CAPITAL & INVESTMENT STRATEGY

2021/22

Summary

The council is required by Regulation to have regard to the Prudential Code published by the Chartered Institute of Public Finance and Accountancy (CIPFA) when carrying out its duties under Part 1 of the Local Government Act 2003. Following consultation during 2017, CIPFA published a revised Prudential Code (2017 Edition) and Treasury Management Code of Practice (2017 Edition) in January 2018. One of the main aspects of this revised Code is to bring together elements of capital expenditure with the treasury management strategy, into a single Capital and Investment Strategy for approval by Full Council. This strategy document therefore, sets out the capital, investment and treasury management strategy for 2021/22 and includes a capital programme and prudential indicators for the forecast period of 2021/22 to 2024/25.

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

The guidance is deliberately cautionary in its application to certain activities which are deemed to be commercial in nature, which, for the purposes of this strategy, is predominantly those activities covered in **Section 2 – Other Capital Expenditure**. It should be noted though that the guidance does not prohibit any of these activities, however, it does set out some areas for more careful consideration:

- **Proportionality** - Where a local authority is or plans to become dependent on profit generating investment activity to achieve a balanced revenue budget, the Strategy should detail the extent to which funding expenditure to meet the service delivery objectives and/or place making role of that local authority is dependent on achieving the expected net profit. In addition, the Strategy should detail the local authority's contingency plans should it fail to achieve the expected net profit.

- **Borrowing in advance of need -** Authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed.

  Where a local authority chooses to disregard the Prudential Code and this Guidance and borrows or has borrowed purely to profit from the investment of the extra sums borrowed the Strategy should explain:
    - Why the local authority has decided not to have regard to this Guidance or to the Prudential Code in this instance; and
    - The local authority's policies in investing the money borrowed, including management of the risks, for example, of not achieving the desired profit or borrowing costs increasing.

- **Capacity, skills and culture -** The strategy should disclose the steps taken to ensure that those elected members and statutory officers involved in the investments decision making process have appropriate capacity, skills and information to enable them to take informed decisions as to whether to enter into a specific investment, to assess individual assessments in the context of the strategic objectives and risk profile of the local authority and to enable them to understand how the quantum of these decisions have changed the overall risk exposure of the local authority.

  The Strategy should disclose the steps taken to ensure that those negotiating commercial deals are aware of the core principles of the prudential framework and of the regulatory regime within which local authorities operate.

  Where appropriate the Strategy should comment on the corporate governance arrangements that have been put in place to ensure accountability, responsibility and authority for decision making on investment activities within the context of the local authority's corporate values.

This strategy document includes all of the information necessary to meet the requirements of these revised guidance documents including the revisions to statutory investment and Minimum Revenue Provision (MRP) guidance. It includes sections to specifically address the specific concerns as outlined above. Where anything in the strategy departs from statutory guidance, this is made clear to ensure transparency.

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

The delegated obligations for the Chief Finance Officer in relation to the capital programme and for treasury management activities are set out in Sections 4 and 14 of the Financial Regulations respectively.

Both the capital programme and other capital expenditure as outlined in **Section 1 – Capital Programme** and **Section 2 – Other Capital Expenditure** of this strategy are supported, at least in part, by borrowing. Where the cost of borrowing is in relation to other capital expenditure, this is covered in **Section 2** and the costs are shown in the summaries provided. **Section 3 – Debt Position** includes the debt requirement in relation to the general capital programme and the actual borrowing required for other capital expenditure. These are included in the budget within the capital financing estimates.

Information in relation to the affordability and sustainability of any new borrowing is contained within **Section 4 - Treasury Management** and supported by the indicators outlined in **Section 9 – Prudential Indicators**. The creation of the provision to deal with the repayment of borrowing is within **Section 7 – Minimum Revenue Provision**. All indicators provided within this section have regard to the total borrowing and treasury management requirements of the council regardless of the purpose.

Following the Chancellor's Spending Review statement on 25 November 2020, changes to the terms and conditions for borrowing from the Public Works Loans Board (PWLB) were issued. These seek to restrict borrowing for 'debt for yield' purposes, i.e. where the purpose of the borrowing is to invest in an activity with the sole purpose of generating income. The strategy assumes at the outset that no new debt for yield activities take place from 2021/22 onwards, however, if short-term borrowing can be secured for all other capital activities in-year, then this could be revised. This is explained more fully in **Section 3 – Debt Position**, along with the expected impact on the strategy for 2021/22.

Contents

Introduction

Section 1 – Capital Programme

Section 2 – Other Capital Expenditure

Section 3 – Debt Position

Section 4 – Treasury Management Strategy

Section 5 – Investment Strategy

Section 6 – Risk Management

Section 7 – Minimum Revenue Provision

Section 8 – Budget Estimates

Section 9 – Prudential Indicators

Section 10 - Glossary

Introduction

Definition of Capital

The Local Government and Housing Act 1989 requires all expenditure to be charged to revenue unless an exemption can be found, the main exemption being that the expenditure was for capital purposes. In broad terms this means expenditure incurred on the acquisition or creation of tangible assets needed to provide services, such as houses, buildings and vehicles. This is opposed to revenue expenditure, which is what is spent on the day-to-day operation of services such as employee costs and supplies and services.

The Local Government Act 2003 extends the definition for the purpose of capital expenditure to allow expenditure on computer software and on the making of loans or grants for capital expenditure by another body to be treated as capital expenditure of the local authority.

These Statutory Regulations have been absorbed into CIPFA's Accounting Code for Local Government Accounting (the Code) and where appropriate form the basis of statutory overrides to International Financial Reporting Standards (IFRS) used within company accounts. For this reason, as well as the Capital Programme produced and approved as part of the annual Budget Setting report, there will also be other activities that are required to be accounted for as capital expenditure in addition to the annual programme. These additional activities are included as part of this report for completeness.

Treasury Management

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

All decisions on overall Treasury Management (TM) policy and the setting of annual TM Strategies are determined by Full Council. The same process will apply to changes to the relevant policy or strategy during the course of a year. Thus all matters relating to borrowing, investments and debt repayment are determined by Full Council. The Audit and Risk Committee is responsible for scrutiny of performance in this area and the Policy and Resources Committee is responsible for monitoring performance.

The major influencing factor for TM arrangements during 2021/22 are considered in **Section 4**.

The objective of this strategy is to establish a framework under which officers can carry out treasury activities. The control framework is established initially by what is permitted within the approved strategy, but further levels of control exist within the operational aspects of the activities. This means that just because something is permitted by the strategy, it does not necessarily follow that the activity will take place. The Chief Finance Officer has the responsibility for this day to day decision making with the primary objective of acting in the best interest of the council's finances at all times.

Investment Activities

The Local Government Act 2003 gives a local authority power to invest "for any purpose relevant to its functions under any enactment, or for the purposes of the prudent management of its financial affairs."

There is no provision in the Act for the Secretary of State to regulate the way in which an authority exercises its investment powers. It does however require authorities to "have regard" to such *guidance as the Secretary of State may issue* and to such *guidance issued by others as he may specify*. For this purpose, the Secretary of State has formally endorsed CIPFA's TM Code of Practice and has supplemented the Code with additional guidance. Local authorities are therefore required by statute to have regard to both sets of guidance in their investment activities.

The investment arrangements for 2021/22 are set out in **Section 5**.

Guidance issued currently states that "…the investment guidance recognises that it cannot prohibit the acquisition of investment properties funded from borrowing but authorities are expected to provide an explanation for this departure." The strategy outlines this in **Section 2**, where the departure is explained as part of the council's Corporate Plan. The governance and risk management arrangements are also set out. Part of the risk management measures highlight the extent to which income from this activity is being relied on for setting the annual budget to provide a view on whether this is proportional to the general activities of the council. **Section 3** also highlights the extent to which investment assets could be deemed as being funded from borrowing.

Capacity, Skills and Culture

Capital accounting and treasury activities are highly technical areas of local authority accounting and are covered by regulations over and above those used for regular accounting functions. In respect of property investment, the knowledge and expertise required goes beyond that which would be required for just carrying out the accounting, a knowledge of asset management within a commercial environment is also required.

To ensure that the council is able to manage these functions appropriately and make informed recommendations, specialist consultants are engaged to assist with these activities. In relation to investment asset acquisitions, property management and investment consultants are used to undertake the initial assessment of potential sites for purchase, who score properties against a series of benchmark criteria, agreed as part of the Investment Asset Acquisition Strategy. Each opportunity that could lead to a purchase is subject to approval by Members with each report outlining the necessary information, including risks, so that an informed decision can be made. These assets are also managed on an ongoing basis by property managing agents.

For the lease investment opportunities, specialist property consultants are also engaged, with each opportunity being subject to full commercial, financial and legal due diligence. As with investment assets, each opportunity is brought to Members through an individual report outlining the details of the opportunity and the risk profile.

As part of the ongoing management of these assets, regular update reports are taken to Members detailing current performance, trends and other management issues. The financial impacts are included in the mid-year and outturn reports related to this strategy.

For other treasury and investment activities, the council engages with treasury consultants, who provide general economic data as well as interest and investment rate forecasts and other market data.

So that Members can scrutinise these areas appropriately, briefings and training sessions are undertaken from time to time. The most recent of these being during December 2020 when the relationship between treasury and the capital programme and the implications of the council's non-treasury investing activities were covered.

Section 1 – Capital Programme

General Fund Capital Programme

The general fund capital programme for 2021/22 and forward forecast to 2024/25 is summarised below:

	2021/22 £'000 Estimate	2022/23 £'000 Estimate	2023/24 £'000 Estimate	2024/25 £'000 Estimate
Disabled Facilities Grant	1,000	1,000	1,000	1,000
Nevendon Road Housing Development	1,000	0	0	0
Swimming Pool Strategy	4,000	4,992	0	0
Play Areas	900	900	900	900
Neighbourhoods and Public Spaces Investment	500	500	0	0
Parks Equipment Replacement Programme	150	35	0	0
Youth Facilities	2,100	2,000	0	0
Asset Management - Corporate Buildings	1,000	1,000	1,000	1,000
Other Asset Management	1,000	1,000	1,000	1,000
Infrastructure Development	10,000	0	0	0
IT Strategy Hardware	300	0	300	0
Waste Strategy - Containers	475	0	0	0
Policy & Resources Investment	0	1,000	2,000	0
Housing & Communities Investment	2,100	500	500	500
East Square Development	4,748	0	0	0
Great Oaks Quarter	4,900	4,900	0	0
Town Centre Revival Investment	0	1,500	1,500	0
Contingency	250	250	50	50
Total Expenditure	**34,423**	**19,577**	**8,250**	**4,450**
Financing				
Government Grants	5,900	5,900	1,000	1,000
Other Grants & Contributions	1,000	1,500	1,500	0
Direct Revenue Financing (DRF)	300	0	300	0
Borrowing	27,223	12,177	5,450	3,450
Total Financing	**34,423**	**19,577**	**8,250**	**4,450**

The Local Government Act 2003 requires the council to have regard to the 'Prudential Code for Capital Finance in Local Authorities' when making decisions concerning the resourcing of its capital programme. The Government provides no support for borrowing to resource general fund expenditure. The programme is, therefore, financed by locally-generated resources consisting of borrowing, capital receipts, revenue contributions and other capital contributions (including Section 106 agreements).

The capital programme includes a requirement for borrowing in each year. The Chief Finance Officer will consider the most effective way to finance each year's programme in the light of the financial circumstances prevailing at the time (this may include the use of further revenue contributions if appropriate).

Projects are added once they have the appropriate approval, apart from projects that are subject to external funding, or items necessary to maintain service delivery by maintaining existing council assets to a useable standard. The limits and approval processes for new expenditure, virements and supplementary estimates are contained within the Financial Regulations, which form part of the council's Constitution.

The capital programme may require amendment to take account of any activities approved during the year which meet the objectives of the Corporate Plan.

Projects will generally be assessed through financial modelling as though they were funded by borrowing and are required to provide a positive net present value (NPV) by the modelling of the project cash flows, including the financing costs, as though it took place in one day, to ensure that income or cost savings are greater than sums expended. The only exception to this would be if a project was necessary to maintain service delivery, or deliver other benefits, in which case it would follow the approval process as outlined in the Financial Regulations, but would not necessarily require modelling as outlined above.

HRA Capital Programme

A 30 year Asset Management Strategy, initially prepared in 2011/12 and revised and updated each year, is a key input into the 30 year financial strategy. Modelling the resources available in the 30 year HRA financial forecast demonstrates that the demands of the updated Asset Management Plan can be fully met throughout the 30 year planning period.

As a result of this, the priorities of the capital programme, following the complete review and preparation over a ten year period taking into account not only the need to maintain the stock to the agreed standard, but also the need to improve and maintain the overall estates and environment, can be continued. The programme has also been linked to the revenue repairs budget and, in particular, the planned maintenance programme, to ensure that the overall programme of works are aligned and prioritised taking into account the overall capital and revenue resources available. Also taken into account in the preparation of the programme is deliverability given contractor resource availability, procurement timescales and human resources availability for project and contract management.

Notwithstanding the above, the acquisition and development of new dwellings is considered to be an integral part of the council's strategy and for five years from 2021/22 a sum of £52 million has been made available for this purpose. This will allow the use of some £17.6 million of retained Right to Buy receipts.

The other major source of funding for the capital programme is the depreciation charged to the HRA, however, it is also possible to make additional revenue contributions to capital expenditure. The revenue budget identifies the proposed level of contribution in each year and assumes that any balance in the general and earmarked reserves above the £4.6 million considered to be prudent by the Chief Finance Officer is transferred to an Asset Management Reserve and made available, by Committee or Council decision, to supplement the capital programme. There is no additional borrowing required for the HRA capital budget over the forecast period.

