To agree the Annual Capital and Treasury Strategy for 2025/26 (including Prudential and Treasury Indicators) for submission to Council on 20 May 2025.

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 came 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 2025/26 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 (TMPs). These include the use of non-specified investment in property to yield both rental income and capital gains. The Codes referred to above require clear separation of commercial investments from treasury investments. As the Council only has one such investment, which is clearly identified within the Strategy and the TMPs, in continuing the approach adopted last year, it is not proposed to produce a separate suite of Investment Management Practices for this purpose.

- 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.

- In terms of the reporting process associated with the attached strategy, this would ordinarily be based on obtaining agreement of the Portfolio Holder for Finance and Governance for consultation with the Resources and Services Overview and Scrutiny Committee, following which it would be submitted to Cabinet and then onto Full Council.

- However, due to the timetable of meetings and the continuing work pressures, including those associated with clearing the backlog of outstanding Statement of Accounts that were due to external audit delays, a revised timescale is proposed.

- It is therefore now proposed to seek Cabinet’s agreement to the strategy via this report along with a recommendation for it to be presented to Full Council later in May for approval and adoption.

- In terms of consulting with the Resources and Overview and Scrutiny Committee, it is proposed to undertake this as early as possible in 2025/26, subject to this being included within the Committee’s Work Programme.

- The above reflects a pragmatic approach to ensure that the strategy can be approved ahead of the financial year it relates to or as soon as possible thereafter. However, it also recognises that if the Resources and Overview and Scrutiny Committee have any comments, which could also require further exploration / investigation, then they can be considered and reported back to Full Council at a later date, where potential in-year revisions to the Strategy could be considered.

- Although at a limited level at the current time, the strategy now acknowledges the potential impact from local government reforms, which includes the requirement to take such matters into consideration as necessary, which also complements the wider decision making proposals agreed by Full Council at its meeting on 25 March 2025 and highlight priorities agreed by Cabinet on 17 March 2025.

RECOMMENDATION(S)
That Cabinet agrees that the Annual Capital and Treasury Strategy for 2025/26 (including Prudential and Treasury Indicators) as attached be recommended to Full Council for approval, acknowledging that consultation with the Resources and Services Overview and Scrutiny Committee will be undertaken during 2025/26, subject to inclusion within that Committee’s Work Programme.

REASON(S) FOR THE RECOMMENDATION(S)
To support the process of ensuring that a Capital and Treasury Strategy for 2025/26 is

approved by Full Council before 1 April 2025 or as soon as possible thereafter.

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 2025/26 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 and priorities.

OUTCOME OF CONSULTATION AND ENGAGEMENT
It is currently planned to consult the Resources and Services Overview and Scrutiny Committee as early as possible in 2025/26 as highlighted earlier.

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.

Section 78 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 recent years, with 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 counterparty 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.

If such regulations / provisions are received, then work will be undertaken to set out the Council’s position against them as necessary. 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 minimal risk of breaching any of the new metrics at the present time.

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.

As reflected within the Executive Summary and recommendations above, an alternative timetable / approach is proposed to the usual approach set out within para 4.3 Part 3.37 of the Constitution, where 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:**

The capital and treasury proposals of local authorities which for Tendring District Council are encapsulated within the Annual Capital and Treasury Strategy and Treasury Management Practices, are of significant importance. These 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 theme for a Best Value authority, within the Government's statutory guidance on Best Value Standards and Intervention, issued in May 2024.

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

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.

As highlighted within the strategy, various elements supporting good decision making would need to be set out as part of separate / individual spending and investment decisions where necessary, which would include the various financial and non-financial elements associated with it.

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

The Section 151 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 and appendices, 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 highlighted earlier in the year, all money that was previously lent to Local Authorities who had issued S114 'notices' was fully repaid to the Council in-line with the associated lending agreements.

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 were introduced via the Levelling Up and Regeneration Act 2023 as set out earlier along with any other associated indicators will 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 continue to be seen as paying back the original investment made in purchasing the property. The long-term forecast from 2025/26 that has been considered by members as part of developing the budgets for 2025/26, continues to include 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 2050

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 2025/26 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 and came into force in 2023/24. Last year, the Annual Capital and Treasury Strategy was subject to a number of changes to reflect the latest codes mentioned above. It was highlighted at the time that the changes to the Codes did not require the Council to take any direct action / remedial activities in terms of its investment / treasury processes. In terms of 2025/26, there have been no major changes required, although the Strategy has been further updated to recognise the introduction of new technical accounting adjustments relating to assets that the Council leases in, that were introduced last year. The changes made to the Strategy as part of this year's review are shaded in grey and are in italic font within **Appendix A**. In terms of the technical adjustments mentioned above, these relate to IFRS (International Financial Reporting Standard) 16 which requires lessees to recognise leases on their balance sheet, effectively reflecting the right to use an asset for a period of time and the associated liability for payments. In order to fully comply with IFRS 16 and ensure the Council's 2024/25 Accounts are prepared in accordance with the standard, all leases (including service contracts) where the Council is the lessee (i.e. leasing an asset from a third party) will require to be identified and measured, both in order to establish an initial starting point and on an ongoing basis. As leases are included as 'long term financial liabilities', they have now been included within the Prudential Indicators set out in the appendices. Work remains in progress to finalise the figures for inclusion in the Statement of Accounts for 2024/25 that are due to be published at the end of June 2025. In terms of the financial impact, the new standard will impact the Council's balance sheet, as leased assets will now need to be recognised along with their associated liability, which will effectively appear as loan financing. It will also impact on the Council's expenditure and income statements, as lease payments will be replaced by associated notional depreciation and interest expenses. However, there should be no overall impact on the Council's net budgetary position. By approving the Annual Capital and Treasury Strategy for 2025/26, 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 2025/26.

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, which is worth highlighting as part of these subsequent annual reviews. 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 2025/26.

In accordance with the relevant codes, the Capital and Treasury Strategy is subject to consultation with the Resources and Services Overview and Scrutiny Committee, which has highlighted above, along with a proposed change to the usual timing of associated events.

PREVIOUS RELEVANT DECISIONS

The previous Capital and Treasury Strategy for 2024/25 was agreed by Full Council at its meeting on 19 March 2024.

Treasury Management Performance 2023/24 was reported to Cabinet at its 26 July 2024 meeting.

A mid-year Treasury Performance review was presented to Cabinet at its 15 November 2024 meeting.

BACKGROUND PAPERS AND PUBLISHED REFERENCE MATERIAL

None

APPENDICES

Appendix A - Annual Capital and Treasury Strategy 2025/26 *(including Prudential and Treasury Indicators)*

REPORT CONTACT OFFICER(S)	
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