To:
All members of the
Corporate Policy and Resources
Committee

Please reply to:
Contact: Karen Wyeth
Service: Committee Services
Direct line: 01784 446341
E-mail: k.wyeth@spelthorne.gov.uk
Date: 13 February 2023

Supplementary Agenda

Corporate Policy and Resources Committee - Monday, 20 February 2023

Dear Councillor

I enclose the following items which were marked 'to follow' on the agenda for the Corporate Policy and Resources Committee meeting to be held on Monday, 20 February 2023:

7.	**Treasury Management Strategy 2023/24** To make a recommendation to Council that it approves the recommendations as outlined in the report.	**3 - 84**
11.	**Capital strategy 2023 to 2028** To make a recommendation to Council that the recommendations outlined in the report are approved.	**85 - 102**
12.	**Capital Programme 2023/24 to 2027/28** The Committee is asked to make a recommendation to Council to approve the Estimated 2023/24 to 2026/27 Capital Programme.	**103 - 112**

Yours sincerely

Karen Wyeth
Corporate Governance

Spelthorne Borough Council, Council Offices, Knowle Green

Staines-upon-Thames TW18 1XB

www.spelthorne.gov.uk customer.services@spelthorne.gov.uk telephone 01784 451499

To the members of the Corporate Policy and Resources Committee

Councillors:

J.R. Boughtflower (Chairman)	R.O. Barratt	L. E. Nichols
A.J. Mitchell (Vice-Chairman)	J.T.F. Doran	R.J. Noble
M.M. Attewell	S.A. Dunn	O. Rybinski
I.J. Beardsmore	T. Fidler	J.R. Sexton
M. Beecher	S.C. Mooney	V. Siva

Substitute Members: Councillors: C. Bateson, C.F. Barnard, S. Buttar, J. Button, N.J. Gething, M. Gibson, H. Harvey, T. Lagden, D. Saliagopoulos, J. Vinson and S.J Whitmore

Corporate Policy & Resources Committee

20 February 2023

Title	Treasury Management Strategy Statement 2023/24
Purpose of the report	The Council has statutory duty to approve an annual treasury management strategy. The Council may require amendments to the strategy but must ensure that an approved strategy is in place for each financial year.
Report Author	Sam Masters, Treasury Management and Capital Accountant (Interim)
Wards affected	All Wards
Exempt	No
Corporate Priority	Community Affordable Housing Recovery Environment Service delivery
Recommendations	**Corporate Policy & Resources Committee recommend to Council that it:** **1. approves the proposed Treasury Management Strategy for 2023/24 as set out in this report.** **2. notes the Treasury Management Practices (TMP) and Schedules**
Reason for Recommendation	**The Treasury Management Strategy is a statutory requirement upon the Council**

1. Introduction

1.1 Treasury management is the management of the Council's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.

1.2 The prime objective of the Council's investment strategy is to maintain capital security whilst ensuring that there is the necessary liquidity to carry out its business. Within these constraints, the strategy aims to maximise returns.

1.3 The borrowing strategy aims to minimise the revenue cost of debt whilst securing the council from revenue pressures in the event of interest rate volatility.

1.4 One revenue consequence of borrowing is the statutory requirement to set aside an amount for repayment of debt, known as Minimum Revenue Provision

(MRP). Regulations require the authority to determine annually a principle by which MRP will be determined.

1.5 The treasury management strategy aims to protect the council from market-related risks by monitoring interest rates, economic indicators, and UK and overseas government finances. A range of information sources is used to inform economic analysis and forecasts.

1.6 This document fulfils the Council's statutory duty under the *Local Government Act 2003* to have regard to the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA TM Code), which requires the Council to approve a treasury management strategy before the start of each financial year.

1.7 This is a technical report providing necessarily detailed information that the Council is required to have due regard to. Certain key information is appended for the sake of clarity. **Appendix A** provides recent benchmarking of the investment portfolio by the Council's treasury advisors, illustrating performance reporting used by the Council. Background to this report is given at **Appendices B and C**. The MRP Statement is given at **Appendix D**. The Treasury Management Practices (TMP) and Schedules, included at **Appendix E**, set out how this Council will seek to achieve its treasury management policies and objectives and how it will manage and control those activities.

2. Options analysis and proposal

2.1 Option 1: The Council has a statutory duty under the *Local Government Act 2003* to approve and publish a treasury management strategy before the start of each financial year. Recommended option to approve the draft Strategy as approval

2.2 Option 2: Committee may make recommendations to develop the strategy, as long as those recommendations comply with the CIPFA TM code and are consistent with the statutory regulatory framework, as started above the Committee must ensure a strategy is in place each year to meet its statutory duty.

2.3 Option 3: Not approve a Strategy. The Council does not have the option refuse to approve a strategy altogether.

3. Summary position

On 31 December 2022, the Council held £1,096.5m of borrowing, £127.7m of treasury investments and £916.4m of non-treasury investment property. Overall, the Council position is £52.4m net borrowing. This detailed in Table 1 below.

Table 1: Current Investment & Debt Portfolio Position

As at 31.12.2022	Actual Portfolio
	£m
External Borrowing:	
Public Works Loan Board	(1,084.0)
Local Authorities (short term)	(12.5)
Total Gross External Debt	**(1,096.5)**
Long-Term Investments:	
Pooled Fund Investments	32.7
Funding Circle	0.4
Short-Term Investments:	
Local Authorities	35.0
Fixed Rate Deposits	15.0
Money Market Funds	44.6
Total Investments	**127.7**
Net (borrowing)/ investments	(968.8)

Non-treasury investments:	
Investment property (as at 31Mar22)	**916.4**

Overall net borrowing	**(52.4)**

3.1 Funding Circle is a peer-to-peer lending platform which provides an alternative borrowing mechanism for small businesses. This investment was made in April 2015 to help diversify the investment portfolio, and as an economic development opportunity enabling the Council to support local businesses where demand exists. Following general review by the Funding Circle fund manager over the COVID period, fund management has changed so that sums from repaid loans are not being reinvested, so the fund is being run down.

3.2 **Minimum Revenue Provision (MRP):** Where the Council finances capital expenditure by debt, the Council is required to put aside resources to repay that debt. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), noting that there has been no statutory minimum since 2008. The Council's Annual MRP Statement is included at Appendix D. It should be noted that the Council repays borrowing each year, and that this is reflected in the MRP.

3.3 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, also known as internal borrowing Forecast changes in the CFR, investments and borrowing are shown in Table 2 below.

Table 2: Capital Financing Requirement

	Actual 31.03.2022	Estimate 31.03.2023	Estimate 31.03.2024	Estimate 31.03.2025	Estimate 31.03.2026
	£m	£m	£m	£m	
Opening CFR	1,128.5	1,117.7	1,170.0	1,201.5	1,305.3
In-year movement (below)	(10.8)	52.3	31.5	103.8	142.2
Closing CFR	**1,117.7**	**1,170.0**	**1,201.5**	**1,305.3**	**1,447.5**
Less: External borrowing	(1,117.8)	(1,096.5)	(1,063.7)	(1,191.4)	(1,191.4)
Internal borrowing	(0.1)	73.5	137.8	113.9	256.1
Capital programme:					
Housing & Regeneration	4.7	63.8	51.2	146.6	162.8
Other capital expenditure	1.3	3.4	5.6	2.1	2.3
Total Capital Expenditure	**6.0**	**67.2**	**56.8**	**148.7**	**165.1**
Financing:					
Capital Receipts	(0.7)	(0.7)	(3.0)	(3.0)	(3.0)
Capital Grants and Contributions	(2.6)	(1.0)	(9.1)	(28.3)	(5.3)
Revenue Contributions	(1.2)	(0.8)	(0.8)	(0.8)	(0.8)
Net Financing Need	**1.5**	**64.7**	**43.9**	**116.6**	**156.0**
Less: Minimum Revenue Provision (MRP)	(12.3)	(12.4)	(12.4)	(12.8)	(13.8)
In-year movement in CFR	**(10.8)**	**52.3**	**31.5**	**103.8**	**142.2**

3.4 The Council has an increasing CFR due to planned Capital Programme expenditure, in particular on the Council's housing delivery and regeneration programme and on service projects such as the new Leisure Centre.

3.5 The Authorised Borrowing Limit of £1,450m and Operational Boundary of £1,350m for 2023/24, are considered appropriate for the above projections but will be reviewed and revised as needed to reflect borrowing requirements in future years. As can be seen in the above table the anticipated external borrowing figure falls below both figures.

3.6 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that an authority's total debt be lower than its highest forecast CFR over the next three years. Table 2 above shows that the Council expects to comply with this recommendation for 2023/24

Local context - Liability benchmark

3.7 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark (a measure of risk outlined in the CIPFA TM Code and now

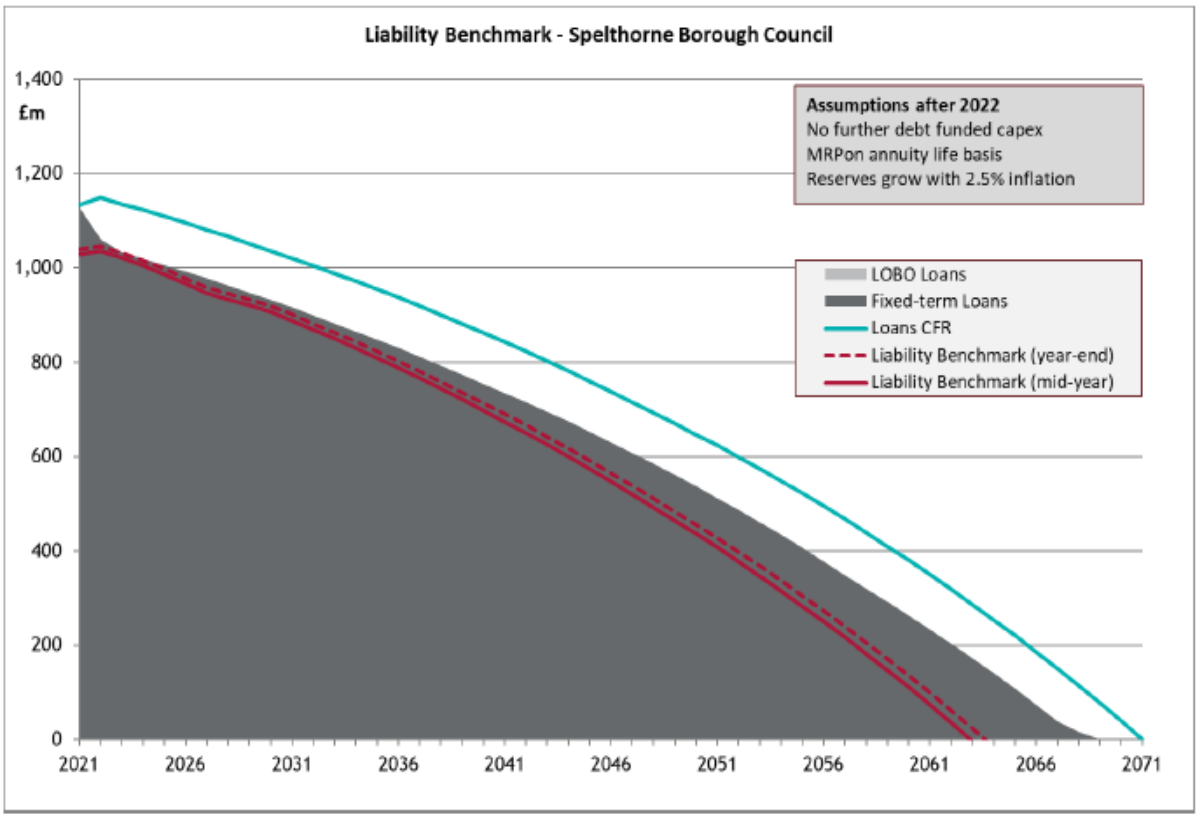
required to be reported on for future years) has been calculated showing the lowest risk level of borrowing, as shown at Table 3. This assumes the same forecasts as Table 2 above, but that cash and investment balances are kept to a minimum level of £20m at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 3: Liability benchmark

	Actual 31.03.2022	Estimate 31.03.2023	Estimate 31.03.2024	Estimate 31.03.2025	Estimate 31.03.2026
	£m	£m	£m	£m	£m
CFR	1,117.7	1,170.0	1,201.5	1,305.3	1,447.5
Balance Sheet resources	(111.0)	(113.0)	(119.0)	(113.0)	(113.0)
Minimum investment	20.0	20.0	20.0	20.0	20.0
Liability benchmark	1,026.7	1,077.0	1,102.5	1,212.3	1,354.5

3.8 The liability benchmark indicates that the required minimum level of borrowing is forecast to be £1,077.0m as at 31 March 2023 after taking into account other resources such as usable reserves and the minimum investment of £20.0m.