Taking all of these matters into consideration, the proposed HRA capital programme for 2021/22 and for the forecast period is as follows:

	2021/22 £'000 Estimate	2022/23 £'000 Estimate	2023/24 £'000 Estimate	2024/25 £'000 Estimate	2025/26 £'000 Estimate	Years 6-10 £'000 Total	Years 1-10 £'000 Total
General Programme							
Internal Works	7,314	7,314	7,314	7,314	7,314		36,570
External Works	4,480	4,480	4,480	4,480	4,480		22,400
Common Parts Works	6,902	7,242	4,722	4,699	4,482		28,047
Sub-Total	18,696	19,036	16,516	16,493	16,276		87,017
Insulation programme	1,765	1,600	1,600	1,600	1,600		8,165
Aids and adaptations	1,000	1,000	1,000	1,000	1,000		5,000
Estate Works	500	500	500	500	500		2,500
Structural	500	500	500	500	500		2,500
Sub-Total	3,765	3,600	3,600	3,600	3,600		18,165
Total Capital (excluding inflation & fees)	**22,461**	**22,636**	**20,116**	**20,093**	**19,876**	**101,400**	**206,582**
New Build Programme							
Acquisition & New Build	9,000	9,000	9,000	5,000	4,000	16,000	52,000
New build carried forward from 2020/21	6,558	-	-	-	-		6,558
Overall Programme	**38,019**	**31,636**	**29,116**	**25,093**	**23,876**	**117,400**	**265,140**
Financed By:							
Major Repairs Reserve	17,207	17,550	17,902	18,260	18,300	92,100	181,319
General Capital Receipts	4,087	4,919	2,252	1,930	1,781	7,072	22,041
141 Capital Receipts - New Build	4,667	2,700	2,700	1,500	1,200	4,800	17,567
Revenue Contribution - New Build	10,891	3,000	3,000	3,000	-	-	19,891
Revenue Contribution - Other Capital	1,206	3,431	-	1,660	2,236	15,789	24,322
Total Financing	**38,058**	**31,600**	**25,854**	**26,350**	**23,517**	**119,761**	**265,140**

Section 2 – Other Capital Expenditure

Introduction

Part of the reason for the changes seen in the regulations is to ensure that the council provides clarity over 'other' investments that might otherwise not be captured in either the treasury management or investment strategies. The council is clear in its Corporate Plan for 2019 – 2022 under the 'Use of Resources' section that it will act commercially. Specifically, it states:

- We will have a strong commercial focus, taking advantage of every opportunity to collect and generate income.
- We will also continue to invest in assets to generate revenues that will pay for services across the borough.

The extent to which the council has undertaken these activities is outlined below, with each paragraph describing the various activities that broadly fit the definition of capital or non-treasury investments. These activities are key to the ongoing service delivery objectives of the council, for example to enable regeneration of key areas of the borough to be maintained. As part of the management of these activities, they are expected, at the very least, to provide income sufficient to cover the borrowing and management cost of providing them or deliver wider economic benefits, but are managed in such a way as they should provide a surplus to be included in the budget setting process. This is highlighted further later in this section of the strategy.

Financing

At its Cabinet meeting in March 2017, the council approved two additional borrowing requirements, one for up to £80 million for the purchase of an investment asset portfolio (Minute 2017/141) and up to £117 million to support the activities of the council's subsidiary company, Sempra Homes Limited (Minute 2017/146). The Sempra investment has since been increased to £267 million by Housing Development Sub-Committee (Minute No. 2020/848) as part of the approval of the revised business plan. This was further supplemented by Council on 8 August 2019 (Minute 2019/419), where the borrowing requirement for investment assets was increased from £80 million to £150 million and a new borrowing requirement of £100 million for the purchase of strategic assets was introduced. This latter scheme is focused on the purchase of assets within the borough and in particular to fund acquisition opportunities identified in the Town Centre Masterplan. These sums do not include the lease investments, which are subject to separate individual approvals.

In addition to the above activity, on 15 November 2019, the council completed the purchase of Acorn House Developments (Basildon) Limited, which will be operated as a second subsidiary company to convert commercial office space into residential units.

As new opportunities come forward, they will be assessed in relation to the most appropriate delivery model and, where appropriate, will be delivered within one of the council's subsidiary companies if this is deemed to be the best vehicle, or when statutory regulations require the council to do so. There may also be occasions when assets are moved within the group, but these transactions will generally be at arm's length and at a market value, ensuring that, where schemes are developed through one of the subsidiaries, they are free to act in a commercial manner in their operations in developing and delivering those schemes.

It should be noted that taking on the additional borrowing associated with these activities is not without risk and the management of this is detailed in subsequent sections of this strategy. All of the borrowing currently undertaken for capital investment purposes is asset backed, i.e. the council has the ownership of an asset that could be sold if required, with the value sufficient to repay the debt incurred in purchasing it, apart from the lease investment deals where the asset is gradually acquired over the term (see below)

Investment Asset Acquisitions

The Investment Asset Acquisition Strategy has been established by the council, with the aim of purchasing assets in the property markets with the intention of them providing a financial return to the council. The strategy sets out certain criteria that the properties are required to meet prior to consideration for purchase and full due diligence is carried out on all potential opportunities prior to any final decisions being made.

The purchase of these investment assets is accounted for as capital expenditure by the council and to the extent that they are financed through borrowing, will increase the council's debt position. The currently adopted policy is that the council will only borrow for the purchase of the asset itself, with any associated fees and taxes being financed from capital receipts. This protects the council's revenue position from any loss that might occur between the capital expenditure incurred (which would include the additional costs) and the actual value of the asset.

The tables below show the levels of investment in, and income generated, by the investment assets currently owned by the council. In terms of these investment assets, the table outlines the level of investment, the notional financing costs and the expected net return available to the council from this ownership:

Asset Location	Date of Acquisition	Acquisition Cost £'000	Rent per Annum £'000	Gross Return %	Notional Financing Costs £'000	Mgt Costs £'000	Net Return £'000	Net Return %
Stevenage	10/05/2018	19,884	1,060	5.33%	497	40	523	2.63%
Bath	28/09/2018	6,505	341	5.24%	163	13	165	2.54%
Tunbridge Wells	12/10/2018	6,773	309	4.56%	169	14	126	1.86%
Richmond	20/11/2018	8,407	420	5.00%	210	17	193	2.30%
Solihull	06/11/2020	11,365	725	6.38%	284	23	418	3.68%
Northampton	09/11/2020	2,920	140	4.79%	73	6	61	2.09%
Total		**55,854**	**2,995**	**5.36%**	**1,396**	**112**	**1,487**	**2.66%**

The overall budget of £150 million for investment assets has been temporarily split due to the lack of good quality opportunities coming forward. At present, the policy is to work with £100 million for acquisitions and use the remaining £50 million to provide commercial loans (see below). On this basis, there is a further £44.1 million available for further purchases at present, but the use of this sum will need to meet the requirements as set out in **Section 3 – Debt Position**.

Commercial Lending

This activity involves the council making loans to third parties who are investing in their businesses. Generally these loans will be asset backed to ensure that sums invested are protected, with the interest paid to the authority providing a differential on the financing costs to the council of providing the service.

These investments will be asset-backed schemes where the financing is necessary for business start-up or expansion, the loans provided will be short-term (usually up to five years) and will attract a market rate of interest. The loan amount will be protected by virtue of a charge placed against the asset being developed such that, should default occur, the invested sum can be recovered.

As stated above, the most recent property based investment strategy, which was approved by Policy and Resources Committee on 21 October 2020 (Minute No, 2020/682), highlighted the allocation of some of the investment asset resources for the purpose of making commercial loans. To date, the council has approved two specific opportunities as detailed in the table below:

Asset location	Date of loan	Acquisition cost £'000	Loan Term (Years)	Gross Return %	Notional Financing costs £'000	Net Return £'000	Net Return %
Maidenhead	17/11/2020	7,440	2.5	6.30%	201	643	3.46%
South Oxfordshire	t.b.c.	11,230	2.5	5.75%	303	859	3.06%
Total		**18,670**			**504**	**1,502**	**3.22%**

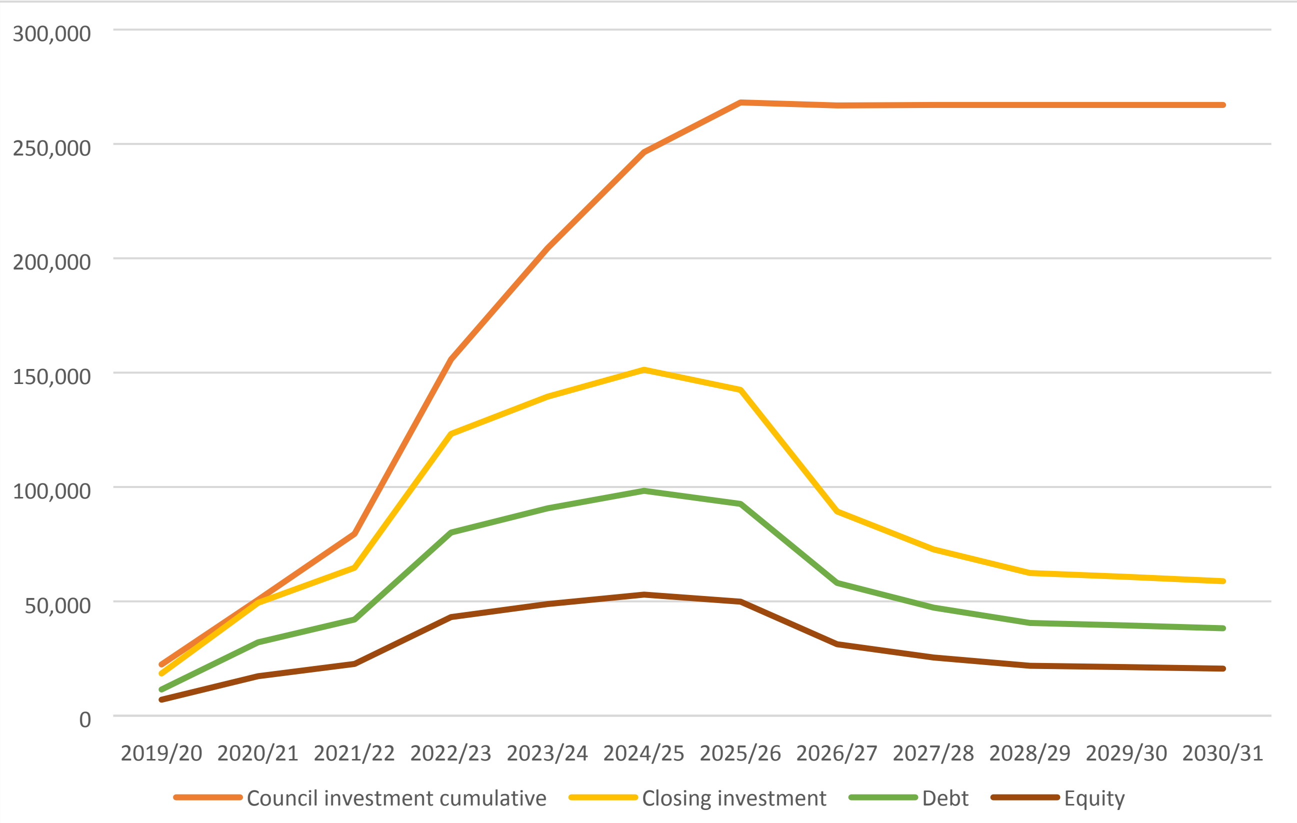
The above table assumes a gradual drawdown of the loan over the term and that the cost of borrowing for the council will be at short-term rates. The estimated return shown is for the entire loan term.

Sempra Homes

Sempra Homes is the house building and management subsidiary established by the council to undertake housing activities that meet objectives that cannot be met by the HRA. As part of the establishment of the company it was agreed that the council would provide financing for the operations in the form of loans or the purchase of equity in the form of shares. Currently all of the loans within Sempra are with the council and the council is the sole shareholder in the company. The council therefore receives a financial benefit in investing in Sempra in two ways:

- It receives a differential on the cost of borrowing, which is the difference between the PWLB rate that the council can borrow at and the market rate of interest that the council is required to charge to Sempra.
- It receives a dividend on any profits made by the company.

The activities of Sempra are contained in the business plan and this was most recently updated in December 2020, when it was approved by Housing Development Sub-Committee (Minute No. 2020/848). The business plan also highlights the level of resourcing required by the company to deliver the agreed outcomes. The levels of investment, as set out in the business plan for the current MTFS period are shown on the graph below:



This shows the council investment at its peak at £151 million and cumulative at £267 million which is expected to deliver around 1,200 properties.

At the end of 2019/20 Sempra had 67 operational properties valued at £12.2 million, including some retained portions of shared ownership dwellings. In addition, it had six properties held for sale with a combined value of £1.6 million and £9.7 million of sites at various stages of development. The council's investment total for 2019/20 and the projected amounts for 2020/21 and the budget forecast period is shown in the table below:

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000

Debt	11,467	32,088	42,057	80,099	90,678	98,331
Equity	7,000	17,279	22,646	43,131	48,827	52,947
Total	**18,467**	**49,367**	**64,703**	**123,230**	**139,505**	**151,278**

As stated previously, all of these amounts will be treated as capital expenditure. The current view (and to comply with accounting regulations) is that the investment in Sempra should be reviewed annually in conjunction with the company's asset base. As long as there are assets which are valued higher than the council's overall investment in the company, then this investment remains unadjusted. However, should this not be the case, the council could consider impairing (making an MRP – see section 6) some of this investment to reflect the lower valuation. For example, at the end of 2019/20 total assets held by Sempra were valued at £23.5 million against the council's investment of £18.5 million, therefore no adjustment was required.

Acorn House Developments (Basildon) Limited

This company was acquired by the council in November 2019 as a transfer of a going concern (ToGC) and became the council's second subsidiary company. As part of the acquisition the council took ownership of the asset held within it (Acorn House) and contractual arrangements for the conversion of the office accommodation into residential flats.

Similar to the arrangements for Sempra Homes, the council has agreed to finance the company through the provision of loans during the conversion works, which are due to be repaid following disposal of the completed units by the company. At present, this is the only activity within the company; the level of investment required by the council is set out in the table below:

	2019/20 £'000	**2020/21 £'000**	**2021/22 £'000**
Debt	1,328	7,033	1,783
Equity	7,640	0	0
Total	**8,968**	**7,033**	**1,783**

At present, it is not expected that further financing will be required beyond 2021/22. The equity figure for 2019/20 represents the cost to the council of the purchase of the company as a going concern.

Acquisition of Strategic Assets

This activity has a different objective to the purchase of investment assets in that the focus is on the regeneration of the key town centres within the borough. These assets are therefore not necessarily purchased to provide a commercial return. However the financing costs associated with this activity assumes that, on purchase, each of these acquisitions will initially provide enough income to cover the financing costs. A separate decision can be made in terms of the viability of any redevelopment of any of these schemes once in council ownership.

To date, the council has made two purchases under this scheme; on 13 March 2020, the council completed the purchase of Market Pavement at a cost of £5.2 million plus taxes and fees. On 2 April 2020 the council also purchased the former Robins Cinema site for £2.8 million plus fees.

The remainder of the strategic acquisition budget will be used for site assembly and the delivery of the Basildon Town Centre Masterplan objectives, where these can be capitalised and similar activities in the other town centres within the borough. The table below outlines the best estimate on how resources will be allocated during the budget forecast period:

	2019/20 £'000	**2020/21 £'000**	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**
Strategic Asset Budget	5,460	9,080	20,460	30,000	35,000
Cumulative Expected Spend	5,460	14,540	35,000	65,000	100,000

At present, it is not expected that there would be any further spending beyond 2023/24 in respect of this activity.

Lease Investments

These investment arrangements involve the council taking a long lease in an asset, whereby it pays a rent for the property to an investor. At the time of taking out this lease, there is a tenant in place who, in turn, pays a rent to the council, which is higher than the council's commitment. The differential on the rental payments is available to the council as additional resource.

There are a number of ways that these deals can be structured, a few typical examples are:

- The council can take out a lease for longer than the tenant lease and accept the risk of managing the tenancy arrangements at the end,
- The council and tenant leases can be matched such that they terminate at the same time,
- The council could accept a lump sum up front for a reduced rental income,
- There could be an option to retain the asset with no further financial commitments at the end of the term.

All of the above options, some of which may not be available on a particular proposal, will have an impact on the level of return received during the period. Generally, the longer the lease the council is prepared to take, the greater the return will be, albeit that there are additional risks if the council's leasehold is longer that of the tenant.

Any arrangement where the council enters into a lease will add to the council's overall debt position, although it should be noted that, unlike the purchase of a commercial property, there is no initial capital outlay. This increase in debt is gradually unwound over the term of the lease as the liability reduces.

Due to the various options that may exist in any deal brought to the council, it is not possible to set a range of pre-determined parameters that any specific one could be judged against, therefore, each one will need to be assessed on its individual merits.

It should also be noted that if the council has the option to take on the ownership at the end of the lease period, that this acquisition cost is gradually transferring to the council during this period. Therefore, although this acquisition forms part of the arrangement, it cannot be realised until the end of the lease term and any subsequent disposal of the asset would provide the council with a capital receipt.

The council has currently undertaken two of these arrangements, one in Newington Causeway in South London and one in Corby, Northamptonshire. These arrangements are summarised in the table below:

Asset location	Acquisition cost £000	Profit Rent per annum £000	Gross Return	Asset Acquisition Value £000	Overall Return £000
Corby	50,500	851	1.69%	1,010	1,861
Newington Causeway	38,200	450	1.18%	764	1,214
Total	88,700	1,301	1.47%	1,774	3,075

The asset at Newington Causeway is currently still under construction, so the council has entered into an agreement for lease on this site, which is due to complete in April 2021. Once operational, the tenant will be a hotel operator, who also has an agreement for lease in place. The asset in Corby is currently operational, the tenant being a large supermarket with an existing leasehold interest.

The council is currently assessing further opportunities, with an intention to enter into one more, as per the revised Property Investment Strategy as approved by Policy and Resources Committee on 21 October 2020 (Minute No. 2020/682). An indicative figure has been included in the budget estimates for an additional investment.

MTFS and Budget Impact

All of the above are covered by the 'Investing Activities' section of the budget book. It should be noted that not all of the surplus from these activities is assumed within the Medium Term Financial Strategy (MTFS) as being available for budget setting as a portion is taken through reserves. This is for a number of reasons:

- To assist with managing risk, such that sums assumed for budget setting can be reasonably certain as a reserve sum would be available to cover any one-off shortfalls.
- To smooth out cash flows so that the general fund was not subject to any fluctuations that may occur within these activities.
- To ensure that sums are available for future capital investment and to provide support to new tenants at points where existing leases reach termination.

The inclusion of investment asset purchases is also subject to the debt position being managed as outlined in **Section 3** and therefore currently does not assume any further investment for the purpose of setting the budget.

In addition to these costs, there are also costs in respect of managing the assets, for example ensuring all tenants are meeting their lease obligations and dealing with service charges, which is carried out on behalf of the council by external managing agents.

The assumed level of activity in these areas is set out below:

	2021/22 £'000 Estimate	2022/23 £'000 Estimate	2023/24 £'000 Estimate	2024/25 £'000 Estimate
Investment Asset Purchases (Including Lending)	10,000	10,000	-20,000*	0
Sempra Homes	15,336	58,527	16,275	11,773
Acorn House	1,800	0	0	0
Strategic Assets	20,460	30,000	35,000	0

*This negative figure represents the repayment of the commercial loans.

The budget area for Investing Activities is therefore as follows:

	2021/22 £'000 Estimate	2022/23 £'000 Estimate	2023/24 £'000 Estimate	2024/25 £'000 Estimate
Expenditure				
Employees	149	151	152	154
Supplies & Services	351	431	461	461
Management & Administration	22	22	23	23
Capital Charges	11,521	13,945	14,889	15,178
Total Expenditure	**12,043**	**14,549**	**15,525**	**15,816**
Income				
Recharges to Services	-50	-50	-50	-50
External Recharges	-256	-261	-266	-271
Rent Income	-13,109	-15,139	-16,161	-16,187
Interest Receivable	-2,706	-3,060	-3,509	-3,415
Investment Income	-2,170	-4,911	-1,076	0
Total Income	**-18,291**	**-23,421**	**-21,062**	**-19,923**
Net Surplus	**-6,248**	**-8,872**	**-5,537**	**-4,107**

These surpluses, after the necessary appropriations to reserves, are included within the MTFS for budget setting over the forecast period.

To the extent that these income streams are not realised, the Chief Finance Officer will need to find additional savings elsewhere in the general fund budget or use reserve balances to maintain service levels. If any differences are deemed to be the result of timing issues, such as slippage in build programmes, reserves would be used and replenished at a later date.

Any borrowing for investment asset acquisitions will be for the outright purchase of assets to be held in the council's accounts as Investment Properties. Likewise, borrowing in respect of strategic asset acquisitions will be asset backed, but as the objective is regeneration, these are likely to be categorised differently, most likely as operational assets.

Power to Act

Under Section 12 of the Local Government Act 2003, the council has the power to invest:

a) for any purpose relevant to its functions under any enactment, or
b) for the purposes of the prudent management of its financial affairs.

This is the power the council is currently using to undertake the capital investments for the acquisition of Investment Properties as outlined in this section of the strategy.

For its investment in Sempra Homes Limited, Section 1 of the Localism Act 2011 (the general power of competence) and to the extent necessary Section 95 of the Local Government Act 2003 and the ancillary power in section 111 of the Local Government Act 1972 provide the powers needed by the council to participate in Sempra Homes Ltd. Where the council is using the general power of competence it must do so through a Company. In this case Sempra Homes is such a vehicle.

When considering the acquisition of strategic assets, the council is mainly seeking to meet the objectives of the Basildon Town Centre Masterplan and those being developed for the outlying town centres within the borough, namely Billericay, Wickford, Laindon and Pitsea. In doing so, the focus is on the regeneration of the areas so these are covered by general powers available to the council for the provision of regeneration services.

The Localism Act 2011 confers to the council (Under section 1(1)) the power "…to do anything that individuals generally may do.", referred to as the General Power of Competence.

There is no indication from either the government or CIPFA that any of the activities covered in this strategy fall outside of the powers available to the council.

Risk Management

Unlike the Investment Strategy (as outlined in **Section 5**), which focuses on the prudent investment of surplus cash flows, by following the factors of Security, Liquidity and Yield in that order, investment in commercial operations, by their nature, need a different objective. While seeking to maintain the level of investment, the initial focus is on Yield (the level of financial return) and the investments are not likely to be liquid (the speed at which the investment can be converted into cash). Details of how the council manages the risks associated with this different approach are set out below. Even with these in place though, there is the possibility that the security of the sum invested could be affected by changes in the underlying value of any assets that have been purchased. Details of how these fluctuations are to be dealt with are included in **Section 6 – Minimum Revenue Provision** in the paragraph headed 'MRP for Investment Properties' and in the subsequent proposal.

The investments in property and in the council's subsidiary companies are not regarded in the regulations as treasury activities and are therefore accounted for as capital expenditure. As these activities are funded from borrowing, the cost of servicing debts falls on the general fund and will be included in the budgets to be approved by Full Council in each financial year of the life of the loan. It is essential that, at the very least, these activities provide an income to the general fund which is sufficient to cover these costs, but preferably to also create a surplus that can be used to support the provision of services. However, in complying with the regulations, it is necessary to recognise the risks around these activities and in particular that the income generated by these schemes may not be sufficient to cover the costs incurred.

In terms of sensitivity and to give a sense of scale of potential costs to the council should a significant event, such as a recession, occur in the future, the following gives some examples of the sums that could be involved:

- A 10% reduction in property values for the owned and proposed direct asset purchases, would generate an annual charge to revenue of around £130k per annum.
- The council would be subject to continuing lease payments under the lease investment deals should any of the tenant's default. The cost incurred would be dependent on the time taken for a replacement to be found.
- Each 1% increase in interest rates on borrowing of £100 million, the direct investment portfolio, would generate an additional revenue cost of £1 million per annum. This would not apply to the lease deals which are at a fixed rate of interest.

The last point above illustrates that debt often needs to be replaced at the end of any loan term, unless the asset it relates to is sold to repay. This brings about an additional risk that the council may be replacing low interest debt with higher, depending on the circumstances at the time. For example, borrowing costs at present are typically 1.5% to 2.0%, depending on the term of the borrowing. These levels are historically low and it would therefore, not be unreasonable to expect that any new borrowing taken out in years to come to replace this debt, could be more expensive. This risk applies to all the council's treasury activity, not just property investment, and is dealt with specifically in **Section 4 – Treasury Management Strategy**.

The risks associated with individual elements of the strategy are all different and were detailed in the reports that were presented to committee for approval at each stage. The following therefore provides an overarching view of the risk in totality.

The assessment of the overall risk is that events are deemed to be very likely to occur based on the number of investments and range of different investment types across the portfolio. The quantum of lost income could be considerable should income generated be lost for a period of time, however the revenue impact on the budget is deemed to be moderate due to the mitigation measures in place, with particular reference to the balances held in the commercial reserve. The overall risk is considered manageable, based on the relative scale of current investments.

This mitigated risk is dependent on the size and the spread of the overall portfolio. Given the range and scale of investment activities that the council is proposing, it is deemed to be very likely that risks will be realised during the life of these arrangements. On the basis that additional risk management measures have been put in place to assist with these, that the impact will be moderate. As an example, if the council was to lose a single tenant on one of its investment asset sites, the rental income would be lost until a replacement tenant was found. Should this occur, a sum that had previously been appropriated to the earmarked reserve would be utilised to offset any shortfall in resources that had been assumed available for budget setting.

It is impossible to determine with any certainty how the many factors that affect commercial investments will unfold, particularly given the investments' long term nature. This has been demonstrated with the unprecedented impact of the Covid pandemic that could not have previously been envisaged. It is in this context that the risk assessments are indicative only and at a point in time. These are continuously reviewed as part of the process and mitigation actions, as described below, and are reassessed to ensure they are fit for purpose.

The council uses a number of mechanisms to reduce these risks, including the following:

a) Project cost modelling – in this exercise, the income and expenditure cash flows for the life of the project are modelled. These are based on a number of assumptions which may include the interest rate applicable at the time the borrowing is undertaken, term of the borrowing and rate of inflation. These costs are then converted into a 'present value' (taking out the impact of inflation and the opportunity cost of income that could be generated if the funds had simply been invested for a return), using an appropriate discount rate, the effect being as though all of the costs and income generated by the project occurred on day 1.

Other investment appraisal techniques are also used including:

- Payback
- Internal rate of return
- Comparison to a benchmark yield

b) Use of specialist advisors – as part of these activities, the council employs the use of specialist advisors, who know and understand the market in which the activities operate and provide the council with appropriate advice and data on which to base many of the assumptions used within the modelling.

c) All of the activities undertaken by the council in this area are subject to a strategic framework in which to operate which has been approved by the appropriate Committee or Council. There is an Investment Asset Acquisition Strategy[1] that clearly sets out the parameters around which investments will be considered and Policy and Resources Committee has responsibility for scrutiny and approvals. Sempra Homes operates within an approved business plan[2] which sets out how the company meets local housing need, details the financial framework, levels of support required from and the consequential financial returns to the council.

d) Use of earmarked reserves – the activities highlighted above are rarely consistent in terms of costs incurred and income generated and while these are modelled as accurately as possible, there will be fluctuations that are unknown at the outset. Where, for example, costs are incurred for construction prior to income generation, these are appropriately modelled, however, in any financial year, the costs or surpluses generated are unlikely to match the modelling exactly. One of the methods that will be used by the Chief Finance Officer to protect the council from these fluctuations is the use of Earmarked Reserves. In this instance any surpluses above projections, may be transferred into a reserve to offset any future deficits that may be experienced. In this way, the Chief Finance Officer can take a view annually of the extent to which surpluses generated can be used to fund services whilst being mindful of the risk to future budget setting of any negative events in any of these areas. This is seen most notably in the returns for Sempra Homes, where the forecast returns are not being relied upon for budget setting, but a more prudent £400K per annum is being made available to fund services.

e) Diversity of investments – considering the portfolio of capital investments in its widest sense, taking into account everything described in this section, the aim is to manage a diverse portfolio of investments such that, should one sector start performing less favourably, others would not suffer likewise or may even be performing more strongly to offset any income reductions. Therefore, fluctuations within the property or financial markets or in the wider economy, should have a much lesser impact on the portfolio overall. The council's current portfolio is made up from a mix of the following sectors:

- Hotel
- Supermarket
- Industrial
- Office
- Housing
- Retail
- Restaurant/Takeaway

As part of their work on auditing the council's accounts for 2018/19, the external auditors, BDO, carried out the following work in respect of the purchasing of investment properties:

- Reviewed the Council's governance arrangements in respect of decisions to invest in commercial property outside of the borough
- Confirmed that appropriate financial and non-financial information has been used to inform decision making including business cases that support investing outside of the borough
- Reviewed ongoing monitoring of investment performance against planned outcomes.