3.9 Following on from the medium-term forecasts in table 2 above, the longer-term liability benchmark given next shows the level of borrowing that will be required in future years – consistently low at around £0.1m to £0.2m (the gap under the top, green line. The Council will be working with Arlingclose to further develop this modelling to help identify and apply internal resources effectively.



4. Borrowing and Investment Strategies

Borrowing Strategy

4.1 The Council currently holds £1,096.5m of loans (Table 1) as part of its strategy for funding previous years' capital programmes. The Council was debt-free before 2016/17, when the decision was taken to make strategic property acquisitions based on the opportunities available. This continues to be the case, with the important caveat that Council has no intention to buy investment assets primarily for yield, and specifically not in the current or next two financial years. This is as set out in the Council's Capital Strategy. The Council's focus is funding its housing and regeneration programme and services expenditure.

4.2 The forecast in Table 2 shows that the Council expects borrowing to be a maximum of £1,063.6m in 2023/24. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the Council's Authorised Borrowing Limit. This Limit.is set at £1,450m to enable the Council to fund housing developments and place-shaping within the Borough.

4.3 The revised draft Capital Programme budget for 2023/24 has been set at £45.2m, net of funding, although the programme has been significantly delayed because of the ongoing impact of COVID-19 and inflationary pressures on the cost of materials and borrowing. A proportion of rental income from existing investment property is set aside to increase sinking funds, which contribute towards financing of future property-related costs.

4.4 **Objectives:** The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty over those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

4.5 **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

4.6 With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term either to use internal resources, or to borrow short-term loans instead of long-term. By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

4.7 The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis, the result of which will help determine whether the Council borrows additional sums at long-term fixed rates in 2023/24 with a view to keeping future interest costs low and gaining long term value for money even if costs are higher in the immediate to short term.

4.8 The Council has previously raised the majority of its long-term borrowing from the PWLB, which remains a relatively good option. The Government now prohibits authorities that have 'investments for yield' (which the Council does not intend to have) from accessing PWLB loans.

4.9 The Council will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding, in line with the CIPFA TM Code.

4.10 Specifically, the Council is working with Arlingclose to identify alternative funding options for potential acquisitions and future development projects, and at options for diversifying the Council's debt to build a portfolio from a number of sources.

4.11 The Council will also consider forward-starting loans, where the interest rate is fixed in advance and the cash is received in later periods. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. Forward starting loans would facilitate effective funding of major development projects such as those planned for the property portfolio.

4.12 In addition, the Council may borrow short-term when needed to cover unplanned cash-flow shortages.

4.13 **Sources of borrowing:** Approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Surrey Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

4.14 **Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback.

4.15 **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. The Agency plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Council.

4.16 **LOBOs:** The Council does not hold and has not previously held, LOBO (Lender's Option Borrower's Option) loans, which expose borrowers to an

element of refinancing risk. A LOBO lender has the option to propose an increase in the interest rate at set dates, following which the borrower has the option to either accept the new rate or to repay the loan at no additional cost. These loans do not represent value for money and will not form part of the Council's borrowing strategy.

4.17 **Short-term and variable rate loans:** These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk.

4.18 **Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Investment Strategy

4.19 The Council holds significant levels of invested funds representing income received in advance of expenditure plus balances and reserves held. Total long-term investments are £33.1m as at the end of December 2022 (Table 1). This includes £32.7m pooled funds, noting that the COVID-19 crisis resulted in a reduction in the capital value of these holdings as they are primarily property funds. This reduction is expected to be temporary and has since partially recovered.

4.20 Invested funds may be increased further if there are significant additional capital receipts and if it is agreed that these are to be invested. Total investments are higher throughout the financial year and are monitored closely and maintained at appropriate levels as part of managing short-term cash-flow requirements of the Council.

4.21 **Objectives:** Both the CIPFA TM Code and the DHLUC Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest yield (rate of return). The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

4.22 **Strategy:** The Council aims to maximise liquidity of funds to ensure availability for capital expenditure, in line with the Council's significant property and housing service plans.

4.23 **Business models:** Under the IFRS 9 standard, accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

4.24 **Approved counterparties:** The Council may invest its surplus funds with any of the counterparty types in Table 4 below, subject to the cash limits (per counterparty) and the time limits shown.

4.25 The cash limits shown have been agreed in conjunction with our treasury advisers, to enable the Council to have sufficient flexibility within the strategy being set to manage funds appropriately as they are received. This can sometimes include holding funds in advance of need in relation to making strategic acquisitions.

Table 4: Approved investment counterparties and limits

Credit Rating	Government	Banks Secured	Banks Unsecured	Corporates	Registered Providers
UK Gov	£ Unlimited 50 years	n/a	n/a	n/a	n/a
AAA	£10m 50 years	£10m 20 years	£10m 5 years	£5m 20 years	£5m 20 years
AA+	£10m 25 years	£10m 10 years	£10m 5 years	£5m 10 years	£5m 10 years
AA	£10m 15 years	£10m 5 years	£10m 4 years	£5m 5 years	£5m 10 years
AA-	£10m 10 years	£10m 4 years	£10m 3 years	£5m 4 years	£5m 10 years
A+	£5m 5 years	£10m 3 years	£10m 2 years	£5m 3 years	£5m 5 years
A	£5m 5 years	£10m 2 years	£10m 13 months	£5m 2 years	£5m 5 years
A-	£5m 5 years	£10m 13 months	£10m 6 months	£5m 13 months	£5m 5 years
None	£5m 25 years	n/a	£1m 6 months	£1m 5 years	£5m 5 years

Pooled funds and real estate investment trusts (REITs)	£10m per fund at point of investment
Money Market Funds	Unlimited per fund

This table must be read in conjunction with the notes below.

4.26 **Credit Rating:** Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used; otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

4.27 **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years

4.28 **Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment-specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

4.29 **Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

4.30 **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in but are exposed to the risk of the company going insolvent. Loans to unrated companies would only be made either following a financial or credit assessment or as part of a diversified pool in order to spread the risk widely.

4.31 **Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing and Registered Social Landlords, formerly known as Housing Associations. These bodies are tightly regulated in England by the Regulator of Social Housing. As providers of public services, they retain the likelihood of receiving government support if needed.

4.32 **Money Market Funds:** These are pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

4.33 **Strategic Pooled Funds:** Bond, equity and property funds offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date and are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

4.34 **Real Estate Investment Trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

4.35 **Operational Bank Accounts:** The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but

are still subject to the risk of a bank bail-in, and balances will therefore be kept below £500,000 per bank as far as practicably possible, and, where practical issues necessitate, no more than £5m as per Table 4. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

4.36 **Risk Assessment and Credit Ratings:** Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria, then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

4.37 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

4.38 **Other information on the security of investments:** The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it might otherwise meet the above criteria.

4.39 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

4.40 **Investment Limits:** The maximum that will be lent to any one organisation (other than the UK Government) will be £10 million, to mitigate the risk in the case of a single default. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

4.41 Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £500,000 in operational bank accounts count against the relevant investment limits.

4.42 Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as shown in Table 5 below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country since the risk is diversified over many countries.

Table 5: Investment limits

	Cash limit Per Counterparty
Any single organisation, except the UK Central Government	£10m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£25m per group
Any group of pooled funds under the same management	£25m per manager at point of investment
Negotiable instruments held in a broker's nominee account	£30m per broker
Foreign countries	£10m per country
Registered Providers	£25m in total
Unsecured investments with Building Societies	£10m in total
Loans to unrated corporates	£10m in total
Money Market Funds	£50m in total

4.43 **Liquidity management:** A cash flow forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. The Council has implemented a Treasury Management system and is currently developing the reporting available through that system, such as cash-flow forecasting, which will enable determination of the maximum period for which funds may prudently be committed.

4.44 The Council will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds), where cash funds over £20 million are held, to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

Treasury Management Indicators

4.45 The Council measures and manages its exposures to treasury management risks using the following indicators.

4.46 **Security:** The Council adopts a voluntary measure of its exposure to credit risk of its investment portfolio through regular rating advice from its treasury management adviser and through market information from contacts such as brokers and other councils.

4.47 **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing:

Liquidity risk indicator	Target
Total cash available within 3 months	£20m

4.48 **Interest Rate Exposures:** The Council is exposed principally to risk in terms of its exposure to interest rate movements on its borrowing and investments. The Council is heavily reliant on investment income to support expenditure and has several strategies in place for managing such risk.

4.49 The Council's treasury adviser provides analysis of market movements and assists in investment decisions based on their knowledge of current market conditions and interest rate forecasting.

4.50 The Council generally invests medium- to long-term at fixed rates. The Council currently has no variable rate investments.

4.51 Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classified as variable rate.

4.52 **Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. We calculate this as the amount of fixed rate borrowing we can have maturing in each period as a percentage of total projected borrowing that is at a fixed rate. The calculation takes fixed rate to be whether the borrowing was taken out at a fixed rate for a fixed period of time, regardless of that length of time. The upper and lower limits on the maturity structure of borrowing are as shown in Table 6.

Table 6: Maturity Structure of Borrowing

	Upper	Lower
Under 12 Months	10%	0%
1 – 2 Years	15%	0%
3 – 5 Years	20%	0%
6 – 10 Years	25%	0%
10 – 20 Years	50%	0%
20 – 30 Years	75%	0%
30 – 40 Years	90%	0%
40 – 50 Years	100%	0%

4.53 Time periods start on the first day of each financial year. The maturity of borrowing is the earliest date on which the lender can demand repayment. In the case of PWLB, this is the maturity date.

4.54 This indicator allows us to have the percentage of borrowing maturing in each time range shown above, taking into account our current debt profile and

providing an allowance for new borrowing, while having consideration to the Capital Programme.

4.55 **Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end are shown in Table 7 below.

Table 7: Principal Limits – Price risk indicator

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Limit on principal invested beyond year end	70	70	70	70

4.56 **Affordable borrowing limit:** The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt). In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 8: Prudential Indicators - Authorised limit and operational boundary for external debt

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Authorised borrowing limit	1,450	1,450	1,450	1,450
Operational boundary	1,350	1,350	1,350	1,350

4.57 **Estimates of financing costs to net revenue stream** shown in Table 9 is a measure of the affordability of borrowing. The Council's financing costs relate substantially to borrowing when commercial property was acquired prior to March 2019. As the CIPFA TM Code notes, commercial investments are taken or held primarily for financial return and are not linked to treasury management activity or directly part of delivering services. However, as commercial property was directly related to borrowing costs, Table 10 also shows the net income after costs and contributions to future costs. This illustrates the affordability of the commercial investments.

Table 9: Prudential Indicator - Financing costs to net revenue stream

	2023/24	2024/25	2025/26	2026/27
Net Revenue Stream, £m	13.6	13.7	12.6	12.2
Financing costs, £m	39.4	39.5	39.6	39.7
Ratio	2.9	2.9	3.1	3.2

Table 10: Commercial income, related costs and net contributions to future costs+

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Commercial income	(46.1)	(49.2)	(53.4)	(54.1)
Landlord costs	7.9	8.8	6.8	6.3
Contribution to sinking funds	1.0	0.8	2.9	3.7
Financing costs	39.4	39.5	39.6	39.7
Net income after landlord & financing costs & net contributions to sinking fund	**2.2**	**(0.02)**	**(4.1)**	**(4.5)**

Related Matters

4.58 The CIPFA TM Code requires the Council to include the following in its treasury management strategy.

4.59 **Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

4.60 The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward-starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

4.61 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

4.62 In line with the CIPFA TM Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

4.63 **Markets in Financial Instruments Directive (MIFD):** The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

5. Financial implications

5.1 The budget for property investment income in 2023/24 is £46.1m (£38.2 after landlord costs), based on an investment portfolio of £1,049m (purchase cost) at an average interest rate of 4.4%. The budget for debt interest paid in 2023/24 is £25.2m, based on an average debt portfolio of £1,080.1m at an average interest rate of 2.3%. After financing costs, property costs and set asides, it is anticipated that the Council will have a net deficit. This is due to a reducing in rental income. However this appears to be an anomaly and a return to net surpluses is predicted for 2024/25 onwards.

6. Risk considerations

6.1 The DHLUC Guidance and the CIPFA TM Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. The strategy has been drawn up in consultation with the Council's independent treasury and investment advisers, to ensure a prudent and robust approach in the strategy.

6.2 Some alternative strategies, with their financial and risk management implications, are listed below in Table 11.

Table 11: Alternative strategies

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Lower investment sums resulting in less Interest income	Lower chance of losses from credit related defaults although such losses may be greater Also, less diversity increases risk of losses
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher with increased investment sums	Increased risk of losses from credit related defaults, but any such losses may be smaller Increased diversity also decreases the risk of significant loss
Borrow additional sums at long-term fixed interest rates (not in advance of need)	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default. However long-term interest costs may be more certain

Alternative	Impact on income and expenditure	Impact on risk management
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Reduced debt interest costs Less income for funding projects Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain Less resources available for the Capital Programme which would need to be reduced

7. Procurement considerations

Not applicable

8. Legal considerations

The Council has a statutory obligation, under The Local Government Act 2003 to approve and publish its Treasury Management Strategy.

9. Other considerations

Not applicable.

10. Equality and Diversity

Not applicable

11. Sustainability/Climate Change Implications

The Corporate Policy and Resources Committee has agreed the parameters to be used in its Environmental, Social and Governance (ESG) strategy, the strategy has yet to be agreed. One of the intentions of developing and ESG strategy is to enable the Council to transition the investment portfolio to a more sustainable and environmentally sound approach.

12. Timetable for implementation

1st April 23

13. Contact

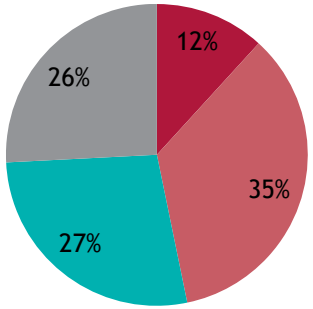
Sam Masters s.masters@spelthorne.gov.uk

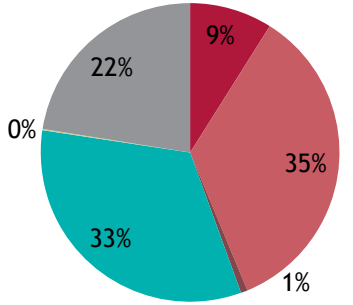
Background papers: None

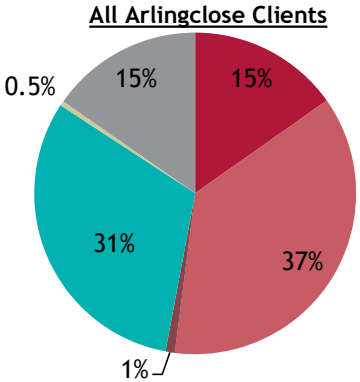
Appendices:
TMS 2223 - Appx A - Arlingclose Benchmarking
TMS 2223 - Appx B - Context and Background v08 (5 pages)
TMS 2223 - Appx C - Arlingclose forecast (3 pages)
TMS 2223 - Appx D - Annual MRP Statement v03 (2 pages)
TMS 2223 - Appx E - TMP and Schedules (51 pages)

Investment Benchmarking
31 December 2022

	Spelthorne	49 English Non-Met Districts Ave	129 LAs Average
Internal Investments	£94.6m	£39.0m	£73.2m
Cash Plus & Short Bond Funds	£0.0m	£1.7m	£1.5m
Strategic Pooled Funds	£32.9m	£12.4m	£12.6m
TOTAL INVESTMENTS	**£127.5m**	**£53.1m**	**£87.3m**
Security			
Average Credit Score	4.96	4.42	4.41
Average Credit Rating	A+	AA-	AA-
Average Credit Score (time-weighted)	5.24	4.10	4.11
Average Credit Rating (time-weighted)	A+	AA-	AA-
Number of Counterparties / Funds	25	13	13
Proportion Exposed to Bail-in	63%	59%	60%
Liquidity			
Proportion Available within 7 days	43%	44%	49%
Proportion Available within 100 days	70%	67%	73%
Average Days to Maturity	22	47	14
Market Risks			
Average Days to Next Rate Reset	36	69	50
Strategic Fund Volatility	9.1%	5.5%	16.0%
Yield			
Internal Investment Return	2.78%	2.81%	2.80%
Cash Plus Funds - Income Return	-	0.89%	0.89%
Strategic Funds - Income Return	4.35%	3.89%	3.90%
Total Investments - Income Return	**3.19%**	**2.98%**	**2.93%**
Cash Plus Funds - Capital Gain/Loss	-	-1.17%	-1.29%
Strategic Funds - Capital Gain/Loss	-7.79%	-9.99%	-10.04%
Total Investments - Total Return	**1.18%**	**0.62%**	**1.35%**







- Bank Unsecured
- Fund Unsecured
- Bank Secured
- Government
- Corporate/RP
- Strategic Funds

Notes

- Unless otherwise stated, all measures relate to internally managed investments only, i.e. excluding external pooled funds.
- Averages within a portfolio are weighted by size of investment, but averages across authorities are not weighted.
- Credit scores are calculated as AAA = 1, AA+ = 2, etc.

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Context and Background

1. Spelthorne Borough Council's Context

1.1. Treasury Management in public services is defined as:

- the management of the organisation's borrowing, investments and cash flows, including its banking, money market and capital market transactions
- the effective control of the risks associated with those activities
- the pursuit of optimum performance consistent with those risks.

1.2. The Council has borrowed and invested substantial sums of money and is consequently exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

1.3. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA TM Code), which requires the Council to approve a treasury management strategy before the start of each financial year. The 2017 Edition of the CIPFA TM Code, which applies to the 2023/24 TM Strategy report, will be replaced for by the 2021 Edition in December 2021.

1.4. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA TM Code.

1.5. The Treasury Management Practices (TMP) and Schedules, included at Appendix E, set out how this Council will seek to achieve its treasury management policies and objectives and how it will manage and control those activities.

1.6. The following sections on external context are mainly provided by Arlingclose dated 17 December 2021.

2. External Context

External Context - Economic background

2.1. The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Authority's treasury management strategy for 2023/24

2.2. The Bank of England (BoE) increased Bank Rate by 0.5% to 4% in February 2023. This followed a 0.75% rise in November which was the largest single rate hike since 1989 and the ninth successive rise since December 2021. The December decision was voted for by a 6 3 majority of the Monetary Policy Committee (MPC), with two dissenters voting for a no-change at 3% and one for a larger rise of 0.75%.

2.3. The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

2.4. The UK economy contracted by 0.3% between July and September 2022 according to the Office for National Statistics, and the BoE forecasts Gross Domestic Product

(GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.

2.5. CPI inflation is expected to have peaked at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets at the time of the November MPR (a peak of 5.25%). However, the BoE stated it considered this path to be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target. Market rates have fallen since the time of the November MPR.

2.6. The labour market remains tight for now, with the most recent statistics showing the unemployment rate was 3.7%. Earnings were up strongly in nominal terms by 6.1% for both total pay and for regular pay but factoring in inflation means real pay for both measures was -2.7%. Looking forward, the November MPR shows the labour market weakening in response to the deteriorating outlook for growth, leading to the unemployment rate rising to around 6.5% in 2025.

2.7. Interest rates have also been rising sharply in the US, with the Federal Reserve increasing the range on its key interest rate by 0.5% in December 2022 to 4.25%-4.5%. This rise follows four successive 0.75% rises in a pace of tightening that has seen rates increase from 0.25%-0.50% in March 2022. Annual inflation has been slowing in the US but remains above 7%. GDP grew at an annualised rate of 3.2% (revised up from 2.9%) between July and September 2022, but with official interest rates expected to rise even further in the coming months, a recession in the region is widely expected at some point during 2023.

2.8. Inflation rose consistently in the Euro Zone since the start of the year, hitting a peak annual rate of 10.6% in October 2022, before declining to 10.1% in November. Economic growth has been weakening with an upwardly revised expansion of 0.3% (from 0.2%) in the three months to September 2022. As with the UK and US, the European Central Bank has been on an interest rate tightening cycle, pushing up its three key interest rates by 0.50% in December, following two consecutive 0.75% rises, taking its main refinancing rate to 2.5% and deposit facility rate to 2.0%.

External Context - Credit Outlook

2.9. Credit default swap (CDS) prices have generally followed an upward trend throughout 2022, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic.

2.10. CDS price volatility was higher in 2022 compared to 2021 and the divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities has emerged once again.

2.11. The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them from to negative from stable.

2.12. There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability.

2.13. However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

External Context – Interest Rate forecast

2.14. The Authority's treasury management adviser Arlingclose forecasts that Bank Rate will continue to rise in 2022 and 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.

2.15. While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher.

2.16. Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.5%, 3.5%, and 3.85% respectively over the 3-year period to December 2025. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

2.17. A more detailed economic and interest rate forecast provided by Arlingclose is in Appendix A

Revised PWLB Guidance

2.18. HM Treasury published further guidance on PWLB borrowing in August 2021 providing additional detail and clarifications predominantly around the definition of an 'investment asset primarily for yield'. The principal aspects of the new guidance are:

2.19. Capital expenditure incurred or committed to before 26th November 2020 is allowable even for an 'investment asset primarily for yield'.

2.20. Capital plans should be submitted by local authorities via a DELTA return. These open for the new financial year on 1st March and remain open all year. Returns must be updated if there is a change of more than 10%.

2.21. An asset held primarily to generate yield that serves no direct policy purpose should not be categorised as service delivery.

2.22. Further detail on how local authorities purchasing investment assets primarily for yield can access the PWLB for the purposes of refinancing existing loans or externalising internal borrowing.

2.23. Additional detail on the sanctions which can be imposed for inappropriate use of the PWLB loan. These can include a request to cancel projects, restrictions to accessing the PLWB and requests for information on further plans.

2.24. The Council will ensure it complies with the new PWLB guidance and will not be purchasing any assets primarily for yield.

3. Changes to PWLB Terms and Conditions from 8 September 2021

3.1. The settlement time for a PWLB loan has been extended from two workings days (T+2) to five working days (T+5). In a move to protect the PWLB against negative interest rates, the minimum interest rate for PWLB loans has also been set at

0.01% and the interest charged on late repayments will be the higher of Bank of England Base Rate or 0.1%.

3.2. Municipal Bonds Agency (MBA): The MBA is working to deliver a new short-term loan solution, available in the first instance to principal local authorities in England, allowing them access to short-dated, low rate, flexible debt. The minimum loan size is expected to be £25 million. Importantly, local authorities will borrow in their own name and will not cross guarantee any other authorities.

3.3. If the Authority intends future borrowing through the MBA, it will first ensure that it has thoroughly scrutinised the legal terms and conditions of the arrangement and is satisfied with them.

3.4. UK Infrastructure Bank: £4bn has been earmarked for of lending to local authorities by the UK Infrastructure Bank which is wholly owned and backed by HM Treasury. The availability of this lending to local authorities, for which there will be a bidding process, is yet to commence. Loans will be available for qualifying projects at gilt yields plus 0.6%, which is 0.2% lower than the PWLB certainty rate.

3.5. Both the CIPFA TM Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

4. Treasury Investment

4.1. Ultra-low short-dated cash rates which have been a feature since March 2020 when Bank Rate was cut to 0.1% have resulted in the return on sterling low volatility net asset value money market funds (LVNAV MMFs) being close to zero even after some managers have temporarily waived or lowered their fees. At this stage net negative returns are not the central case of most MMF managers over the short-term, and fee cuts or waivers should result in MMF net yields having a floor of zero, but the possibility cannot be ruled out.

4.2. Deposit rates with the Debt Management Account Deposit Facility (DMADF) are also largely around zero.

5. Revisions to CIPFA Codes

5.1. In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These followed the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. In June, CIPFA provided feedback from this consultation, followed by further consultation from September.