The auditors found no issues in respect of these activities.

Proportionality

To provide a sense of scale of the extent to which the council is relying on these activities to fund services, the following table provides some performance indicators. These indicators measure the resources from investment activities that are being relied upon to fund services, compared to the total income assumed in the budget.

Income from Investment Activities as a % of Total Budgeted Income:

[1] http://www.basildonmeetings.info/documents/s85856/Commercial%20Asset%20Acquisition%20Strategy.pdf
[2] http://www.semprahomes.co.uk/

	2021/22	2022/23	2023/24	2024/25
Total	2.00%	2.56%	3.03%	3.26%

It is important that these investment activities are proportional to the overall finances available to the council, to avoid over-reliance on their performance. This approach gives a measure of this reliance in any given financial year, which therefore allows for any fluctuations in levels of income and expenditure to be managed. The increases in these percentages over time, reflects a continuing increase in reliance on commercial property income and the risk in the volatility in this income, will therefore also increase over time.

The Chief Finance Officer is required to consider the point at which the resources of the council are over-relying on commercial income to balance the budget. These activities should be regarded as supporting the council in managing shortfalls in its finances, rather than a main source of funding, so that ongoing risks, inherent in all these arrangements, can be adequately managed.

Proportionality must also be viewed in context to the wider risk mitigation measures in place.

With this in mind, the Chief Finance Officer considers that, in usual circumstances, the ratio of net income from investment activities as a percentage of total income should not exceed 5%.

Section 3 – Debt Position

All of the activities outlined in this strategy so far are capital in nature and to the extent that they are financed from borrowing, they create a requirement for the council to take on the associated debt. At the initial stage, it is a requirement only, it does not necessarily follow that this will immediately be converted into actual debt. The council could choose, for example, to use existing cash balances to finance this spend until such point that the cash needed replenishing, at which point this would then require new debt, in the form of borrowing, to be taken on.

Relying on this method ensures that the council is not exposed to unnecessary debt costs until required, however there are two considerations that need to be highlighted:

- Once this method is adopted, new borrowing is linked to the council's cash flow position and it becomes difficult subsequently to link individual loans to specific capital activities.
- Careful consideration needs to be given to interest rate movements as short term interest rate cost savings generated by using cash balances can be eroded if rates have risen in the interim period to when the new loans are actually taken out.

It is therefore sometimes beneficial to take on new borrowing before the cash balances dictate that it is required.

In order to adopt this approach to debt, it is necessary to have a mechanism to keep track of the debt requirement so that this can be matched to actual debt in the future. For the council this mechanism is the capital financing requirement (CFR).

Capital Financing Requirement

By ignoring capital expenditure financed from capital cash resources (e.g. capital receipts, grants and contributions, or from revenue or other reserves), the CFR represents the true capital shortfall at any time. Then, by plotting estimated movements in capital expenditure and resources through the capital programme and other capital activities it is possible to estimate the underlying debt requirement. In practice, the council might not actually incur borrowing in line with the CFR if, for example, it has surplus funds invested externally that could be called back, but the starting point for developing a strategy for borrowing has to be the CFR.

The CFR is divided into two parts according to whether the capital shortfall relates to housing revenue account (HRA) or general fund expenditure; for the purposes of clarity the general fund expenditure is further divided between capital programme and other capital expenditure. The figures for the end of 2021/22 and for the budget forecast period are currently estimated as follows:

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
General Fund - Capital	133.0	178.4	180.5	180.3
General Fund - Investment Activities	328.2	377.5	375.1	372.7
Housing Revenue Account	204.8	204.7	204.6	204.5
Total	**666.0**	**760.6**	**760.2**	**757.5**

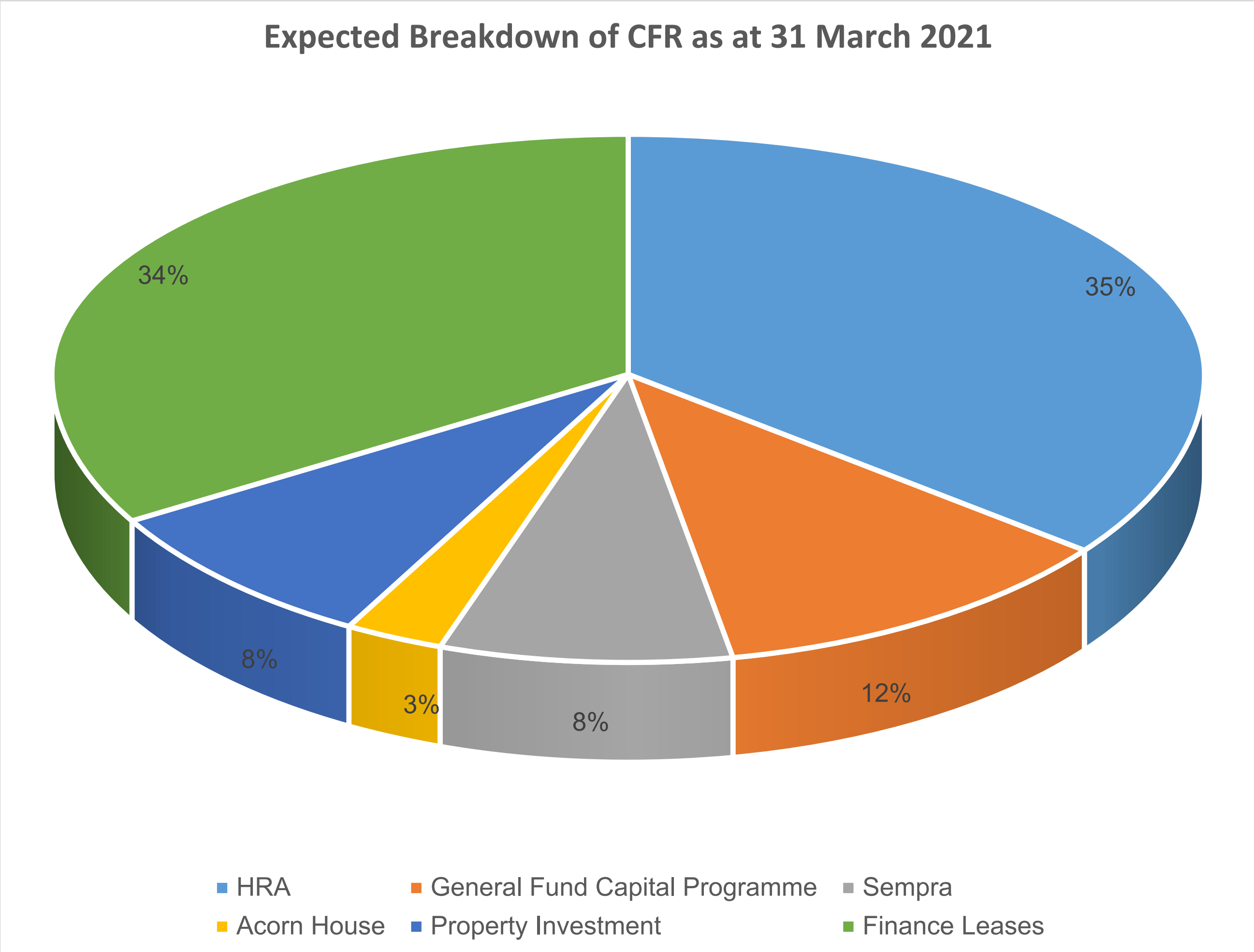
Impacts on the CFR

It should be noted that borrowing is not the only factor within the CFR as there are other forms of debt that are also included in the figure. Finance leases represent a way of procuring assets, usually over their useful life, without the need for an initial capital outlay. Instead the council takes on a debt liability, which is gradually unwound over the life of the lease until the asset is owned at the end. When the council takes on new finance leases, the principal element of the arrangement is also included in the CFR total.

If the council repay any debt, or makes a provision to do so, this reduces the CFR balance. This includes the repayment of lease principals during the lease term. This repayment of debt is usually in the form of MRP, which is further explained in **Section 6 – Minimum Revenue Provision**.

The previous table shows the net impact of all of this on the CFR balance for the end of each financial year.

Taking all of this into account, it is possible to split the CFR down further, with the resulting expected split of the CFR for the end of the 2020/21 financial year as follows:



Borrowing in Advance of Need

The Secretary of State recommends in his statutory guidance that the strategy should state the authority's policies on investing money borrowed in advance of spending needs.

It is clear from the Treasury Management Strategy that average weighted gross borrowing will be maintained below the Capital Financing Requirement (CFR), which is defined by the Prudential Code as the authority's underlying need to borrow. Any external investments are the result of normal cash flow management.

It is also clear from this strategy that it is the cash flow position of the council that determines when borrowing is undertaken, not an individual activity. The only exception to this is where market conditions make borrowing favourable prior to the date planned, where an assessment is carried out to calculate the cost and benefit of undertaking the borrowing early. Only in instances where it can be demonstrated as favourable, will this be undertaken.

Taking the above into account, it would be difficult to determine how much, if any, of any new borrowing undertaken was specifically in respect of capital investments. The table below shows the council's actual and expected CFR position both with and without investment properties and a comparison to the actual and expected debt position for the same period.

Capital Financing Requirement (CFR) 2021/22	Apr-21 £m	Mar-22 £m
Total CFR Including Investment Properties	577.9	666.0
Total CFR Excluding Investment Properties	276.9	337.8
Expected Gross Debt	548.2	628.8

This means that theoretically some of this debt could be directly attributed to the purchase of investment assets. It is CIPFA's view that local authorities should not borrow more than, or in advance of need, purely to profit from investing the sums borrowed. It should be noted though, that the expected debt position is below the total CFR level expected at the end of the year, which remains the underlying measure of need.

Access to Public Works Loans Board Loans (PWLB).

On 11 March 2020 the government issued a consultation on changes to the ability of local government to access loans from the PWLB. The consultation closed on 31 July. The results of the consultation were announced on 25 November and came into effect on 26 November 2020. The revised terms and conditions as set out by the Treasury prohibit access to PWLB borrowing in any year in which the council plans to include any 'debt for yield' items in its capital spending plans. In this instance, debt for yield is described as any activity where an investment is made purely to generate a return to the council. This is different to treasury investments, which primarily deal with surplus cash flows. Moreover, the new conditions also prohibit the use of PWLB borrowing for all other capital purposes in any year where debt for yield investments are intended. At the same time, the Treasury also reduced the borrowing rates for all PWLB lending by 100 basis points (1%). These new measures are not retrospective and, therefore, the council could refinance all internal borrowing (the difference between actual debt and the capital financing requirement) which existed on 25 November with PWLB borrowing at the revised rates. The council is also permitted to refinance maturing loans with new PWLB borrowing, even in years where debt for yield activities are taking place. In addition, it should be noted that the consultation was explicit that property investments were not intended to be prohibited.

The main implication of this change is that, should the council wish to undertake further capital investment activities, and was able to secure commercial borrowing to do so, that additional commercial borrowing would also be required for any other capital activities in that year. To the extent that these commercial loans were at a higher rate than current PWLB borrowing rates, the council would incur this additional cost over the life of the loan.

An alternative approach would be to finance any regular capital activities in debt for yield years using short-term (temporary) borrowing, which could be refinanced in future years with PWLB borrowing when debt for yield activities were no longer taking place. This approach would, however, leave the council exposed to the temporary loan markets which can be unpredictable, so some additional certainty around the availability of short-term loans would be required before any debt for yield activities could be factored in.

The plans outlined in this report therefore assume that no investment property purchases or leasing investing opportunities will be pursued in any financial year during the budget forecast period. This would be the case until sufficient temporary borrowing has been secured for the other in year capital activities. They will also not be pursued unless commercial loans, which would be required to finance the investment property transactions in the longer term, could be secured at a rate that allows for the target net yield of 2% to be achieved.

This is the most prudent approach for budget setting purposes for two reasons:

- Temporary borrowing rates tend to be lower than regular rates, so any short term loans secured would lead to a favourable outturn position against budget.
- All property investments are forecast to generate a positive return to the council, so, as long as the methodology outlined above was adhered to, any future investments would generate additional resources to those assumed in the base budget.

Prudential Code – consultation

On 1 Feb 2021 CIPFA announced a consultation into proposed revisions to the Prudential Code. The proposal is to strengthen, in response to a perception that authorities are taking undue risks when engaging in commercial investment, the Code particularly in respect of

1) Clearly setting out that debt for yield activity is not permitted by the Code
2) Ensuring the proportionality of commercial activity
3) Aligning such activity to an authority's strategic objectives

As proposed the changes would remove the council's ability to engage in the continuing delivery of its property investment strategy. While the current budget and forecast do not include any further activity in this area this would limit flexibility in dealing with resource issues that may arise in the future.

Officers will make a technical response to the consultation by the closing date of 12 April 2021. CIPFA are suggesting that the revised code would be implemented towards the end of this calendar year and that it would become effective in the 2021/22 financial year.

CIPFA have also proposed revisions to the Treasury Management Code aimed at strengthening the requirement for authorities to have access to appropriately qualified, skilled and experienced resources to manage their treasury management activities.

Section 4 – Treasury Management Strategy

Treasury management is a key element of the council's overall financial management arrangements. It relates to the council's borrowing and investment activities and the effective management of the associated risks. These activities are strictly regulated by statutory requirements and professional codes of practice, which require authorities to set local parameters for their officers to work within. This council has adopted the CIPFA Code of Practice on Treasury Management in the Public Services (the Code) and, as required by the Code, has an approved Treasury Management Policy Statement and associated Practice Statements.

Under these arrangements, Full Council approves an annual strategy for the expected treasury management activity in the forthcoming financial year. A further report is made after the year-end on the actual activity for the year and a mid-year report will also be made comparing performance with the approved strategy.

This section summarises the current position with regard to the council's Treasury Management arrangements and proposes a strategy for 2021/22. The report is structured under the following paragraph headings:

1. HRA and general fund 'Pools'
2. Projected portfolio position
3. Borrowing and Investment Strategy
4. Interest rate considerations
5. Debt limits
6. Debt rescheduling
7. Treasury Indicators
8. Proposed Treasury Management Strategy for 2020/21

HRA and General Fund 'Pools'

HRA and general fund debt is managed separately in two pools, with actual loans and other debt allocated to each. The following principles are adhered to:

- There must be no detriment to the general fund in this approach.
- Any allocation of debt should be broadly equitable between the HRA and the general fund.
- Future charges to the HRA in relation to borrowing are not influenced by general fund decisions, giving a greater degree of independence, certainty and control.
- Cash resources (reserves and other cash backed balances e.g. provisions) which allow borrowing to be below the capital financing requirement (see **Section 3 – Debt Position**) are separated between the HRA and general fund.

Where relevant the figures that follow are split between HRA and general fund. It should, however, be noted that all debt is secured on all the revenues of the council and that the Chief Finance Officer retains responsibility for the overall TM strategy.

Projected Portfolio Position

The projected position for the council's debt and investments is set out in the table below. The figures include the requirement for the Capital Programme and Other Capital Expenditure. The Average Amount column is weighted according to expected levels of activity during the year.

	Apr-21 HRA £m	Apr-21 GF £m	Apr-21 Total £m	Mar-22 HRA £m	Mar-22 GF £m	Mar-22 Total £m	Average Total £m
Long Term Borrowing (one year or more):							
Public Works Loan Board fixed rate	201.1	141.5	342.6	205.8	211.5	417.3	380.0
Market Bonds	0.8	0.0	0.8	0.0	0.0	0.0	0.4
Sub-total, long term	**201.9**	**141.5**	**343.4**	**205.8**	**211.5**	**417.3**	**380.4**
Short Term Borrowing (up to one year)	0.0	10.0	10.0	0.0	20.0	20.0	15.0
Total Borrowing	**201.9**	**151.5**	**353.4**	**205.8**	**231.5**	**437.3**	**395.4**
Finance Leases	0.3	194.5	194.8	0.2	191.3	191.5	193.2
Gross Debt	**202.2**	**346.0**	**548.2**	**206.0**	**422.8**	**628.8**	**588.5**
Less Short Term Investments	0.0	-21.4	-21.4	0.0	-10.4	-10.4	-15.9
Net Debt	**202.2**	**324.6**	**526.8**	**206.0**	**412.4**	**618.4**	**572.6**

The above table shows that actual gross debt is expected to increase over the financial year by £80.6 million and net debt by £91.6 million.

Borrowing and Investment Strategy

It will be noted that the amount of unfinanced capital expenditure represented by the CFR is considerably in excess of the estimated actual debt requirement shown in the table in paragraph 2. The council is therefore borrowing considerably less than its implied need to borrow. This is due to sound and proactive treasury management activity where surplus cash resources available are used to finance capital expenditure rather than investing them externally on the money markets. The extent to which this is to be done is shown in the table below:

-	Apr-21 HRA £m	Apr-21 GF £m	Apr-21 Total £m	Mar-22 HRA £m	Mar-22 GF £m	Mar-22 Total £m	Average Total £m
Capital Financing Requirement	204.9	373.0	577.9	204.8	461.2	666.0	622.0
Less: Forecast Gross Debt	202.2	346.0	548.2	206.0	422.8	628.8	588.5
Surplus cash invested internally	**2.7**	**27.0**	**29.7**	**(1.2)**	**38.4**	**37.2**	**33.5**

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

It is assumed that the HRA is always fully borrowed and the portfolio of existing loans, as well as new assumed borrowing, is distributed accordingly. To the extent that the combination of its reserves and borrowing exceeds its CFR it is assumed that it has lent to the general fund. The situation could arise where the HRA is borrowing from the general fund. Interest is charged on these internal borrowings at a rate considered to be appropriate by the Chief Finance Officer.

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

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

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

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

Interest Rate considerations

It will be seen from the table in the projected portfolio paragraph that the borrowing portfolio consists of mainly long-term borrowing, with short-term borrowing only being entered into to cover short term investment items such as commercial lending. Long-term borrowing at fixed rates of interest gives certainty of cost, which is important to protect the revenue budget from volatility in market interest rates, but as will be seen from the table of average rates below, projected short-term rates offer a considerable saving at the present time below long-term borrowing rates:

	2020/21	2021/22
Bank Rate	0.10%	0.10%
Investment Rate	0.10%	0.10%
Overdraft	0.60%	0.60%
1 year PWLB	1.50%	0.50%
5 year PWLB	1.80%	0.90%
10 year PWLB	2.10%	1.20%
25 year PWLB	2.50%	1.60%
50 year PWLB	2.30%	1.40%

The table above reflects the reduction in PWLB borrowing rates following the introduction of new terms and conditions in November 2020 as outlined in **Section 3**.

As recommended by the TM Code, it is important to diversify borrowings to provide a balance between interest rate risk and certainty. Some existing debt will be maturing during 2021/22 and, taken with the borrowing requirements of the capital programme, the recommended portfolio position reflects a mix of maturity periods, including short-term. All decisions are taken by the Chief Finance Officer or under delegated arrangements approved by him, having regard to the issues discussed in this strategy document and principles determined in consultation with our TM advisers.

The short-term rates shown above are projections of 3 month LIBOR[3], which is closely related to the cost of temporary borrowing. This is closely related to the 3 month LIBID rate, which is a benchmark rate of interest for short term borrowing. In practice, the rate of interest that could be earned on external investments could fall far short of this rate because of the need to put security before yield and invest only in the safest counterparties, who therefore pay a lower rate of interest.

To project interest rates with any certainty in the present economic climate continues to be very difficult. As a consequence a Treasury Management Reserve was set up in 2011/12 to manage future interest rate

[3] The LIBOR (London Interbank Offered Rate) rate is the average interest rate that leading banks in London charge when lending to other banks.

fluctuations. The balance on the reserve at 31 March 2020 was £1.0 million. A similar reserve was established for the HRA during 2012/13 with an initial balance of £0.6 million.

In terms of interest return from sums invested, these continue to be historically low due, in part, to the reduction in the Bank of England base rate in March 2020 as well as general uncertainty in the financial markets. However, this income is only in respect of managing the council's excess cash balances, so tends to be short-term in nature. In respect of income to support services, a more proactive approach is being taken as outlined in the earlier sections of the strategy.

Debt Limits

Local borrowing limits are set as part of the council's consideration of its annual Prudential Indicators. The limits projected by the council for 2020/21 and for 2021/22 are shown in the following table:

	2020/21 £m	**2021/22 £m**
Authorised Limit for external debt	550	750
Operational Boundary for external debt	500	700

The Authorised Limit is the limit placed by the council on the absolute level of its gross debt at any time. The Local Government Act 2003 stipulates that it must not be breached at any time. The Operational Boundary on the other hand is a lower figure reflecting the *planned* maximum level of debt at any time, the difference being designed to give headroom to deal with unforeseen movements in cash flow. It will not normally be a matter of concern if the Operational Boundary is breached temporarily due to variations in cash flow. However, a sustained or regular trend above the Operational Boundary would require investigation and appropriate action.

As the two debt limits are set locally, the council may review and amend either or both of them during the course of the year by formal resolution.

Debt Rescheduling

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

The question of whether the council will pursue any debt rescheduling will always have to take into account the net revenue effects of the premium/discount against the costs/savings to be made in the average rate of interest payable on the new loans. The PWLB terms on which premature repayment can be made are generally unattractive. Rescheduling should only be considered where the economics can be justified over the term of the original or replacement loan. Another important consideration is the respective financial implications for the general fund and HRA.

Decisions on rescheduling will be made by the Chief Finance Officer or under delegated arrangements authorised by him. They will also only be taken in consultation with TM advisers retained by him.

Treasury Indicators

- Interest Rate Exposures

  The following indicators set upper limits to the council's exposure to the effects of changes in interest rates, in 2021/22 and for the following two financial years, as required by the Code.

  The figures are calculated on the amount of borrowing net of investments at any time, so, for example, a negative limit would indicate a weighting towards investments.

Upper Limit on fixed interest rate exposure	125%
Upper Limit on variable interest rate exposure	±25%

- Maturity Structure of Fixed Rate Borrowing

  The following indicators are designed to limit the council's exposure to sums falling due for replacement at about the same time. Variable rate debt, including for this purpose any short-term borrowing, would present no problem in this regard as it is likely to be replaced at similar rates of interest. Long-term fixed loans, however, could be running at historical rates significantly different from the market rate at the time of repayment, with consequences for the revenue account.

  The limits refer separately to the maximum and minimum proportions of the borrowing portfolio that may mature in each given time period. They have been reviewed without change for 2021/22. The minimum amounts have been set at 0% since, in the long term, one of the objectives of the HRA business plan is to repay the debt in full. The maximum limits have been kept at their limits to provide flexibility in decision making over appropriate maturity periods for new debt.

	Maximum	**Minimum**
Under 12 months	50%	0%
12 months and within 24 months	50%	0%
2 years and within 5 years	50%	0%
5 years and within 10 years	50%	0%
10 years and within 25 years	100%	0%
25 years and within 50 years	50%	0%

- Total Principal Sums invested for periods longer than 364 days

  The restriction on authorisation of longer-term investments is designed to limit the need to seek early redemption in the event of cash flow shortages and the possibility of loss that might arise.

Principal sums invested for more than 364 days	At the discretion of the Chief Finance Officer

Proposed Treasury Management Strategy for 2021/22

Taking account of the above position, the Chief Finance Officer recommends the following strategy for 2021/22:

1. The overall direction of treasury management strategy will reflect the separation of HRA and GF debt (the two pool approach).

2. The overall debt and investment position will be managed having regard to the Prudential Indicators set by the council and the treasury indicators set out above.

3. The council will invest its monies prudently, considering security first, liquidity second and yield last whilst also carefully considering its investment counterparties. It will similarly borrow monies prudently to meet the council's service objectives.

4. The gross level of borrowing will be maintained below the average Capital Financing Requirement for the year.

5. Surplus funds (with the exception of funds required for liquidity purposes or for internal investment) will be invested in accordance with the approved Investment Strategy.

6. New borrowing will be diversified over a range of maturity periods, including short-term (less than one year), having regard to longer-term projections of CFR, liquidity considerations and expected movements in interest rates.

7. Opportunities for rescheduling debt will be kept under continual review according to market and other relevant factors.

8. The treasury management strategy including the investment strategy, will be continually reviewed in the light of changing circumstances, including legislation, and within the limits set by this Strategy as set out above, the Chief Finance Officer will exercise their discretion to determine the extent to which surplus funds will be used to minimise new borrowing and exposure to external investments.

Nothing in this strategy confers on the Chief Finance Officer the authority to enter into any derivative or derivative like contract without the permission of Full Council.

Revisions to the Strategy

The strategy has been prepared on the statutory guidance and rules currently applicable. Any changes to these or to wider economic circumstances may require a revision to be made to the strategy.

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

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

Section 5 – Investment Activities

Investments

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

The Investment Strategy applies only to the temporary external investment of surplus funds under Section 12(b). It does not apply to loans or investments the council may make under any other enactment, e.g. financial assistance on economic development, house renovation or well-being grounds.

The strategy has been prepared having regard to statutory guidance given by the Secretary of State and to CIPFA's Treasury Management Code of Practice.

General objective and order of precedence

The general objective is to invest surplus funds prudently. Accordingly, priority is given to (1) security, (2) liquidity and (3) yield, in that order. The highest rate of return is sought only after security and liquidity requirements are satisfied.

Classes of Investment and counterparty limits

In terms of counterparty inclusion in the strategy, the first deciding factor will be the Agency Ratings. The ratings specified are the minimum acceptable to the council and therefore any counterparty that falls below these ratings will not be considered further. Once this assessment is made, Link Asset Services' Credit Policy, as explained below, is applied to determine the maximum length of any transaction with each counterparty. This applies to both Specified and Non-specified Investments. In addition to these suggested timings, there will always be an appropriate sum held 'on call' to ensure that the council can meet any immediate obligations as they arise.

Investments are classified as follows in the Secretary of State's guidance:

- "Specified" Investments, which offer high security and high liquidity. They are always denominated in sterling and mature within one year.
- "Non-specified" Investments, which are any other investments approved by the authority in its Investment Strategy.

In recognition of the greater potential risk of non-specified investments, the strategy accords a higher level of procedural formality to this second class of investment.

In the normal course of the council's investment activities, both specified and non-specified investments will be used.

The Chief Finance Officer will continue to make prudent decisions, acting within the parameters set out in this investment strategy, enabling the selection of a number of high quality counterparties which will be kept under continuous review.

This Investment Strategy proposes the use of Link Asset Services' Credit Policy as the main measure of counterparty risk. This policy, developed over a number of years, uses a variety of 'stages' to establish the creditworthiness of an organisation that the council may wish to invest money with. These stages include taking a view of the scores allocated by the main Rating Agencies, which is the sole measure previously used by the council. The main difference with this approach however, is rather than a counterparty being simply 'in' or 'out' of the Counterparty List based on their credit rating, that risk is also managed with the length of fixed term investments; put simply, an investment with a counterparty with a higher perceived risk will only be permitted for a shorter period than those with a lower perceived risk. However, there will still be a requirement for any counterparty used by the council to meet minimum requirements before they are permitted on the Counterparty List and, even then, it will be at the discretion of the Chief Finance Officer if they can actually be used. This methodology is set out in further detail below.

Link Asset Services' Creditworthiness methodology uses sovereign and internationally-comparable institution-level ratings from all three major rating agencies, namely: Fitch, Moody's and Standard and Poor's (S&P).

Taking account of three agencies' opinions strengthens the methodology generally and allows for a view to be taken even when institutions are not fully rated by all three major agencies.

The methodology is a multi-stage formula-based analysis used to accurately predict changes to the relative level of counterparty creditworthiness. It has been developed and tested over a number of years to give users a solid and consistent basis for informing assessments around potential counterparty credit risk.

Stage 1 – Macroeconomic assessment
A view is taken regarding whether certain institutions or countries should be excluded from analysis on the grounds of wider research that indicates unacceptable credit risk.

Stage 2 – Sovereign rating assessment
Although implied sovereign support is no longer factored into credit ratings as a result of changes in the regulatory environment, Link believe that some consideration should be given to the strength of the sovereign in an effective creditworthiness methodology.

If the sovereign rating is below a minimum standard, then it is sufficient for that sovereign and its associated institutions to be removed from consideration for inclusion on the counterparty list.