5.2. In December 2021, CIPFA issued the revised Codes and Guidance Notes. The changes include:

5.3. Clarification that (a) local authorities must not borrow to invest primarily for financial return (b) it is not prudent for authorities to make any investment or spending decision that will increase the Capital Financing Requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority.

5.4. Categorising investments as those (a) for treasury management purposes, (b) for service purposes and (c) for commercial purposes.

5.5. Defining acceptable reasons to borrow money: (i) financing capital expenditure primarily related to delivering a local authority's functions, (ii) temporary management of cash flow within the context of a balanced budget, (iii) securing affordability by removing exposure to future interest rate rises and (iv) refinancing current borrowing, including replacing internal borrowing.

5.6. For service and commercial investments, in addition to assessments of affordability and prudence, an assessment of proportionality in respect of the authority's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services).

5.7. **Prudential Indicators**: New indicator for net income from commercial and service investments to the budgeted net revenue stream.

5.8. Inclusion of the liability benchmark as a mandatory treasury management prudential indicator. CIPFA recommends this is presented as a chart of four balances – existing loan debt outstanding; loans CFR, net loans requirement, liability benchmark – over at least 10 years and ideally cover the authority's full debt maturity profile.

5.9. Excluding investment income from the definition of financing costs.

5.10. Incorporating ESG issues as a consideration within TMP 1 Risk Management.

5.11. Additional focus on the knowledge and skills of officers and elected members involved in decision making

6. DLUHC Improvements to the Capital Finance Framework

6.1. The Government department DLUHC (Department for Levelling Up, Housing and Communities *formerly MHCLG*) published a brief policy paper in July outlining the ways it feels that the current framework is failing and potential changes that could be made. The paper found that "while many authorities are compliant with the framework, there remain some authorities that continue to engage in practices that push the bounds of compliance and expose themselves to excessive risk".

6.2. The actions announced include greater scrutiny of local authorities and particularly those engaged in commercial practices; an assessment of governance and training; a consideration of statutory caps on borrowing; further regulations around Minimum Revenue Provision (MRP) and ensuring that DLUHC regulations enforce guidance from CIPFA and the new PWLB lending arrangements.

6.3. DLUHC has opened a further consultation on these matters.

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Appendix A – Arlingclose Economic & Interest Rate Forecast – December 2022

Underlying assumptions:

- The influence of the mini-budget on rates and yields continues to wane following the more responsible approach shown by the new incumbents of Downing Street.
- Volatility in global markets continues, however, as investors seek the extent to which central banks are willing to tighten policy, as evidence of recessionary conditions builds. Investors have been more willing to price in the downturn in growth, easing financial conditions, to the displeasure of policymakers. This raises the risk that central banks will incur a policy error by tightening too much.
- The UK economy is already experiencing recessionary conditions and recent GDP and PMI data suggests the economy entered a technical recession in Q3 2022. The resilience shown by the economy has been surprising, despite the downturn in business activity and household spending. Lower demand should bear down on business pricing power – recent data suggests the UK has passed peak inflation.
- The lagged effect of the sharp tightening of monetary policy, and the lingering effects of the mini-budget on the housing market, widespread strike action, alongside high inflation, will continue to put pressure on household disposable income and wealth. The short- to medium-term outlook for the UK economy remains bleak.
- Demand for labour appears to be ebbing, but not quickly enough in the official data for most MPC policymakers. The labour market remains the bright spot in the economy and persisting employment strength may support activity, although there is a feeling of borrowed time. The MPC focus is on nominal wage growth, despite the huge real term pay cuts being experienced by the vast majority. Bank Rate will remain relatively high(er) until both inflation and wage growth declines.
- Global bond yields remain volatile as investors price in recessions even as central bankers push back on expectations for rate cuts in 2023. The US labour market remains tight and the Fed wants to see persistently higher policy rates, but the lagged effects of past hikes will depress activity more significantly to test the Fed's resolve.
- While the BoE appears to be somewhat more dovish given the weak outlook for the UK economy, the ECB seems to harbour (worryingly) few doubts about the short term direction of policy. Gilt yields will be broadly supported by both significant new bond supply and global rates expectations due to hawkish central bankers, offsetting the effects of declining inflation and growth.

Forecast:

- The MPC raised Bank Rate by 50bps to 3.5% in December as expected, with signs that some members believe that 3% is restrictive enough. However, a majority of members think further increases in Bank Rate might be required. Arlingclose continues to expect Bank Rate to peak at 4.25%, with further 25bps rises February, March and May 2023.
- The MPC will cut rates in the medium term to stimulate a stuttering UK economy, but will be reluctant to do so until wage growth eases. We see rate cuts in the first half of 2024.
- Arlingclose expects gilt yields to remain broadly steady over the medium term, although with continued volatility across shorter time periods.
- Gilt yields face pressures to both sides from hawkish US/EZ central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales and high government borrowing will provide further underlying support for yields.

	Current	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25	1.25
Arlingclose Central Case	**3.50**	**4.00**	**4.25**	**4.25**	**4.25**	**4.25**	**4.00**	**3.75**	**3.50**	**3.25**	**3.25**	**3.25**	**3.25**
Downside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00
3-month money market rate													
Upside risk	0.00	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25	1.25
Arlingclose Central Case	**3.00**	**4.40**	**4.40**	**4.40**	**4.35**	**4.30**	**4.25**	**4.00**	**3.75**	**3.50**	**3.40**	**3.40**	**3.40**
Downside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00
5yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	**3.43**	**3.60**	**3.80**	**3.80**	**3.80**	**3.70**	**3.60**	**3.50**	**3.40**	**3.30**	**3.30**	**3.30**	**3.30**
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
10yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	**3.47**	**3.50**	**3.60**	**3.60**	**3.60**	**3.60**	**3.50**	**3.50**	**3.50**	**3.50**	**3.50**	**3.50**	**3.50**
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
20yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	**3.86**	**3.85**	**3.85**	**3.85**	**3.85**	**3.85**	**3.85**	**3.85**	**3.85**	**3.85**	**3.85**	**3.85**	**3.85**
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
50yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	**3.46**	**3.60**	**3.60**	**3.60**	**3.60**	**3.60**	**3.60**	**3.60**	**3.60**	**3.60**	**3.60**	**3.60**	**3.60**
Downside risk	0.00	0.80	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

Minimum Revenue Provision (MRP) Statement 2023/24

Annual MRP Statement

Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Council to have regard to the former Ministry of Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in 2018.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The MHCLG Guidance requires the Council to approve an Annual MRP Statement each year and recommends options for calculating a prudent amount of MRP. The following incorporates options recommended in the Guidance.

- For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity with an annual interest rate equal to the average PWLB rate for the year of expenditure, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

- Where former operating leases have been brought onto the balance sheet on 1st April 2022 due to the adoption of the *IFRS 16 Leases* accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or discounts, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.

- For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, and will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become

operational. While this is not one of the options in the MHCLG Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred on the loan is fully funded over the life of the assets.

The Council was debt-free before 2016/17, and MRP was not applied until 2017/18. MRP has been determined using finance models for specific major property acquisitions for which PWLB loans were obtained, with principal repayments calculated over 50 years based on the annuity rate applicable at the time of the loan. Capital expenditure incurred will not be subject to an MRP charge until the asset is brought into use.

Spelthorne Borough Council

Treasury Management Practices and Schedules

Contents

Treasury Management Practices, Principles and Schedules (TMPs) set out how this Council will seek to achieve its treasury management policies and objectives, and how it will manage and control those activities.

Treasury Management Practices

1. Risk management

General Statement

The Chief Finance Officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, and will report at least annually on the adequacy and suitability of these arrangements. The Chief Finance Officer will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives in this respect in accordance with the procedures set out in **TMP6** ***Reporting requirements and management information arrangements***. For each of the following risks, the arrangements will seek to ensure compliance with these objectives as set out in the schedules below:

The following paragraphs cover the main areas of risk:

1. Credit and Counterparty Risk Management
2. Liquidity Risk Management
3. Interest Rate Risk Management
4. Exchange Rate Risk Management
5. Inflation risk management
6. Refinancing Risk Management
7. Legal and Regulatory Risk Management
8. Operational risk including Fraud, Error and Corruption
9. Price risk management
10. ESG considerations

Where this document refers to the Government, this refers to the Department for Housing, Levelling Up and Communities (DHLUC), previously called Ministry for Housing, Communities and Local Government (MHCLG).

c. Credit and counterparty risk management

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques set out in TMP4 *Approved investments, methods and techniques*. The Council also recognises the need to have, and will therefore maintain, a formal counterparty policy on those organisations which it may borrow from, or which it may enter into other financing arrangements with.

Schedule:

Credit and counterparty risk is the risk of failure by a third party to meet its contractual obligations to the Council under an investment, borrowing, capital, project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the Council's capital and revenue resources.

1.1 Criteria to be used for creating/managing approved counterparty lists/limits	The Chief Finance Officer is responsible for setting prudent criteria and the Council's treasury advisors will provide guidance and assistance in setting these criteria. The Council's treasury management advisors will advise on credit policy and creditworthiness related issues. The Council will maintain a counterparty list based on its criteria and will monitor and update the credit standing of the institutions on a regular basis. The Council will also take into account information on corporate developments of and market sentiment towards investment counterparties. The current criteria, set out in the Council's Annual Treasury Management Strategy, are agreed by CP&R Committee and approved by Council.
1.2 Approved methodology for changing limits and adding/removing counterparties	The Chief Finance Officer has delegated responsibility to add or delete counterparties and to review limits within the parameters of the criteria detailed above.
1.3 Counterparty list and limits	A full individual listing of counterparties based on the criteria will be maintained. As credit ratings etc. are subject to change without notice, an up-to-date lending list will be maintained on an ongoing basis within the Operations Manual.
1.4 Country, sector and group listings of counterparties and overall limits applied to each, where appropriate	Investments will be displayed so as to show total group exposure, total country exposure and total sector exposure. Group limits have been set for the above, in terms of monetary value, where appropriate.

1.5 Details of credit rating agencies' services and their application	The Council considers the ratings of all 3 main ratings agencies (Standard & Poor's, Moody's and Fitch) when making investment decisions. Credit rating agency information is just one of a range of instruments used to assess creditworthiness of institutions.
1.6 Description of the general approach to collecting/using information other than credit ratings for counterparty risk assessment	The Council's Treasury Advisor, currently Arlingclose, provides timely information on counterparties, in terms of credit rating updates and economic summaries. In addition, members of the treasury team read quality financial press for information on counterparties.

2. Liquidity risk management

The Chief Finance Officer will ensure the Council has adequate though not excessive cash reserves, borrowing arrangements, and overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business and service objectives.

The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current Capital Programme or to fund future debt maturities, and will do so within approved borrowing limits set by Council.

Schedule:

Liquidity risk is the risk that cash is not available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the Council's business and service objectives will therefore be compromised.

2.1 Cash flow and cash Balances	The Council will aim for effective cash flow forecasting and monitoring of cash balances, will maintain a rolling 3-month cash flow forecast and is developing longer forecast through the TM CSL system. The Treasury Team shall seek to optimise the balance held in the Council's main bank accounts at the close of each working day in order to minimise the amount of bank overdraft interest payable or maximise the amount of interest that can be earned. In order to achieve the maximum return from investments, the target for the Council's bank account daily cash balance is up to £50,000 in, with a maximum limit of a £500,000 credit balance.

2.2 Short term investments	The balance on the Council's General bank account is used to deal with day to day cash flow fluctuations. The Council also uses various other deposit/ notice accounts and Money Market Funds to manage liquidity requirements. These account/ fund counterparties are named on the Council's approved counterparty list. The maximum balance on each of these counterparties is reviewed and set as part of the Council's Treasury Management strategy.
2.3 Temporary Borrowing	Temporary borrowing up to 364 days through the money market is available to cover cash flow deficits at any point during the year. At no time will the outstanding total of temporary and long-term borrowing together with any bank overdraft exceed the Prudential Indicator for the Authorised Borrowing Limit agreed by the Council before the start of each financial year.
2.4 Bank Overdraft and standby facilities	The Council has an authorised overdraft limit with its bankers, Lloyds Bank, of £50,000 at an agreed rate of 1% over base rate. The facility is used as a contingency when temporary borrowing is difficult or more expensive

3. Interest rate risk management

The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements in accordance with TMP6 *Reporting requirements and management information arrangements*.

Schedule

Interest rate risk is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately.

3.1 Minimum/ maximum proportions of fixed/variable rate debt/interest	Borrowing/investments may be at a fixed or variable rate. When funding asset acquisitions on a long-term funding basis, the Council will normally seek to borrow on a fixed rate basis to ensure certainty of financing commitments. In setting its forward Treasury Strategy on an annual basis, the Council will determine the necessary degree of certainty required for its plans and budgets but will, at the same time, allow sufficient flexibility to enable it to benefit from potentially advantageous changes in market conditions and levels of interest rates and also to mitigate the effects of potentially disadvantageous changes. The Council will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility.
3.2 Managing changes to interest rate levels	The main impact of changes in interest rate levels is to monies borrowed and invested at variable rates of interest. The Council will consider matching borrowing at variable rates with investments similarly exposed to changes in interest rates as a way of mitigating any adverse budgetary impact. Interest rate forecasts are provided by the Council's advisors and are closely monitored by the Chief Finance Officer. Variations from original estimates and their impact on the Council's debt and investments are notified to the Corporate Policy & Resources Committee as necessary. For its investments, the Council also considers dealing on forward periods depending on market conditions and options available in the market place.
3.3 Details of approved interest rate exposure limits	The upper limit for variable interest rate investments as a proportion of total investments is 100%. In terms of long-term borrowing, the Council can have no more than 100% in variable interest rate borrowings.

4. Exchange rate risk management

The Council will ensure that it protects itself adequately against the risk of fluctuations in foreign exchange rates creating an unexpected or unbudgeted burden on the Council's finances. It will manage any exposure to fluctuations in exchange rates so as to 6inimize any detrimental impact on its budgeted income and expenditure levels.

Schedule

The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the Council's finances against which the Council has failed to protect itself adequately.

4.1 Exchange rate risk management	This Council does not, on a day to day basis, have foreign currency transactions or receipts. Unexpected receipt of foreign currency will be converted to sterling at the earliest opportunity. If the Council has a contractual obligation to make a payment in a currency other than sterling, then forward foreign exchange transactions will be considered, with professional advice. At the present time, statute prevents the Council borrowing in currencies other than Sterling. The Council has also determined that all its investments will be in Sterling.

5. Inflation risk management

The Council will keep under review the sensitivity of its treasury assets and liabilities to inflation and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

6. Refinancing risk management

The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal and refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid over-reliance on any one source of funding if this might jeopardise achievement of the above.

Schedule

The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.

6.1 Projected capital investment requirements	Four-year projections are in place for capital expenditure and related financing or funding. Longer term projections will be undertaken for significant capital developments or asset acquisitions. Financing will be from capital receipts, grants or contributions, revenue resources or reserves. Funding will be from internal or external borrowing, as decided. As required by the Prudential Code, the Council will undertake Options Appraisal to evaluate the best capital expenditure financing route. The Council's projected long-term borrowing requirement will be linked to the projected Capital Financing Requirement.
6.2 Debt profiling, policies and practices	Any longer-term borrowing will be undertaken in accordance with the Prudential Code and will comply with the Council's Prudential Indicators and the Annual Treasury Management Strategy. The Council will maintain through its own treasury system spreadsheets reliable records of the terms and maturities of its borrowings, capital, project and partnership funding and, where appropriate, plan and successfully negotiate terms for refinancing. Where the lender to the Council is a commercial body the Council will aim for diversification in order to spread risk and avoid over-reliance on a small number of counterparties.
6.3 Policy concerning limits on revenue consequences of capital financings	The revenue consequences of financing the capital programme are included in cash flow models, annual revenue estimates and medium-term forecasts.

7. Legal and regulatory risk management

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under *TMP 1 (1) Credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the Council, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

Schedule

The risk that the Council itself, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Council suffers losses accordingly.

7.1
References to relevant statutes and regulations
	The treasury management activities of the Council shall comply fully with legal statute and the regulations of the Council. These are:
	▪ CIPFA's Treasury Management Code of Practice 2021 and subsequent amendments
	▪ CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities
	▪ CIPFA Prudential Code for Capital Finance in Local Authorities 2021 and subsequent amendments
	▪ CIPFA Standard of Professional Practice on Treasury Management
	▪ The Local Government Act 2003
	▪ The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 SI 2003 No 3146, and subsequent amendments
	▪ The Government's statutory Guidance on Minimum Revenue Provision (MRP) updated 2018
	▪ The Government's Guidance on Local Government Investments in England issued March 2004 and amended 2018
	▪ HM Treasury's Guidance Regarding PWLB Lending and the PWLB's new Operating Circular numbered 162 (Nov 2020)
	▪ The Local Authorities (Contracting out of Investment Functions) Order 1996 SI 1996 No 1883
	▪ LAAP Bulletins
	▪ Code of Practice on Local Authority Accounting in the United Kingdom based on International Financial Reporting Standards (from 2017/18 onwards)
	▪ Accounts and Audit Regulations 2017, as amended together with THE GOVERNMENT's Guidance
	▪ The Non-Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets
	▪ Council's Constitution including:-
	  o Standing Order relating to Contracts
	  o Financial Regulations
	  o Scheme of Delegation

7.2 Procedures for evidencing the organisation's powers/ authorities to counterparties	The Council's Financial Regulations contain evidence of the power/ authority to act as required by section 151 of the Local Government Act 1972, under the general direction of the Corporate Policy & Resources Committee. The Council will confirm, if requested to do so by counterparties, the powers and authorities under which the Council effects transactions with them. Where required, the Council will also establish the powers of those with whom they enter into transactions, including any compliance requirements in respect of a duty of care and best practice.
7.3 Required information from counterparties concerning their powers/ authorities	Lending shall only be made to institutions as defined by the Council's TM strategy. The Council will only undertake borrowing from approved sources such as the PWLB, organisations such as the European Investment Bank and from commercial banks who are on the Council's list of authorised institutions, thereby minimising legal and regulatory risk. The list of approved sources of borrowing is contained in TMP 4, 1.2.
7.4 Statement on political risks and management of the same	Political risk is managed by: • adoption of the CIPFA Treasury Management Code of Practice • adherence to Local Code of Corporate Governance and as set out in *TMP 12 – Corporate Governance* • adherence to the Statement of Professional Practice by the Chief Finance Officer. • the role of the Corporate Policy & Resources Corporate Policy & Resources Committee.

8. Operational risk including fraud, error and corruption, and contingency management

The Council will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

Schedule

This is the risk that the Council fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk referred to as operational risk.

8.1 Details of systems and procedures to be followed, including Internet services	Segregation of duties minimises the possibility of fraud and loss due to error, and is detailed in ***TMP5 Organisation, clarity and segregation of responsibilities, and dealing arrangements***. c. <u>Electronic Banking and Dealing</u> *Banking*: The Council's online banking service is provided by Lloyds Bank and is subject to separate log-on and password control allowing varying levels of access. Details of transactions and balances are available as required, and the system also holds historic data. Officers with access to the bank's online system are as follows: • Deputy Chief Executive (CFO, s151 officer) – Terry Collier • Chief Accountant – Paul Taylor • Treasury Management and Capital Accountant – Prithiva Janaka • Accounting Assistant – John Bradley-Turner • Systems Accountant – Jodie Hawkes • For the purposes of covering for absence: • Accountant – Shelley Johnson • Accountant – Ben Hanger Officer access is reviewed at least 6-monthly or as necessary. Procedure notes covering the day-to-day operation of the online banking system and treasury management procedures are documented and included in the Treasury Management system folder. 2. <u>Standard Settlement Instructions</u> (SSI) list: a list is maintained of named officers who have the authority to transact loans and investments • Brokers and counterparties with whom the Council deals direct are provided a copy of the SSI list. • A list of named officers with authority to borrow from the PWLB and invest with the Debt Management Agency Deposit Facility is also maintained with the PWLB/DMADF. 3. <u>Payment Authorisation</u>: • Payments can only be minimised by the approved signatories of the Council. The list of signatories has been previously agreed with the Council's bankers. • Inflow and outflow of monies borrowed and invested will only be from the counterparty's bank accounts. • Separate officers will carry out (a) dealing and (b) recording of transactions and disbursements wherever possible. However, this will not always be possible due to staff numbers.

8.2 Verification	Details of loans and investments will be maintained in treasury management spreadsheet which will include fees and brokerage paid. Transactions will be cross-checked against broker notes, counterparty confirmations and PWLB loan schedules by verifying dates, amounts, interest rates, maturity, interest payment dates etc.
8.3 Substantiation	1. The Treasury Management system balances are reconciled with financial ledger codes at the end of each month and at the financial year end. 2. Working papers are retained for audit inspection. 3. The bank reconciliation is carried out monthly from the bank statement to the general ledger system, Integra.
8.4 Internal Audit	Internal Audit carry out an annual regulatory review of the treasury management function including probity testing. *See TMP7 Budgeting accounting and audit arrangements.*
8.5 Contingency Management	1. Treasury files are kept on the Council's network. Daily back-ups are maintained corporately by the ICT service. Network backups can be used to restore files and if necessary can be accessed from sites remote from the Council offices. 2. The Council has access to a Treasury Management system on a secure site managed by the Council's TM advisers, Arlingclose. This system is due to be set up during January to March 2020 so that the system's TM tools can be used to facilitate the Council's treasury management. Arlingclose is responsible for integrity and security of that system. As part of implementation of that system, the Council will determine backup measures that can be taken. 3. Electronic Banking System Failure: Daily bank balances for calculating cash flow requirements can be obtained by telephone from the Lloyds Corporate Banking Online (CBO) helpline on 0808 202 1390 by 12inimize12d users, who have security information that will be requested by the bank before sensitive information is provided. 4. CHAPs, Faster Payments, other transfers, stop cheque requests, and so on, can be done directly by the bank. 5. The Accountancy Team maintains an up-to-date Business Continuity Plan

8.6 Insurance cover details	The Council has Fidelity, Professional Indemnity and Business Interruption cover. Details of the provider and cover are held by the Insurance Officer.
8.7 TM system	The TM 'CS Lucas' system was implemented during 2020 and has been incorporated into the TM function. This is an online facility provided by company CS Lucas, which provides support including system procedure notes. The system will be used to support accounting and management of the council's TM function, but is not, and currently will not, be used for trades or financial transactions.

8. Market risk and price risk management

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests and will accordingly seek to protect itself from the effects of such fluctuations.

Schedule

This is the risk that, through adverse market fluctuations in the value of the principal sums the Council borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

8.1 Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (gilts, CDs etc)	Investment instruments used by external fund managers, where applicable, may be subject to fluctuation in capital movements and exposed to interest rate risk. To minimise these risks, capital preservation is set as the primary objective and pursuit of investment performance should be commensurate with this objective. Additionally, the following risk control guidelines are set for each fund as part of the fund management agreement to control market risk: (a) Maximum weighted average duration of the fund; (b) Maximum permitted exposure to gilts/bonds; (c) Maximum maturity of any instrument.

8.2 Accounting for unrealised gains and losses	The method of accounting for unrealised gains or losses on the valuation of financial assets complies with the Accounting Code of Practice. The Council has made irrevocable election to present changes in the fair values of Pooled Funds equity instruments in other comprehensive income, and not in the surplus or deficit on provision of services. This is because such instruments are long-term strategic investments held by the Council primarily to receive regular dividend income rather than for capital growth or to sell.

8. ESG considerations

The Council is keen to pursue Economic, Social and Governance (ESG) issues to help move funds to those that are acceptable and aligned to the Council's ethical and green objectives. The Council is currently doing this through a cross-party working group including councillors and with reference to advice and research by Arlingclose. This area of work is a medium to long term project, to ensure the security of funds held, noting that the funds held by the council contribute to the financial health of the Council.

Treasury Management Practices

2. Performance measurement

The Council is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its Treasury Management Policy Statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated business and service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out below.

Schedule

1.1 Policy concerning methods for testing value for money	Best value reviews will include the production of plans to review the way services are provided by • Challenging • Comparing performance • Consulting with other users and interested parties • Applying competition principles in order to pursue continuous improvement in the way the Council's functions are exercised, having regard to a combination of value for money, efficiency and effectiveness.