Stage 3 – Core credit assessment (unadjusted score)
Credit rating feeds from Fitch, Moody's and S&P deliver the rating data used for the first cut of the formula-based assessment. Ratings from the three main agencies are internationally comparable, ensuring consistency across countries. Depending on the score, the entity is assigned a Suggested Duration. This suggested duration may be adjusted by subsequent steps of the methodology.

Stage 4 – Watch and Outlook adjusted assessment (W/O adjusted score)
The Link Asset Services Rating Methodology also takes into account negative and positive rating Watches and Outlooks, by adding and subtracting points to the core credit assessment scores of institutions.

Stage 5 – Credit Default Swap (CDS) adjusted assessment (CDS adjusted assessment)
CDS spreads are a derivative in which the credit exposure within a transaction is transferred from one party to another. In the event of a default, the seller would need to compensate the purchaser and this is priced into the transaction. CDS spreads therefore reflect the up-to-date market perception relating to an entity's credit quality. A benchmark CDS index which measures the "average" level of the most liquid European financial CDS spreads in the market is used.

Using CDS spread an institution can be classified as 'in range', 'monitoring' or 'out of range'. Dependent on their CDS spread score compared to market averages, a 'monitoring' score would lead to a lowered total and an 'out of range' score, leading to removal from the lending list.

The result of this activity is that each of the Counterparties that meets the council's minimum requirements is graded with a suggested maximum investment term. This grading is colour coded and takes the following form:

Coding	Suggested Term
Yellow	60 Months
Purple	24 Months
Blue	12 Months
Orange	12 Months
Red	6 Months
Green	100 Days

Within the above grading, Blue is used for UK nationalised or part nationalised financial institutions and Yellow is for Government related/guaranteed entities, such as other local authorities and Debt Management Office (DMO).

Specified Investments

Deposits may be made with institutions in any of the following categories all of which are designated in the guidance as appropriate for the making of specified investments:

(a) the UK Government (via the Debt Management Office)
(b) a local authority
(c) any Money Market Fund (MMF) of high credit quality
(d) any other body of high credit quality

Deposits must be in sterling and may be placed in category (a) without limit and in categories (b), (c) and (d) may not exceed £5 million at any time, with the exception of the circumstances as outlined in the Liquidity paragraph.

The Chief Finance Officer defines "high credit quality" as satisfying certain conditions at the time the deposit is made. The starting point is the institution's Credit Rating, assessed as described below. Normally, no institution failing the Credit Rating test will appear on the council's approved list. However, the Chief Finance Officer, or staff approved by him under delegated arrangements for this purpose, will also have regard to other information concerning the institution, actual or speculative, reasonably available to him at the time. Taking all relevant information into account, an institution that passes the Credit Rating test could be removed from the list and it is possible an institution that failed the test could be promoted to the list on grounds of more positive information.

The Credit Rating test applied in 2021/22 would require an institution to meet each of the following levels of rating by Fitch Ratings Limited, Moody's Ratings and Standard and Poor's (S&P), or higher. If the institution does not meet all the criteria from all three agencies, it will fail the test. All ratings must be institution specific, i.e. an institution cannot rely on its parent institution's ratings if its own ratings do not meet the criteria. Only when these conditions are met will the timing criteria be applied.

An explanation of the ratings of each agency is provided on page 36 to this document:

	Fitch	Moody's	S&P
(c) Any Money Market Fund			
Long term Issuer Default rating	AAA	Aaa	AAA
(d) Any other body			
Long term Issuer Default rating	BBB+	A2	BBB+
Short term Issuer Default rating	F2	P-1	A-2

The Chief Finance Officer will maintain a list of institutions in categories (c) and (d) that meet the 'high credit quality' conditions and will make deposits only with those on the current list. The list may include rated building societies where they meet the criteria of specified investment, i.e. denominated in sterling, with a maturity of less than one year and in possession of a high credit rating from all three agencies.

The Chief Finance Officer's advisers constantly monitor credit ratings and other relevant information and advise him as soon as there is a change. When the credit rating of a listed institution moves below the minimum profile, other information will be consulted and a decision made as to removal or not from the approved list. Where an institution is removed, any existing deposits will run to maturity, except where they are repayable "at call", in which case they will be called back immediately for same or next business day value.

Non-Specified investments

Subject to the conditions prescribed below, deposits may be made with institutions in the following categories, as non-specified investments:

(e) a building society with assets valued in excess of £5 billion

The total of deposits with any one building society in this category may not exceed £3 million at any time.

The council's criteria for selecting appropriate building societies (except rated institutions which must meet the requirements of a specified investment) relate first to their asset base and secondly to the application of Link Asset Services' Credit Policy.

The credit standing of the Building Society sector relies on the high degree of probity within building societies, the quality of their assets and the regulatory system put in place by the Building Societies Act 1986 and carried out by the Financial Conduct Authority. This being the case, their asset base is considered a more appropriate measure of credit worthiness than credit ratings. Indeed, many building societies of good standing have chosen not to apply for credit rating. Accordingly, the council will treat all investments with building societies which do not have a rating in the category as "non-specified investments". Where the institution is rated by all three agencies it is treated as a "specified investment", and the basis of selection will be in accordance with the criteria applied for specified investments, provided it meets the minimum asset base of £5 billion.

In the same way however as is described for assessing the credit quality of institutions in categories (c) and (d) above, a society in category (e) could be removed from the list on the basis of adverse information and a society with a lower asset base could be promoted to the list on the grounds of more positive information. Relevant information may include credit ratings, where available, and appropriate enquiries shall be made.

The asset values applicable to building societies will be reviewed at least once each financial year using valuations published in the latest edition of the Building Societies Association Factsheet or an equivalent publication.

The Chief Finance Officer will maintain a list of institutions approved in this category that meet these conditions and will make deposits only with those on the current list.

(f) the council's own bank

On 1 April 2019, the council transferred its core banking services to Lloyds. Part of this change required a review of the arrangements for consolidating account balances at the end of each day. Whereas the previous provider offered a 'sweep' arrangement, where individual account balances were reduced or topped up to an agreed level using the Special Interest Bearing Account (SIBA), Lloyds pay interest (if applicable) on the combined balances across the suite of accounts operated by the council.

This provides an opportunity to ensure that the investment activities of the council's bank can be separated from the day to day banking activities.

Therefore any balances held in the accounts of the council, to an amount not exceeding £2.5 million, will no longer be included in the balance that may be used for investment purposes. The appropriate investment balance (as prescribed by this strategy) will be included in the Counterparty list and will be used at the discretion of the Chief Finance Officer, in line with all other counterparties.

In the case where:

- the council's own bank fails the Credit Rating test described in paragraph (1) above,
- no overriding information is available to the Chief Finance Officer that satisfies him or his delegated staff as to the high credit quality of the bank, and
- it is not possible on a particular day to place funds with an institution in any of the categories (a) to (e)

the funds held at the council's own bank should be minimised and the Chief Finance Officer should be informed daily on the position.

Should the total of deposits with the council's bank in this category at any time exceed £2.5 million, the Chief Finance Officer shall be informed immediately, with the exception of the circumstances outlined within the specified investments paragraph.

(g) Property funds

The council may invest in property funds meeting the minimum criteria as advised by the council's Treasury Advisors (Link Asset Services), and with the approval of the Chief Finance Officer.

Property funds are a vehicle for investing funds and diversifying investments. Property funds should be seen as a medium to long term investment to ensure that the full benefit of the return is seen, and to also ensure that any entry and exit costs are covered over the life of the investment. Any fund of this nature incurs costs, and these vary depending on the type of fund. Property funds can provide a regular return on the initial investment amount.

In addition to this the market value of the properties and the unit price held by the council can fluctuate. The unit price can fluctuate upwards as well as downwards and variations between purchase price and latest valuation at the 31 March or date of sale do need to be reflected in the council's accounts.

The use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. This council will seek guidance on the status of any fund it may consider using to ensure that this is not the case.

Such investments shall not exceed £5 million at any given time.

The council's approach to property investment does not currently include the use of property funds, rather direct investment is made under the Investment Asset Acquisition Strategy (See 'Other Capital Expenditure' above).

(h) UK Government Gilts and Bills

A gilt is a UK Government liability in sterling, issued by HM Treasury and listed on the London Stock Exchange. The term "gilt" or "gilt-edged security" is a reference to the primary characteristic of gilts as an investment: their security. This is a reflection of the fact that the British Government has never failed to make interest or principal payments on gilts as they fall due. Treasury Bills are bearer Government Securities representing a charge on the Consolidated Fund of the UK issued in minimum denominations of £5,000 at a discount to their face value for any period not exceeding one year. Although they are usually issued for 3 months (91 days), on occasion they have been issued for 28 days, 63 days and 182 days.

Such investments shall not exceed £5 million at any given time.

<u>Longer-term deposits</u>

Deposits and investments will be made for periods longer than twelve months only in instances where the yield is sufficiently high and the investment will not compromise the liquidity position of the council. Such investments will only be made with the express approval of the Chief Finance Officer.

<u>All non-specified investments</u>

Subject to the limits on individual institutions and on the liquidity requirements set out in the specified investments paragraph, it is permissible to have 100% of total deposits held in non-specified investments.

Additional categories may only be added to the list of non-specified investments following the procedure set down in paragraph 10 below, and following an assessment of the risks to the security of the council's funds.

<u>Liquidity</u>

The council will carefully plan and monitor its principal cash flows in order to predict shortages or surpluses for up to twelve months ahead. The forecast will be more detailed for the immediate period ahead and will be continuously monitored and updated as new information becomes available. The Chief Finance Officer will ensure, under delegated arrangements approved by him, that borrowings, investments and other cash flows are managed to ensure there is appropriate operational liquidity, i.e. that there is sufficient access to funds through borrowing and investments to enable the council to meet its liabilities as they fall due. Due to the uncertainties of some cash flows, there are occasions when, overnight, the balance held in the council's bank accounts may exceed £2.5 million by a small amount, with this surplus being reinvested, if not required, the following day.

The maximum periods for which funds may be prudently invested will be determined at all times by reference to the cash flow forecast. An agreed amount will always be kept 'on call' (available on the same day) to deal with any unforeseen cash flow pressures.

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

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

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

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

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

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

Yield (i.e. Return on Investments)

Investments made where the return generated by the instrument may involve changes in the value of the principal sum will be carefully managed.

The strategy for realising a return on investments, having regard to the levels of surplus cash available, the climate for interest rates and other factors, is dealt with in the annual Treasury Management Strategy.

Investment Consultants

Accessing suitable sources of information, especially in relation to credit risk, are essential elements of an effective TM operation. The Chief Finance Officer retains the services of specialist advisers for this purpose, as well as advice on borrowing, regulation and other technical aspects of capital finance. The quality of the service is controlled through regular monitoring and feedback, as well as through dialogue at quarterly review meetings.

In relation to investments, the council receives regular economic advice including interest rate forecasts, a weekly and monthly newsletter, a regularly-updated diary of events affecting the money markets, technical advice on the TM Code of Practice and the MHCLG statutory guidance as well as money market practice, assistance with formulation of the Investment Strategy, the Treasury Management Strategy and the Annual TM Report, access to their website, which provides a comprehensive source of information and occasional technical papers, guidance on investment strategy and in response to ad hoc queries, and a constant review of credit ratings tailored to the council's lending criteria as approved in its Investment Strategy for the year. Training courses for staff are available as well as regular seminars on topical issues.

Whilst a constructive and transparent partnership is encouraged, it is explicit in the relationship that the service provider acts only as adviser and the council and its officers are responsible for all decisions taken.

Investment Training

Training for Members will continue to be provided and will build upon that delivered during 2020/21. Officer training will focus on need with the level and type of training provided being dependent upon the role that any particular officer plays within the TM function.

Additional measures to reflect current market conditions

On 31 December 2020 after a transition period, the United Kingdom left the European Union following a Referendum on the issue in June 2016. Officers have, and will continue to assess the impact of this on treasury management activities as more certainty on the impact of this materialises. At present, it is only where Brexit has had an effect on the wider economy, that this has had a subsequent effect on the treasury function, for example, on investment rates. The situation remains fluid and, as such, so will the approach to debt and investment management as permitted by this strategy. This position continues to be monitored, however the delegation in place within the 2021/22 strategy should provide sufficient authority to the Chief Finance Officer to react to these changing circumstances quickly and appropriately as required.

Revisions to the Strategy

It is recommended that the Chief Finance Officer is free to work within the limits determined by the strategy without reference to Full Council, following the lifting of restrictions, including taking action on his own initiative at any time to restrict further the provisions of the strategy and to subsequently lift such restrictions. They will however, as a minimum, draw attention to any such action in their mid-year report and annual report on TM activity for the year.

Credit Ratings – Summary Definitions

Long-term Issuer Default rating

This rating measures the ability of a financial institution to meet all of its most senior financial obligations on a timely basis over the term of the obligation. It is therefore effectively a benchmark for rating institutions' probability of default.

- For Fitch ratings: the top end of the scale is AAA (the lowest expectation of credit risk) and ranges down to D (where the institution is in default and the potential for recovery of funds is minimal).
- For Moody's ratings: the top end of the scale is Aaa (highest quality with minimal credit risk) and the lowest related class is C (where the institution is in default and the potential recovery is minimal).
- For Standard & Poor's ratings: the top end is AAA (the lowest expectation of credit risk) and the lowest class is D (where the institution is in payment default).

Short-term Issuer Default rating

- This rating is based on the liquidity profile of the institution and relates to its ongoing capacity to meet financial obligations within a relatively short time horizon (normally less than 13 months).
- For Fitch ratings: the scale ranges from F1 (highest) to D (actual or imminent payment default)
- For Moody's ratings: the scale is from P-1 (highest, where the institution has the superior ability to repay short-term obligations) to P-3 (an acceptable ability to repay short-term obligations), with NP assigned to 'Not Prime' institutions.
- For Standard & Poor's ratings: the scale is A-1 (highest) to D (imminent default in payment)

Individual (Fitch), Strength (Moody's)

These ratings are assigned only to banks and assess how a bank would be viewed if it were entirely independent. Link have advised that this "standalone" rating be removed as the exclusion of sovereign status from the institutions has adversely affected the rating but does not represent any intrinsic change.