1.2 Policy concerning methods for performance measurement	• Performance measurement at this Council is intended to calculate the effectiveness of treasury activity in delivering the strategic objectives set through the Treasury Management Strategy and the Council's Prudential Indicators and to enhance accountability. • Prudential Indicators are local to the Council and are not intended as a comparator between authorities. • The performance review will be made in the light of general trends in interest rates during the year and how the decisions made corresponded with these trends and the Council's agreed strategy, i.e. the Council will avoid hindsight analysis. Any comparison of the Council's treasury portfolio against recognised industry standards, market indices and other portfolios is intended to (i) allow the Council the opportunity to assess the potential to add value through changes to the existing ways in which its portfolio is managed and (ii) permit an informed judgement about the merits or otherwise of using new treasury management techniques or instruments. In drawing any conclusions, the Council will bear in mind that the characteristics of its treasury operations may differ from those of other councils, particularly with regard to the position on risk.
1.3 Methodology to be applied for evaluating the impact of treasury management decisions	Monitoring of the outcome of treasury management activity against Prudential Indicators approved by the Council will be carried out as part of the budget monitoring reports to the Corporate Policy & Resources Committee on an annual basis. The year-end Annual Treasury Report will also include, as a matter of course, the outturn against the PIs set prior to the commencement of the financial year and any in-year amendments. The Council's Treasury Management advisers review the existing investment portfolio quarterly and all transactions that have occurred in the interim in order to ensure that best practice has been achieved. The Council's Treasury Management advisors compare the performance of the Council's in-house funds against 3-month LIBID cash benchmark, performance by other local authorities and the performance of the externally managed funds is compared. Performance is also compared with funds managed on a similar basis in the local authority fund manager peer group.

1.4 Methodology to be employed for measuring the performance of the Council's treasury management activities	Treasury management activity is reviewed annually against strategy and prevailing economic and market conditions through the Annual Treasury Report to Corporate Policy & Resources Committee. The report will include: a) Total debt including average rate and maturity profile b) The effect of new borrowing and/or maturities on the above c) The effect of any debt restructuring on the debt portfolio d) An analysis of any risks inherent within the debt portfolio (e.g. exposure to variable rate; LOBOs in their call period) e) Total investments including average rate, credit and maturity profile f) The effect of new investments/redemptions/maturities on the above g) The rate of return on investments against their indices for internally and externally managed funds h) An analysis of any risks inherent within the investment portfolio (e.g. exposure to market movements in the value of CDs, gilts/bonds, callable deposits in their call period) i) A statement whether the treasury management activity resulted in a breach of the Prudential Indicators and other limits set within treasury strategy. j) Daily bank balances: any major deviations from the target bank balances
1.5 Benchmarks and calculation methodology with regard to risk and return	**Treasury Management Costs** Costs are compared with other Councils within the Surrey Benchmarking statistics. **Investment returns** are compared to the 3-month LIBID. • Internally Managed Investment Returns - total interest accruing during the month or year on average daily balances invested during the calendar month. • Externally Managed Investment Returns - the growth (i.e. increase in value of the fund) in respect of the monthly average value of the fund. **Debt Management** ▪ Average Rate on all external debt ▪ Average Rate on external debt borrowed in financial year ▪ Average Rate on internal borrowing ▪ Average period to maturity of external debt ▪ Average period to maturity of new loans in financial year ▪ Ratio of PWLB and market debt (beginning and end of period) ▪ Ratio of fixed and variable rate debt (beginning and end of period)

1.6 Best value	The treasury management function will be the subject of ongoing analysis of the value it adds in support of the Council's stated corporate and service objectives. When tendering for treasury-related or banking services, the Council adheres to its Standing Orders and Financial Regulations. These require that: a) for placing a contract with a value below £75,000, at least 3 quotes and service delivery proposals are generally obtained. b) when placing a contract with a value in excess of £181,302 a tendering process that meets the requirements of the EU procurement procedures (OJEU) is undertaken. c) If necessary, the Council will also consult with other users of similar services as well as with interested parties. d) The Council will also evaluate alternative methods of the availability of fiscal, grant or subsidy initiatives, and service delivery.

Treasury Management Practices

3. Decision making and analysis

The Council will maintain full records of its treasury management decisions, and of processes and practices applied in reaching those decisions, both for the purpose of learning from the past and for demonstrating that all reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at that time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed below.

Schedule

1.1 Major treasury decisions	As a public service organisation, there is a requirement to demonstrate openness and accountability in treasury management activities. Accordingly, the Council will create and maintain an audit trail of major treasury management decisions which comprise either: a) Changes to Prudential Indicators during the course of the financial year b) Options Appraisal to determine a funding decision c) raising a new long-term loan / long-term source of finance d) prematurely restructuring/redeeming an existing long-term loan d) investing longer-term (that is, more than 1 year) f) utilisation of investment instruments which constitute capital expenditure (i.e. loan/share capital in a body corporate) g) leasing h) change in banking arrangements i) appointing/replacing a treasury advisor j) appointing/replacing a fund manager k) any other determined by the Council
1.2 Process	The Council's strategy for the application of its treasury policy is set out in the annual Treasury Management Strategy. Based on the Annual Treasury Management Strategy, the Deputy Chief Accountant will prepare monthly for the financing, borrowing and surplus cash requirements of the Council, for the purpose of: • applying the strategy on a day to day basis • monitoring the results of the strategy • Recommending amendments to the strategy to the Corporate Policy & Resources Committee where applicable during the course of the year.

1.3 Delegated powers for treasury management	The Chief Finance Officer has delegated powers to carry out the Council's strategy for debt management, capital finance and borrowing, depositing surplus funds and managing the cash flows of the Council.
1.4 Issues to be addressed, evaluation, authorisation	In exercising these powers, the Chief Finance Officer and those to whom the treasury activity has been delegated will: • have regard to the nature and extent of any associated risks to which the Council may become exposed; • be certain about the legality of the decision reached and that the necessary authority to proceed has been obtained; • be satisfied that the documentation is adequate to deliver the Council's objectives, protect the Council's interests, and to maintain an effective audit trail; • ensure that the perceived credit risk associated with the approved counterparties parties is judged satisfactory and is within agreed limits; • be satisfied that the terms of any transactions have been fully checked against the market, and have been found to be competitive; • follow best practice in implementing the treasury transaction. In exercising Borrowing and Funding decisions, the Chief Finance Officer will: • evaluate economic and market factors that may influence the manner and timing of any decision to fund; • consider alternative forms of funding, including use of revenue resources, leasing, joint ventures and private partnerships; • consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles; • consider ongoing revenue liabilities created. In exercising investment decisions, the Chief Finance Officer will: • Determine that the investment is within the Council's strategy and pre-determined instruments and criteria; • consider the optimum period, in the light of core balances and reserves, cash flow availability and prevailing market conditions; • consider the alternative investment products and techniques available if appropriate.
1.5 Processes to be followed	The processes to be followed will be in keeping with *TMP 4: Approved, Instruments, Methods and Techniques*.

1.6 Evidence and records to be kept	The Council will maintain a record of all major treasury management decisions, the processes undertaken and the rationale for reaching the decision made. These will allow for an historical assessment of decisions made and verification that any checks and safeguards are indeed in place and operating correctly. Records and working papers will be maintained by the Council both electronically and in relevant files.

Treasury Management Practices

4. Approved instruments, methods and techniques

The Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in **TMP1** ***Risk Management***.

Schedule

1.1 Approved treasury management activities	The Council is permitted to undertake the following activities: ▪ Managing cash-flow ▪ Capital financing ▪ Borrowing including debt restructuring and debt repayment ▪ Lending including redemption of investments ▪ Banking ▪ Leasing ▪ Managing the underlying risk associated with the Council's capital financing and surplus funds activities. The above list is not finite and the Council would, from time to time, consider and determine new financial instruments and treasury management techniques. However, the Council will consider carefully whether the officers have the skills and experience to identify and manage the advantages and risks associated with using the instruments/techniques before undertaking them, more so as some risks may not be wholly or immediately transparent.

1.2 Approved capital financing methods and types/sources of funding	<u>On balance sheet</u> • Public Works Loans Board (PWLB) loans • long term money market loans • temporary money market loans (up to 364 days). • bank overdraft • loans from bodies such as the European Investment Bank (EIB) • Finance Leases • Government and EU Capital Grants • Lottery monies • Other Capital Grants and Contributions • Community Infrastructure Levy • S106 funds <u>Internal Resources</u> • Capital Receipts • Revenue Balances • Use of Reserves <u>Off balance sheet</u> ▪ Operating Leases ▪ Structured Finance The level of debt will be consistent with the Treasury Management Strategy and the Prudential Indicators.

1.4 Approved investment instruments	The Council will determine through its Annual Investment Strategy (AIS) which instruments it will use, giving priority to the security and liquidity (in that order) of its invested monies. The investments will be categorised as 'Specified' or 'Non-Specified' based on the criteria set out by Government in its Investment Guidance February2018 (as amended). The Council will determine through the AIS which instruments will be used in-house and which will be used by the appointed external fund manager (where applicable) including the maximum exposure for each category of non-specified investments. Where applicable, the Council's credit criteria will also apply. ▪ Deposits with the UK government, the Debt Management Agency Deposit Facility (DMADF), and UK local authorities ▪ Term deposits with banks and building societies ▪ Certificates of deposit ▪ Callable deposits ▪ Investments in Money Market Funds , i.e. 'AAA' liquidity funds with a 60-day Weighted Average Maturity (WAM) ▪ Gilts ▪ Bonds issued by multilateral development banks ▪ Bonds issued by financial institutions guaranteed by the UK government ▪ Sterling denominated bonds by non-UK sovereign governments ▪ Pooled funds, i.e. Collective Investment schemes as defined in SI 2004 No 534 The use of the above instruments by the Council's external fund managers (where applicable) will be by reference to the fund guidelines contained in the agreement between the Council and the manager.

Treasury Management Practices

5. Organisation, clarity and segregation of responsibilities, and dealing arrangements

The Council considers it essential, for the purposes of effective control and monitoring of its treasury management activities, and for the reduction of risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner and that there is at all times clarity of treasury management responsibilities.

The principles on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Council intends, as a result of a lack of resources or other circumstances, to depart from these principles, the Chief Finance Officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

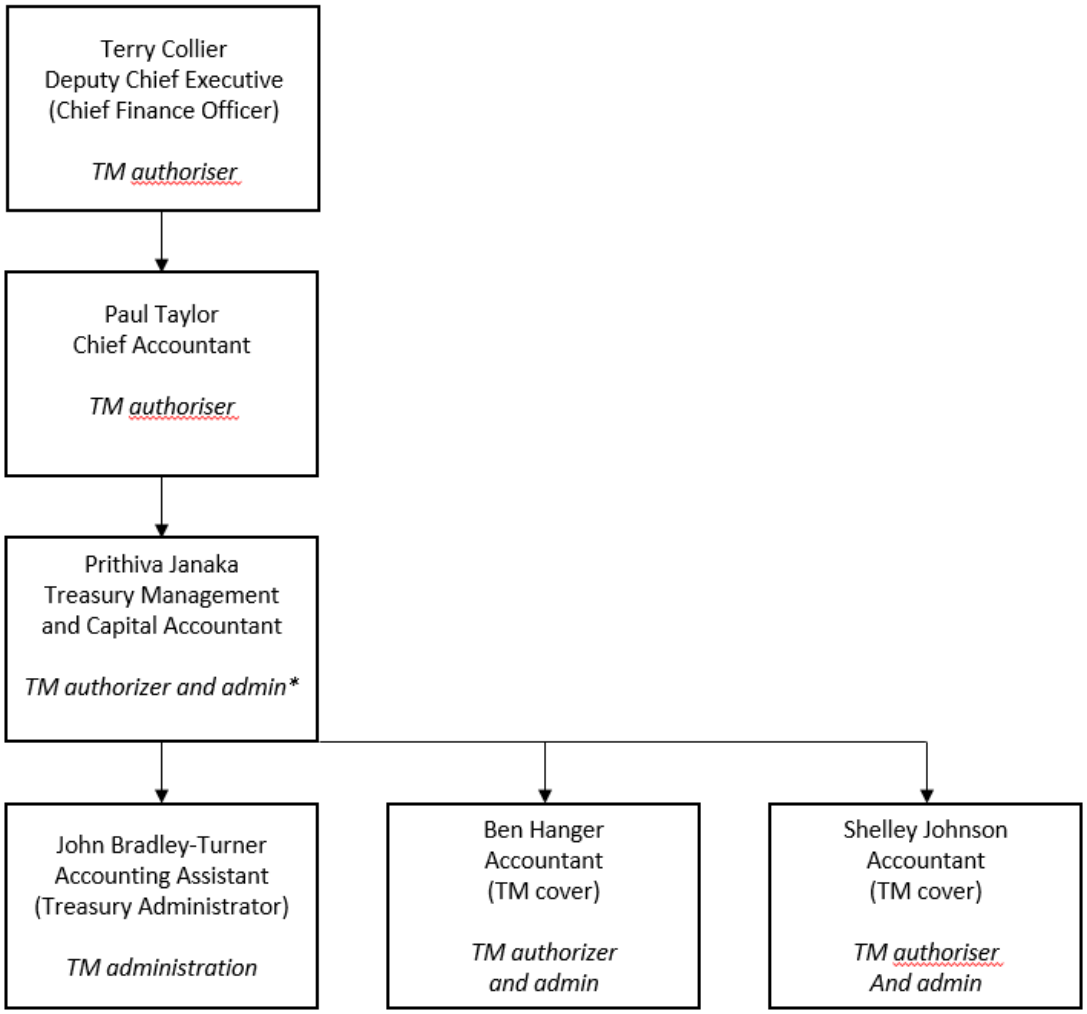
The Chief Finance Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Deputy Chief Executive will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule below.