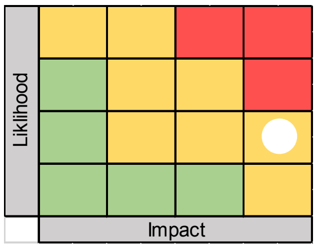
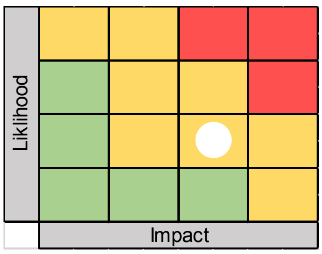
- Fitch ratings: The principal factors assessed are balance sheet integrity and profitability. The range is from A (a very strong bank) to F (bank has defaulted or would have defaulted without external support).
- Moody's ratings: range from A (strong intrinsic financial strength) to E– (in serious difficulty).
- Standard and Poor's have no ratings criteria for this.

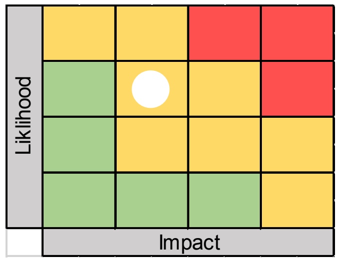
Link will continue to publish these ratings, it is however intended to use the results of these to inform investment decisions, rather than dictate them.

Section 6 – Risk Management

The risk management implications for the capital investment activities is outlined in Section 2. This section therefore deals with risks associated with treasury management and financial investment activities as covered in Sections 4 and 5. The following are the main risks associated with these activities as well as the mitigations that have been put in place to minimise the likelihood and impact of these. Where the risk is specifically monitored through the council's risk management system, the current heat map rating is also show.

Financial Risks

Risk	Control Measure(s)
Security of investment: that a third party will fail to meet its repayment obligation.	Compliance with Investment Strategy, which defines approved investment counterparties and the arrangements for monitoring counterparty risk. The highest priority is given to security over liquidity and yield (see below). In response to current adverse market conditions, temporary measures restrict further the amount that may be deposited with any counterparty and the duration of that investment. Credit rating and other counterparty information is constantly updated by advisers. 
Liquidity: that cash will not be available when needed.	Priority is given to liquidity requirements over yield (see below). We have ready access to money markets to borrow funds when required, and to the Public Works Loan Board as lender of last resort. Investments normally include a proportion of funds at "call" (repayment on demand). Observance of limits set by the council as part of its Prudential and other TM Indicators. 
Yield (interest rate): that volatility in interest rates will adversely affect the potential return on investments and/or cost of borrowing, as was evident with the 2019 1% rise in PWLB borrowing rates.	Subject first to satisfying the requirements of security and liquidity (above), the council can access competitive markets for investment of funds and for short term borrowing.

The scope is dependent on adverse movements in market interest rates, which are outside the influence of the council.	Funds invested internally in the HRA will attract an appropriate rate, which will compare well with what can be earned externally, and are free of counterparty risk. Access to TM advisors. Observance of limits set by the council as part of its Prudential and other TM Indicators. 
Market risk: that, through adverse market fluctuation in the value of the principal sum invested, treasury management policies and objectives are compromised.	The council does not, at present (although the option is available within the strategy), expose any borrowing or investment to fluctuations in the value of the principal sum.

Compliance Risks

Risk	**Control Measure(s)**
Legal and regulatory: that the council or a third party fails to act in accordance to its legal powers or contractual obligation.	The council's TM practices are designed to comply with both its statutory duties and its own self-regulation through TM policies, strategies and the financial limits it sets for itself. These are reviewed as necessary to reflect any changes in law or best practice.
Fraud, error and corruption	As required by the Treasury Management Code of Practice, policy and strategies are determined by Full Council and scrutinised regularly by the Audit and Risk Committee. Compliance with approved Treasury Management and Investment Strategies. The Chief Finance Officer has defined Treasury Management Practices (TMP) relating to design and operation of procedures to ensure as far as possible that any circumstances that may expose that council to such risks are identified and managed. A specific TMP deals with risk management and follows the advice in the Code. The training of management and staff involved in TM decisions and their implementation is kept under regular review. Reviews of TM arrangements by Internal Audit.

Section 7 – Minimum Revenue Provision

Regulations require local authorities to make "prudent provision" for the repayment of debt. Statutory guidance was issued by the Secretary of State in 2008 and updated in 2018 concerning the "minimum revenue provision" (MRP), which is the minimum amount authorities are now required to set aside from revenue each year for this purpose. Authorities are free to set aside a greater amount than MRP, from revenue or capital resources.

Instead of a fixed statutory calculation as in the past, authorities now have options for calculating MRP, and in line with other regulatory requirements relating to debt (e.g. the Prudential Indicators), a "statement" setting out its policy on making MRP is required to be adopted by Full Council prior to the commencement of each financial year. The MRP statement may be amended by Full Council at any time before the end of the relevant financial year.

The measure of an authority's debt for this purpose is the "Capital Financing Requirement" (CFR), which is defined in the Prudential Code. This is the cumulative amount of capital expenditure that has not yet been financed from capital resources (e.g. capital receipts, grants and contributions, or from revenue or other reserves). It therefore represents the value of the authority's outstanding borrowing (including internal borrowing from existing cash resources) and other sources of credit, such as finance leasing at any time.

The CFR is divided into two parts according to whether the capital shortfall relates to Housing Revenue Account (HRA) expenditure or general fund expenditure.

General Fund Minimum Revenue Provision Policy

Three options are now offered that the government considers would satisfy the requirement to make a prudent provision for the repayment of debt:

- Option 1 (the "regulatory method")

  Authorities may provide for debt repayment at the rate of 4% of the opening general fund CFR for the year. This option is available however only for expenditure incurred prior to 1st April 2008 (or for future expenditure supported by government subsidy, if any).

- Option 2 (the "asset life method")

  This option is available for all general fund debt, including debt relating to expenditure incurred before April 2008. MRP is calculated according to the estimated life of the asset on which the relevant expenditure was incurred. An equal amount of debt is charged to revenue each year of asset life, commencing with the year following the year the expenditure was incurred (or the year following the asset coming into operation, if later).

  There are different rules for special cases. In the case of expenditure financed from leasing, the principal repayment inherent in the lease may be used. There are also options for using an annuity approach in appropriate cases. For expenditure that cannot properly have an asset life attributed to it (e.g. freehold land), or expenditure unrelated to a capital asset (e.g. grants for capital work by others), the guidance prescribes certain maximum life assumptions.

- Option 3 (the "depreciation method")

  This option is effectively the same as Option 2.

In addition to those suggested above, the council can make an alternative provision as long as this provision remains prudent and explains the reasons for doing so. One of the options that is widely used is the Annuity Method. This method charges more of the interest and therefore less of the principle in the early years, which equalises at the halfway stage and then reverses for the later years of the asset life. This better reflects the way that assets generally 'wear out' with a slower start and greater deterioration at the end of the asset life.

MRP for Investment Properties

In order to determine an appropriate method for calculating MRP it is beneficial to look at the basic principles of accounting for such assets. These are:

1) An asset can only be accounted for as an investment property (this class of asset is limited to land and buildings only) if it is held solely to earn rentals or for capital appreciation or both.
2) Costs incurred in acquiring, constructing and enhancing such a property qualify to be capital expenditure (and can, therefore, be funded by borrowing). Such acquisitions will increase the capital financing requirement.
3) The sale proceeds generated by the disposal of the asset will be capital receipts.
4) Such an asset will initially be valued at cost and subsequently at fair value.
5) Such assets are not depreciated.
6) Gains or losses arising from changes in the fair value of such a property are recognised in the revenue account.
7) Statutory arrangements require that such gains or losses are reversed out of the revenue account to the Capital Adjustment Account effectively meaning that they are not recognised until such time as the asset is disposed of.

The asset life method would not be suitable for calculating MRP on such properties. They are being held for both rental income and capital appreciation purposes and, in theory, would generate a sufficient amount on disposal to repay any borrowing undertaken to finance their acquisition. To set aside an MRP each year in such circumstances would be over-prudent.

The guidance from the Secretary of State includes as an option the depreciation method. Essentially, the MRP chargeable would be equivalent to the depreciation charge in any year for the underlying asset. As has already been established there is no requirement to depreciate investment properties so there would be no MRP chargeable under this method. However, the guidance also states that the MRP charge under the depreciation method 'should include any amount for impairment chargeable to' revenue. This recognises that charges to revenue can arise from changes in fair value not by depreciation.

Recognising such impairments as MRP is, however, problematic. The accounting requirements recognise that fair values can rise as well as fall and provide for both impairments and revaluation gains to be recognised in the revenue account. The statutory adjustment that authorities are required to make applies to both impairments and revaluation gains. To simply follow the guidance as written would mean that revaluation gains are ignored but impairments are charged as MRP (despite the fact that an impairment may be the reversal of revaluation gains from previous years). To recognise an impairment in full at the point that it arises also ignores the long term nature of such investments where such reductions in value can be reversed over the period that the asset is held (although the opposite position is just as possible).

In addition, an impairment does not necessarily affect the revenue generating potential of an asset. Rents are, in general, fixed for periods of time and a downturn in the property market would not immediately affect those rents. To recognise an impairment in full in one year ignores this position.

Basis of MRP for investment properties

Adopting a position where an impairment is not recognised would not be prudent but simply following the guidance (or using the asset life method) would be over-prudent. The proposal on MRP for investment properties is, therefore, that;

1) A modified version of the depreciation option as set out in the guidance is adopted

2) The option is modified as follows;

   a. Impairments that are the reversal of previous revaluation gains will NOT be recognised as MRP.
   b. Impairments that are not the reversal of previous revaluation gains (i.e. the revised value of the asset as a result of the impairment is less than the initial cost of the asset) will be recognised in MRP over the estimated useful life of the asset (as determined at the time of acquisition).
   c. If a subsequent valuation takes the carrying value above the initial cost less MRP provided to date then MRP would cease. The trigger for resuming MRP would be an impairment that takes the carrying value below the sum of initial cost less MRP provided to the date of the upward revaluation.

To effectively implement this approach such assets will be subject to annual valuations.

The following MRP policy is recommended for adoption for 2021/22. It is consistent with the basis on which the budget for 2021/22 and the financial forecast to 2024/25 have been prepared.

General Fund Minimum Revenue Provision Policy Statement

It is recommended that Minimum Revenue Provision in respect of 2021/22 be determined in accordance with the following policy:

(1) In respect of all non-housing capital expenditure incurred before 1 April 2008 or which from April 2008 will be supported non-housing capital expenditure the regulatory method.

(2) In respect of investment properties acquired on or after 1 April 2017 the depreciation method modified such that;

   a. Impairments that are the reversal of previous revaluation gains will NOT be recognised as MRP.

   b. Impairments that are not the reversal of previous revaluation gains (i.e. the revised value of the asset as a result of the impairment is less than the initial cost of the asset) will be recognised in MRP over the estimated useful life of the asset (as determined at the time of acquisition).

   c. If a subsequent valuation takes the carrying value above the initial cost less MRP provided to date then MRP would cease. The trigger for resuming MRP would be an impairment that takes the carrying value below the sum of initial cost less MRP provided to the date of the upward revaluation.

(3) In respect of loans made to third parties for capital purposes no MRP will be made except if the value of the loan is impaired in which case MRP will be made to the value of that impairment in equal instalments over the remaining life of the loan.

(4) For assets acquired under finance leases the principal repayment inherent in the lease will be used as the basis for MRP in respect of those assets.

(5) In respect of all other unsupported non-housing capital expenditure incurred on or after 1 April 2008, the asset life method on an annuity basis will be used.

(6) The Chief Finance Officer has the discretion to alter this approach should circumstances dictate provided that the overall level of MRP charged in any given year remains prudent and that any such changes are reported to Members in the outturn report for the relevant year.

The approach recommended in (2) above does not fully meet the revised Guidance issued in 2018, whereby the depreciation method is not permitted for investment properties. However the modification to this method as outlined, does provide for a prudent provision and therefore meets the wider objective of ensuring that any future refinancing requirement can be met, while not overburdening the tax payer.

HRA Minimum Revenue Provision Policy Statement

There is no statutory requirement to make a MRP in the HRA. There is, therefore, no requirement to follow the MHCLG Guidance when considering an appropriate provision for the HRA. It is, therefore, proposed that revenue provision for the repayment of debt in the HRA is determined during the budget process and takes into account the revenue and capital resources available for such provision after the priorities of the Medium Term Financial Strategy have been taken into account.

Section 8 – Budget Estimates

In order for the activities contained within this strategy to be carried out, it is essential that the revenue impacts are recognised in the budget for 2021/22.

The table below sets out the budgeted costs which match the expected scale and timing of the activities as set out for the forthcoming financial year and the forecast period. It also contains other technical accounting adjustments required as part of the budget setting process.

		2021/22 £'000 Estimate	2022/23 £'000 Estimate	2023/24 £'000 Estimate	2024/25 £'000 Estimate
TREASURY MANAGEMENT ACTIVITIES					
1.	Traditional Borrowing	16,404	17,129	17,873	17,833
2.	Less: Investment Income	-178	-231	-227	-310
	Net Borrowing	16,226	16,898	17,646	17,523
3.	Conventional Debt Repayment	3,477	4,557	5,353	5,689
4.	Other Interest Payable	33	31	29	28
		19,736	21,486	23,028	23,240
Less Recharges to:					
5.	Housing Revenue Account	-8,638	-8,081	-7,971	-7,759
6.	Investment Activities	-11,346	-13,771	-14,715	-15,004
Net Treasury Management		-248	-366	342	477
ASSET MANAGEMENT ACTIVITIES					
	Direct Revenue Financing of Assets				
7.	- Special Repairs & Maintenance	300	0	300	400
Net Asset Management		300	0	300	400
CAPITAL CHARGES TO SERVICES					
8.	Depreciation on Council assets	-4,243	-4,052	-3,876	-3,876
Net Capital Charges		-4,243	-4,052	-3,876	-3,876
SPECIAL ITEMS					
9.	Rent Target	-597	-597	-597	-597
Net Special Items		-597	-597	-597	-597
TOTAL NET SURPLUS		**-4,788**	**-5,015**	**-3,831**	**-3,596**

Section 9 – Prudential Indicators

Indicators for Prudence

Estimates of capital expenditure

The local authority will make reasonable estimates of the total of capital expenditure that it plans to incur during the forthcoming financial year and at least the following two financial years. These prudential indicators will be referred to as estimates of capital expenditure and shall be expressed in the following manner:

Estimate of total capital expenditure to be incurred in years 1, 2 and 3

Estimates of capital financing requirement

The local authority will make reasonable estimates of the total capital financing requirement at the end of the forthcoming financial year and the following two years. These prudential indicators will be referred to as the estimates of capital financing requirement and shall be expressed as follows:

Estimate of capital financing requirement as at the end of years 1, 2 and 3

Indicators for External Debt

Authorised limit

The local authority will set for the forthcoming financial year and the following two financial years an authorised limit for its total gross external debt, separately identifying borrowing from other long-term liabilities. This prudential indicator will be referred to as the authorised limit and shall be expressed in the following manner:

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

Operational boundary

The local authority will also set for the forthcoming financial year and the following two financial years an operational boundary for its total external debt, excluding investments, separately identifying borrowing from other long-term liabilities. This prudential indicator will be referred to as the operational boundary and shall be expressed in the following manner:

Operational boundary for external debt = operational boundary for borrowing + operational boundary for other long-term liabilities for years 1, 2 and 3

Gross debt and the capital financing requirement

In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with gross external debt. This is a key indicator of prudence. This prudential indicator will be referred to as gross debt and the capital financing requirement. Where the gross debt is greater than the capital financing requirement the reasons for this should be clearly stated in the annual treasury management strategy.

Indicators for Affordability

Estimates of financing costs to net revenue stream

As a minimum, the local authority will estimate for the forthcoming financial year and the following two financial years the proportion of financing costs to net revenue stream. This prudential indicator shall be referred to as estimates of the proportion of financing costs to net revenue stream and shall be expressed in the following manner:

Estimate of financing costs ÷ estimate of net revenue stream x 100% for years 1, 2 and 3

All of these Prudential Indicators are presented in the following table:

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Estimates of Capital Expenditure					
General Fund	21,867	29,523	13,177	6,750	4,450
HRA	34,200	38,019	31,636	29,116	25,093
Total	**56,067**	**67,542**	**44,813**	**35,866**	**29,543**
Estimate of Capital Financing Requirement					
General Fund	372,941	461,128	555,858	555,655	553,033
HRA	204,938	204,829	204,713	204,594	204,467
Total	**577,879**	**665,957**	**760,571**	**760,249**	**757,500**
External Debt					
Authorised Limit	550,000	750,000	850,000	850,000	850,000
Operational Boundary	500,000	700,000	800,000	800,000	800,000
Estimate of Financing Cost to Net Revenue Stream					
General Fund	15%	38%	43%	43%	44%
HRA	16%	16%	15%	14%	14%
Total	**19%**	**21%**	**23%**	**25%**	**25%**
Estimate of Financing Cost to Gross Expenditure	6%	6%	5%	5%	5%
Gross Debt and the Capital Financing Requirement					
Estimated Gross Debt	458,112	628,815	717,501	721,111	729,799
Capital Financing Requirement (CFR)	577,879	665,957	760,571	760,249	757,500
CFR + Following 2 Years Increases	760,571	760,249	757,500	756,147	752,860

Section 10 – Glossary

3 month LIBID
The LIBID (London Interbank Bid Rate) is the average interest rate that leading banks in London are willing to pay when borrowing from other banks.

3 month LIBOR
The LIBOR (London Interbank Offered Rate) is the average interest rate that leading banks in London charge when lending to other banks.

Acorn House Developments (Basildon) Ltd
A wholly owned company of Basildon Borough Council.

Actuary
A business professional who measures and manages risk and uncertainty.

Annuity
A series of equal payments made at regular intervals, usually for a fixed length of time (usually in return for an upfront lump sum).

Asset management
Process that identifies the resources required for the upkeep of properties.

Audit and Risk Committee
Provide independent advice and assurance on the effectiveness of governance, risk and control measures. For more information visit
http://www.basildonmeetings.info/mgCommitteeDetails.aspx?ID=326

Balance Sheet
A summary of all the assets and liabilities of the council at the end of a financial year. The statement shows the council's assets and liabilities matched by total reserves.

Bank of England Base Rate
The interest rate that the Bank of England charges banks for secured overnight lending

Bonds
A debt investment where the investor loans money to an entity, which borrows for a defined period of time, either at a fixed or variable rate of interest.

Building Societies Act 1986
For more information please visit: http://www.legislation.gov.uk/ukpga/1986/53/contents

Capital Charge
A charge to a revenue service to reflect the depreciation of non-current assets used in the provision of services.

Capital Expenditure
This generally relates to expenditure on the acquisition or enhancement of non-current assets that will be on long-term use or benefit to the authority in providing its services. It also includes grants made by the council to other individuals, community organisations and other external bodies for similar long-term benefit.

Capital Financing Requirement (CFR)
The statutory measure of a local authority's underlying need to borrow for capital purposes.

Capital Programme/Budget
The Council's budget for capital expenditure and resources for the current and future years.

Capital Receipts
Income from the sale of capital assets and the repayment to the Council of grants and loans given for capital purposes. Regulations govern the way capital receipts may be used.

Cash terms/Real terms
Cash terms compares sums in actual amounts regardless of when received/paid. Real terms adjusts these amounts for inflation.

CDS
Credit default swap. A financial contract whereby a buyer of corporate or sovereign debt in the form of bonds attempts to eliminate possible loss arising from default by the issuer of the bonds. This is achieved by the issuer of the bonds insuring the buyer's potential losses as part of the agreement.

Chartered Institute of Public Finance and Accountancy (CIPFA)
CIPFA is the professional accountancy body for public services. It publishes the Code of Practice which defines how local authority accounts are prepared.

Code of Practice
The Code of Practice on Local Authority Accounting in the United Kingdom, also referred to as the Code. This document is based on International Financial Reporting Standards, and states how these must be applied to the preparation of the Statement of Accounts by local authorities.

Commercial Programme
Council activities focused on generating income.

Contingency
Money set aside in the budget to meet the cost of unforeseen items of expenditure or shortfalls in income occurring during the year ahead. This would include changes to the inflation and interest rate assumptions made when the budget was set.

Corporate Plan
Presents the council's goals, objectives and plans.

Coupon
The interest paid on a loan between issue and maturity.

Creditors
Amounts due from the council for work carried out, goods received or services rendered that have not been settled before the end of the financial year.

Credit ratings
Provided by the three main rating agencies, **Fitch, Moody** and **S&P,** the ratings evaluate the credit worthiness of a debtor.

Credit Risk
The risk that a debtor is unable to pay back what they owe.

Debt Interest
The money owed on borrowings.

Debt Management Office (DMO)
The DMO is the agency that carries out the Government's debt management policy. It takes deposits from local authorities.

Debt Repayment Policy
The Council's policy for making provision for the repayment of debt.

Default
Failure to meet the obligations on a loan, i.e. being unable to make payments due.

Depreciation
The measure of the wearing out, consumption or other reduction in the useful economic life of a non- current asset, whether arising from use, passing of time or obsolescence through technical or other changes.

Fair Value
The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial Conduct Authority
Regulates the financial services industry in the UK. It protects customers, promotes competition and keeps the industry stable.

Financial Regulations
A written framework for the proper financial management of the authority. The Financial Regulations are approved by the Council as part of its formal constitution.

General Fund (GF)
The main revenue fund of the Council. Day to day spending and income from services are accounted for here.

Going Concern
The assumption that at the balance sheet date the company will continue to operate its services for the foreseeable future.

Government Gilts/Treasury Bills
Investment instruments issued by UK Government.

Gross domestic product (GDP)
The total market value of all final goods and services produced in a country in a given year, equal to total consumer, investment and government spending, plus the value of exports, minus the value of imports.

Housing Revenue Account (HRA)
This statutory account records the revenue expenditure and income relating to the provision of Council housing. While technically part of the General Fund, the balance is 'ring-fenced' and may not be included in the budget requirement to be met by Council Tax.

IFRS (International Financial Reporting Standards)
The collective name for the set of accountancy standards which define the accounting treatment used by listed companies in the UK and European Union. The term also refers to the individual standards (for example, IRFS 7, *Financial Instruments*; *Disclosures*) issued from June 2003 onwards,

Impairment
A reduction in the valuation of an asset caused by an event occurring to the asset or to the economic environment in which it operates.

Leasing
A method of acquiring the use of assets in which the investment is made by a lessor and a rental is charged to a lessee. The Council operates both as lessor and lessee in respect of land, property, vehicles, plant and equipment. **Finance Leases** transfer substantially all the risks and rewards of ownership to the lessee, and are regarded as a debt extended to purchase the leased asset (even when ownership of the asset does not legally pass to the lessee). Any lease which does not meet the definition of a finance lease is classified as an **Operating Lease**, and is treated as an arrangement to hire an asset for a specified term.

LIBID
The bid rate that a Euromarkets bank is willing to pay to attract a deposit from another Euromarkets bank in London

Link Asset Services Credit Policy
A service provided by Link Asset Services that combines **credit ratings** with market risk analysis, using **CDS spreads**, bond spreads and share prices, to give advice on which institutions are safe to invest with and for what periods. Link are the Council's **Treasury Management (TM) Advisors.**

Liquidity
The availability of assets (i.e. cash) when it is required.

Local Government Act 1972
For more information please visit
http://www.legislation.gov.uk/ukpga/1972/70/contents

Local Government Act 1988
For more information please visit
http://www.legislation.gov.uk/ukpga/1988/9/contents

Local Government Act 2003
For more information please visit
http://www.legislation.gov.uk/ukpga/2003/26/contents

Local Government Finance Act 1992
For more information please visit
http://www.legislation.gov.uk/ukpga/1992/14/contents

Local Government and Housing Act 1989
For more information please visit:
http://www.legislation.gov.uk/ukpga/1989/42/contents?wb48617274=A375BAFB

Localism Act 2011 Local Government Finance Act 1992
For more information please visit:
https://www.gov.uk/government/publications/localism-act-2011-overview

Local Government Act 2000
For more information please visit:
http://www.legislation.gov.uk/ukpga/2000/22/pdfs/ukpga_20000022_en.pdf

Local Government Act 1999
For more information please visit:
http://www.legislation.gov.uk/ukpga/1999/27/section/10

Local Audit and Accountability Act 2014
For more information please visit:
http://www.legislation.gov.uk/ukpga/2014/2/contents/enacted

Local Government Finance Settlement
The annual determination of funding to local government.

Localism Agenda
The movement of responsibilities from central Government to local government and local communities.

Major Repairs Reserve
A capital reserve intended for the elemental replacement of building structures and components in the Housing stock. The reserve is funded from the HRA via a depreciation charge. Any balance on the reserve may be carried forward to future years. Interest earned on the MRR balance is credited directly to the HRA.

Minimum revenue provision (MRP)
Each year local authorities are required to set aside a prudent amount of revenue as provision for financing capital expenditure.

Ministry of Housing, Communities & Local Government (MHCLG)
Successor Department to CLG
https://www.gov.uk/government/organisations/ministry-of-housing-communities-and-local-government/about

MMI
Municipal Mutual Insurance

Money Market Fund
A vehicle for the investment of surplus cash balances for the purposes of achieving a return on the investment. Investments are pooled together in the fund and then invested in low risk securities, these benefit from higher rates of return than individual investors could receive, due to the size of investment.

National Productivity and Investment Fund (NPIF)
A fund set up to provide major additional spending in areas that are key to boosting productivity: transport, digital communications, research and development (R&D), and housing.

Non-operational property (commercial and industrial)
Properties owned by the council that are not essential to the ongoing operations of business, they may however still generate an income.

Office for Budget Responsibility (OBR)
A public body that provides independent economic forecasts and analysis of the public finances.

Parent Institution
A parent institution owns or controls another institution. Basildon Borough Council is the parent of **Sempra Homes** Ltd and Acorn House Developments (Basildon) Ltd.

Partial Exemption Threshold
The limit to which the council can recover VAT on certain activities undertaken, however if the 5% limit is exceeded all such VAT becomes irrecoverable.

Planning Inspectorate
An organisation that deals with planning appeals, applications and examinations of local plans.

Policy and Resources Committee
The Policy and Resources Committee co-ordinates the development and recommendation to Council of the Budget. It has delegated authority to exercise the Council's functions relating to the delivery, by or on behalf of the Council and through any partnership arrangements in certain service areas.

Property Fund
Investments are made and pooled together. These are then used to either invest directly in purchasing property, or indirectly by buying shares in property companies. The investors benefit from the increase in value in the property or the shares.

Prudential code for capital finance in Local Authorities
A **CIPFA** publication, providing guidance to ensure capital programmes are affordable, prudent and sustainable.

Prudential Indicators
Indicators within the treasury management strategy that ensures that borrowing and debt is within agreed limits.

Public Works Loans Board (PWLB)
A government agency that offers longer-term loans to local authorities at interest rates marginally above the government's own cost of borrowing. It also acts as lender of last resort.

Reserves
Reserves are set aside at the discretion of the Council to meet items of expenditure in future years.

Revenue budget
The money allocated to the day to day running of the Council.

Right to Buy (RTB) Scheme
Allows eligible council tenants to purchase their property at a discount.

S106
Agreements which make a development proposal acceptable in planning terms that would not otherwise be acceptable, i.e. restrictions on the use of land, sums of money to be paid to the authority.

Section 151 Officer
The local authority's chief financial officer. The Officer responsible for the proper administration of the Council's financial affairs in accordance with Section 151 of the Local Government Act 1972.

Section 31 Compensation
Grant provided by central government. Section 31 of the Local Government Act 2003 allows ministers to grant monies to local authorities for any purpose; more information can be found at http://www.legislation.gov.uk/ukpga/2003/26/section/31

Secured debt
Debt backed by collateral to reduce the risk associated with lending.

Sempra Homes Ltd
A wholly owned company of Basildon Borough Council.

Social Housing
Housing that is affordable to people on low incomes.

Special Interest Bearing Account (SIBA)
An account used for surplus cash flows that attracts an interest payment.

Spending Review
A Spending Review or occasionally Comprehensive Spending Review is a governmental process in the United Kingdom carried out by HM Treasury to set firm expenditure limits and, through public service agreements, define the key improvements that the public can expect from these resources.

TM (Treasury Management) code
The **CIPFA** Treasury Management Code of Practice sets out the procedures and policies local authorities should follow in their treasury management functions.

Ultra Vires
Beyond the legal powers or authority.

Virements
The transfer of a budget from one account to another.

Yield
The interest earned on investments.