The Chief Finance Officer will ensure that there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule below.

The delegations to the Chief Finance Officer in respect of treasury management are set out in the schedule below. The Chief Finance Officer will fulfill all such responsibilities in accordance with the Council's policy statement and TMPs and, if a CIPFA member, the Standards of Professional Practice on Treasury Management.

Schedule

Organisational chart of the Treasury Management function:



1.1 Limits to responsibilities at Executive levels	Full Council: • receiving and reviewing Prudential Indicators as part of the budget setting process (following receipt by Corporate Policy & Resources Committee) • receiving and reviewing reports on treasury management policies, practices and activities (following receipt by Corporate Policy & Resources Committee) The Corporate Policy & Resources Committee: • approval of amendments to adopted clauses, treasury management policy statement and treasury management practices • budget consideration and approval • receiving and reviewing external audit reports and acting on recommendations • approving the selection of external service providers and agreeing terms of appointment

1.2 Principles and practices concerning segregation of duties	The segregation of duties will be determined by Chief Finance Officer. Segregation of duties exists in that: • the officer responsible for negotiating and closing treasury management deals are completely separate from the officer with responsibility for recording the transactions in the cash book and completing cheque and bank reconciliations. • the officer responsible for negotiating and closing treasury management deals is separate from the officer authorising payments • all borrowing/investments decisions must be authorised by the Chief Finance Officer. Additionally, The Council receives bank statements on a daily basis. These are posted independent of the treasury function in order to maintain an adequate separation of duties.
1.3 Statement of duties/ responsibilities of each treasury post	The Chief Finance Officer: • submitting budgets and budget variations • recommending clauses, treasury management policy, practices for approval, reviewing the same regularly and monitoring compliance • determining Prudential Indicators and Treasury Management Strategy including the Annual Investment Strategy • submitting regular treasury management policy reports • receiving and reviewing management information reports • reviewing the performance of the treasury management function and promoting best value reviews • ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function • ensuring the adequacy of internal audit and liaising with external audit • recommending the appointment of external service providers • determining long-term capital financing and investment decisions. • The Chief Finance Officer has delegated powers to determine and undertake the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments. • The Chief Finance Officer may delegate their power to borrow and invest to the Chief Accountant, Deputy Chief Accountant, Technical Accountant, Accountants and Accountancy Assistants.

	The Deputy Chief Accountant: • execution of transactions • adherence to agreed policies and practices on a day to day basis • maintaining relationships with third parties and external service providers • monitoring performance on a day to day basis • submitting management information reports to the responsible officer • identifying and recommending opportunities for improved practices. The Accounting Assistants: • execution of transactions • adherence to agreed policies and practices on a day to day basis • maintaining relationships with third parties and external service providers • recording treasury management transactions, • reconciling treasury management transactions with the financial ledger • recording/ reconciling counterparty documentation.
1.4 Absence cover arrangements	Cover in the absence of the relevant treasury management officer is provided by: • Chief Accountant • Deputy Chief Accountant • Accountants as noted in the TM chart above Cover is reviewed at least every 6 months, or as necessary. Full procedure notes are available, detailing the processes required to enable the day to day operation of the treasury management function.

Dealing

1.5 Authorised officers	Responsible officer for borrowing/ investment decisions: Mainly Chief Accountant – Paul Taylor Treasury Management and Capital Accountant – Prithiva Janaka Also Accounting Assistant – John Bradley-Turner Accountant – Shelley Johnson Accountant – Ben Hanger Authorising payments for borrowing/lending: Deputy Chief Executive – Terry Collier Chief Accountant – Paul Taylor Any other Council first signatory Bank payment and ICD portal trade authoriser*: Deputy Chief Executive – Terry Collier Chief Accountant – Paul Taylor Treasury Management and Capital Accountant – Prithiva Janaka Accountant – Shelley Johnson Accountant – Ben Hanger (ICD not bank) Accounting Assistants – John Bradley-Turner Transaction recording*: Accounting Assistants – John Bradley-Turner Treasury Management and Capital Accountant – Prithiva Janaka Accountant – Shelley Johnson Accountant – Ben Hanger * as part of segregation of duties, the authoriser must be separate from the person who sets up the transaction.
1.6 Dealing limits	Internally Managed Investments: • The maximum for any one investment deal is subject to the lending limits detailed in the Council's Treasury Management Strategy. Externally Managed Investments (where applicable): • The maximum amount placed with any single financial institution is determined and formalised through the guidelines contained in the Agreement between the Council and the Manager(s).
1.7 List of approved brokers	Brokers used by the Council are named in *TMP 11: External Service Providers*

1.8 Policy on brokers' services	It is the Council's policy to utilise the services between at least two brokers. Tradition is usually used because they meet the Council's exact borrowing and lending requirements. However, each Tradition deal is judged against money market rates provided by other brokers to ensure competitiveness is maintained and that the best deal achieved for the Council.
1.9 Policy on taping of conversations	The Council does not tape conversations with brokers but brokers tape conversations with officers of the Council.
1.10 Direct dealing practices	Direct dealing is carried out with institutions subject to counterparty and maturity limits and dealing limits. Prior to undertaking direct dealing, the Council will ensure that each counterparty meets the Council creditworthiness criteria and has been provided with the Council's Standard Settlement Procedures.
1.11 Settlement transmission procedures	• settlements are made by CHAPS. • all CHAPS payments relating to settlement transactions (PL3 payment form) require authorisation by 1 authorised signatory. • the details are transmitted by electronic CHAPs to the Council's bankers. • all CHAPS payments made electronically via the bank require 2 authorised signatories
1.12 Documentation requirements	For each deal undertaken a record should be prepared giving details of dealer, amount, period, counterparty, interest rate, dealing date, payments date and broker. Investments: • deal ticket authorising the investment • confirmation from the broker • confirmation from the counterparty • Chaps payment transmission document Loans: • deal ticket with signature to agree loan • confirmation from the broker • confirmation from PWLB/market counterparty • Chaps payment transmission document for repayment of loan.
1.13 Arrangements concerning the management of counterparty funds	The Council holds several trust funds. The cash in respect of these funds is held in the Council's bank account but transactions are separately coded. Interest is paid on credit balances and calculated on a daily basis at Bank Rate plus 0.50%

Treasury Management Practices

6. Reporting requirements and management information arrangements

The Council will ensure that regular reports are prepared and considered on the implementation of the treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from the regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum the Corporate Policy & Resources Committee will receive:

- An annual report on the strategy and plan to be pursued in the coming year
- A mid-year review
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the Council's Treasury Management Policy Statement and TMPs.

The Corporate Policy & Resources Committee will receive regular monitoring reports on treasury management activities and risks and the Corporate Policy & Resources Committee will have responsibility for the scrutiny of treasury management policies and practices.

The present arrangements and the form of these reports are outlined below.

Schedule

1.1 Frequency of executive reporting requirements	The Chief Finance Officer will annually submit budgets and will report on budget variations as appropriate. The Chief Finance Officer will submit the **Prudential Indicators** and the **Treasury Management Strategy** and report on the projected borrowing and investment strategy and activity for the forthcoming financial year to the Corporate Policy & Resources Committee and the Council before the start of the year. The **Annual Treasury Report** will be prepared as soon as practicable after the financial year end and, in all cases, before the end of September. A **Mid-Year Treasury Report** will be prepared by the Chief Finance Officer which will report on treasury management activities for the first part of the financial year. The report will also provide a forecast for the current year. The Mid-Year Report will be submitted to Corporate Policy & Resources Corporate Policy & Resources Committee during the year. Corporate Policy & Resources Committee

1.2 Content of Reporting: 1. Prudential Indicators	The Council will set the following Prudential Indicators, revise if necessary, and following the year end publish actual (where appropriate) in respect of: ▪ Financing costs as a proportion of net revenue stream (estimate; actual) ▪ Capital expenditure (estimate; actual) ▪ Incremental impact of capital financing decisions (estimate) ▪ Capital Financing Requirement (estimates; actual) ▪ Authorised limit for external debt ▪ Operational boundary for external debt ▪ Actual external debt ▪ Upper limits on fixed and variable rate interest exposures ▪ Upper and lower limits to maturity structure of fixed rate borrowing ▪ Upper limit to total of principal sums invested longer than 364 days. ▪ Minimum Revenue Provision statement The Prudential Indicators are approved and revised by Corporate Policy & Resources Committee and are integrated into the Council's overall financial planning and budget process. The Corporate Policy & Resources Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.

2. Treasury Management Strategy Statement	The Treasury Management Strategy will include the following: • Link to Capital Financing and Treasury Management Prudential Indicators for the current and ensuing 3 years • Strategy for financing new borrowing requirements (if any) and refinancing maturing borrowing (if any) over the next 3 years and for restructuring of debt • the extent to which surplus funds are earmarked for short term requirements • the investment strategy* for the forthcoming year • the minimum to be held in short term/specified investment during the coming year • the interest rate outlook against which the treasury activities are likely to be undertaken. * *Investment strategy*: Based on the Government's Guidance on Investments, the report will set out ▪ the objectives, policies and strategy for managing its investments; ▪ the determination of which Specified and Non-Specified Investments the Council will utilise during the forthcoming financial year based on the Council's economic and investment outlook and the expected level of investment balances; ▪ the limits for the use of Non-Specified Investments. The Corporate Policy & Resources Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.

3. Annual Treasury Report	The Chief Finance Officer will produce an annual report for the Corporate Policy & Resources Committee on all activities of the treasury management function, including the performance of fund managers where applicable, as soon as practicable after year end and in all cases no later than 30 September of the succeeding financial year. The main contents of the report will comprise: ▪ confirmation that the Council calculated its budget requirements and set a balanced budget for the financial year; ▪ the prevailing economic environment ▪ a commentary on treasury operations for the year, including their revenue effects; ▪ commentary on the risk implications of treasury activities; undertaken and the future impact on treasury activities of the Council; ▪ compliance with agreed policies/practices and statutory/regulatory requirements; ▪ compliance with Prudential Indicators; ▪ performance measures. The Corporate Policy & Resources Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.
4. Mid-Year Treasury Report	The Chief Finance Officer will produce a mid-year report for Corporate Policy & Resources Committee on the borrowing and investment activities of the treasury management function, including performance of fund managers where applicable, for the first six months of the financial year. The main contents of the report will comprise: • Economic background • Economic forecast, including interest rates forecast • Treasury Management Strategy Statement update • Performance versus benchmarks • Borrowing information, including premature repayment, new loans information • Information on investments, including current lending list • Prudential indicators relating to treasury management • Governance framework and scrutiny arrangements The Corporate Policy & Resources Committee will also receive a copy of this report to carry out its scrutiny role of treasury management.

1.3 Content and frequency of management information reports	The Deputy Chief Accountant produces a monthly monitoring report for the Chief Accountant and the Deputy Chief Executive. The Chief Accountant includes this information in quarterly budget monitoring statements for Corporate Policy & Resources CommitteeCorporate Policy & Resources Committee. Members also receive monthly monitoring reports These report includes details of: • borrowing and investment activity undertaken including forward deals • performance of internal and external investments against benchmark • interest rates and forecasts • extent of compliance with the treasury strategy and reasons for variance (if any) • Prudential Indicator monitoring and compliance

Treasury Management Practices

7. Budgeting, accounting and audit arrangements

The Deputy Chief Executive will prepare, and the Council will approve and, if necessary, from time to time amend, an annual budget for treasury management, which will bring together all the costs involved in running the treasury management function, together with associated income. The matter to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with **TMP1** ***Risk management*****, TMP2 P*****erformance management*****, and TMP4** ***Approved instruments, methods and techniques***. The form that the Council's budget will take is set out in the schedule below.

The Deputy Chief Executive will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with **TMP6** ***Reporting requirements and management information arrangements***.

The Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being. The present form of the Council's accounts is set out in the schedule.

The Council will ensure that its auditors and those charged with regulatory review, have access to all the information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers will demonstrate compliance with external and internal policies and approved practices. The information made available under present arrangements is detailed below.

Schedule

1.1 Statutory/regulatory requirements	***Balanced Budget Requirement*** The provisions of S32 and S43 of the Local Government Finance Act 1992 require this Council to calculate its budget requirement for each financial year including, among other aspects: (a) the expenditure which is estimated to be incurred in the year in performing its functions and which will be charged to a revenue account and (b) revenue costs which flow from capital financing decisions. S33 of the Act requires the Council to set a council tax sufficient to meet expenditure after taking into account other sources of income.
1.2 Proper accounting practice	CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (the local authority SORP) constitutes "proper accounting practice under the terms of S21 (2) of the Local Government Act 2003".

1.3 Financial Statements	The Financial Statements comprise: ▪ An explanatory foreword ▪ Accounting policies, changes in accounting estimates and errors ▪ Presentation of financial statements ▪ Movement in reserves statement ▪ Comprehensive income and expenditure statement ▪ Balance sheet ▪ Cash flow statement ▪ Collection Fund (England) ▪ Statement of Responsibilities ▪ The Accounting Statements ▪ Additional Financial Statements (Collection Fund) ▪ Notes to the financial statements ▪ Statements reporting reviews of internal controls or internal financial controls ▪ Events after the reporting period ▪ Related party disclosures ▪ Annual Governance Statement
1.4 Format of the Council's accounts	The current form of the Council's accounts is available within the Finance Department, Accountancy Section.
1.5 Disclosures relating to treasury management	Due regard will be given to the disclosure requirements under CIPFA's Code of Practice on Local Authority Accounting.

1.6
Treasury-related information requirements of external auditors
	The following information is specifically requested by the external auditor and should be considered an initial request for information. It is usually followed by more detailed audit testing work which often requires further information and/or explanations from the Council's officers.
	
	Information is this context includes internally generated documents including those from the Council's spreadsheets, externally generated documents, observation of treasury management practices which support and explain the operation and activities of the treasury management function.
	
	▪ Determination of Affordable Borrowing Limit under Section 3 of the Local Government Act 2003.
	▪ Prudential Indicators.
	▪ Treasury Management Strategy including Annual Investment Strategy.
	
	<u>External borrowing</u>:
	• New loans borrowed during the year: PWLB certificates / documentation in relation to market loans borrowed (including copy of agreements, schedule of commitments)
	• Loan maturities.
	• Compliance with proper accounting practice, regulations and determinations for the amortisation of premiums and discounts arising on loans restructured during the year and previous years.
	• Analysis of loans outstanding at year end including maturity analysis.
	• Analysis of borrowing between long- and short-term
	• Debt management and financing costs
	  ▪ calculation of interest paid
	  ▪ actual interest paid
	  ▪ accrued interest
	• MRP calculation and analysis of movement in the CFR.
	• Bank overdraft position.
	• Brokerage/commissions/transaction related costs.

	Investments: • Investment transactions during the year including any transaction-related costs • cash and bank balances at year end • Short-term investments at year end • Long-term investments at year end by asset type, including unrealised gains or losses at year end • calculation of interest received and accrued interest • actual interest received • External fund manager valuations, where applicable, including investment income schedule and movement in capital values, transaction confirmations received • Basis of valuation of investments • Evidence of existence and title to investments
	Cash Flow ▪ Reconciliation of the movement in cash to the movement in net debt ▪ Cash inflows and outflows in respect of long-term financing ▪ Cash inflows and outflows in respect of purchase/sale of long-term investments ▪ Net increase/decrease in short-term loans, short-term deposits and other liquid resources Other ▪ Details of treasury-related material events after balance sheet date not reflected in the financial statements. ▪ External advisors'/consultants' charges
1.7 Internal Audit	Internal Audit generally conducts an annual review of the treasury management function and probity testing. The internal auditors will be given access to treasury management information/documentation as required by them.
1.8 Compliance with CIPFA Treasury Management and Prudential Codes	Auditors may require evidence/demonstration of compliance with external and internal treasury management policies and strategy. Any serious breach of the CIPFA Treasury Management Code of Practice recommendations or Prudential Indicators should be brought to the attention of the external auditor.
1.9 Costs for treasury management	The budget for treasury management forms part of the Corporate Services budget.

Treasury Management Practices

8. Cash and cash flow management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Council will be under control of the Deputy Chief Executive and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Deputy Chief Executive will ensure that they are adequate for the purposes of monitoring compliance with TMP1 (2) Liquidity *Risk management*. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

Schedule

1.1 Arrangements for preparing /submitting cash flow statements	Cash flow forecasts are over three time-horizons and are used to inform the Council's borrowing and investment strategy by identifying periods of surplus or shortfall of cash balances. The CS Lucas TM system is being used with a view to replacing spreadsheet forecasting from April 2022. The cash flow forecasts and statements are held at operational level. The accuracy and effectiveness of the cash flows depend on the accuracy of estimating expenditure, income and corresponding time periods. An **outline medium-term cash flow** model is prepared as part of the budget process, with projections for 3 further years. It is highly summarised and looks mainly at cash flows arising from the capital programme, the in-year capital financing requirement, scheduled loan repayments and long-term investment maturities, and anticipated movements in reserves. A **detailed annual cash flow,** prepared for the financial year once the budget for the ensuing year has been agreed, identifies major inflows and outflows and is monitored and updated monthly. It is compiled with reference: to the agreed revenue budget and capital programme; to knowledge obtained from the Council's various services that incur the expenditure/ receive the income; as well as to information from previous years. **Daily cash flows** show forecast and planned movements of cash daily, including the matching of known inflows and payments. This is used as part of the decision-making process for daily cash management.

1.2 Content and frequency of cash flow projections	The detailed annual cash flow model includes the following: • Budgeted revenue income and expenditure • Budgeted profiled capital income and expenditure **Revenue activities**: <u>Inflows</u>: ▪ Revenue Support Grant if applicable ▪ Precepts received ▪ Non-domestic rates receipts ▪ Council tax receipts ▪ Other government grants ▪ Cash for goods and services ▪ Other operating cash receipts <u>Outflows</u>: ▪ Salaries and payments on behalf of employees ▪ Operating cash payments ▪ Housing Benefit paid ▪ Precepts paid ▪ NNDR payments **Capital activities including financing** <u>Inflows</u>: ▪ Capital grants received ▪ Sale of fixed assets ▪ Other capital cash receipts <u>Outflows</u>: ▪ Purchase of fixed assets ▪ Purchase of long-term investments ▪ Other capital cash payments **Financing, Servicing of Finance/Returns on Investments** <u>Inflows:</u> ▪ New long-term loans raised ▪ New short-term loans raised ▪ Interest received ▪ Discount on premature repayment of loan <u>Outflows</u>: ▪ Loan repayments ▪ Premiums on premature repayment of loan ▪ Short-term investments ▪ Capital element of finance lease rental payments ▪ Interest paid ▪ Interest element of finance lease rental payments

1.3 Monitoring, frequency of cash flow updates	The annual cash flow statement is updated quarterly with the actual cash inflows and outflows after taking account of any revisions including those relating to grant income and capital expenditure and will be reconciled with: • net RSG and NNDR payments as notified; • county council and police authority precepts as notified; • actual salaries and other employee costs paid from account bank statements; • actual payments to Inland Revenue from general account bank statements; • actual council tax received • actual rent allowances paid • actual housing benefit and grant received from MHCLG; • actual capital programme expenditure and receipts.
1.4 Bank statements procedures	The Council receives bank statements on a daily basis and a daily download of data from its bank. All amounts on the statements are analysed on the bank statement analysis (BSA) and check to source data for example payroll, creditor payment runs. Income transactions are posted independently of the treasury function and are reconciled to the AIM system on a daily basis by the income team.
1.5 Payment scheduling	The Council has a policy of paying suppliers in line with agreed terms of trade and aims to pay suppliers within 28 days of the invoice date. Certificated payments to sub-contractors must be made within 28 days.
1.6 Monitoring debtor/ creditor levels	The Creditors and Income Manager is responsible for monitoring levels of debtors and creditors. Details are passed to the treasury team where necessary to assist in updating the cash flow models.
1.7 Banking of funds	Instructions for the banking of income are set out in Financial Regulations. All monies received will be passed to the cashier and be banked without delay.
1.8 Practices concerning prepayments to obtain benefits	The Council has no formal arrangements in place. Where such opportunities arise, the prepayment would be sought and authorised by the Chief Finance Officer.

Treasury Management Practices

9. Money laundering

Background
The Proceeds of Crime Act (POCA) 2002 consolidated, updated and reformed criminal law in the UK in relation to money laundering. The principal offences relating to money laundering are:
Concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland
Being concerned in an arrangement which a person knows or suspects facilitates the acquisition, retention use or control of criminal property
Acquiring, using or possessing criminal property.
Other offences include failure to disclose money laundering offences, tipping off a suspect either directly or indirectly, and doing something that might prejudice an investigation.

Organisations pursuing relevant businesses were required to appoint a nominated officer and implement internal reporting procedures; train relevant staff in the subject; establish internal procedures with respect to money laundering; obtain, verify and maintain evidence and records of the identity of new clients and transactions undertaken and report their suspicions.

In December 2007, the UK Government published the Money Laundering Regulations 2007, which replaced the 2003 Regulations. CIPFA believes that public sector organisations should "embrace the underlying principles behind the money laundering legislation and regulations and put in place anti money laundering policies, procedures and reporting arrangements appropriate and proportionate to their activities".

The Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule below.

Schedule

1.1 Anti-money laundering policy	This Council's policy is to prevent, wherever possible, the organisation and its staff being exposed to money laundering, to identify the potential areas where it may occur and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases. The Council has accepted responsibility to ensure that those of its staff who are most likely to be exposed to money laundering can make themselves fully aware of the law and, where necessary, are suitably trained.

1.2 Nomination of Responsible Officer	(a) The Council has nominated Head of Corporate Governance to be the responsible officer to whom any suspicions relating to transactions involving the Council will be communicated. (b) The responsible officer will be conversant with the requirements of the Proceeds of Crime Act 2002 and will ensure relevant staff are appropriately trained and informed so they are alert for suspicious transactions. (c) The responsible officer will make arrangements to receive and manage the concerns of staff about money laundering and their suspicion of it, to make internal enquiries and to make reports, where necessary, to National Criminal Intelligence Services (NCIS).
1.3 Procedures for establishing the Identity of Lenders and Borrowers	(a) In the course of its treasury activities, the Council will only borrow from permitted sources identified in *TMP 4 Approved instruments, methods and techniques*. (b) The Council will not generally accept loans from individuals. (c) In the course of its treasury activities, the Council will only invest with those counterparties which are on its approved lending list. (d) The identity and authenticity of commercial institutions (banks, building societies and other financial institutions) authorised to carry out borrowing and lending activity in the UK will be checked via the Financial Services Authority's website www.fsa.gov.uk. (e) All receipts/disbursements of funds will be undertaken by BACS or CHAPS settlement. (f) Direct Dealing mandates: The Council will provide (in the case of lending) and obtain (in the case of borrowing) and maintain on file dealing mandates with any new money market counterparty. The mandates should be on letter-headed paper, dated and signed. (g) All banking transactions will only be undertaken by the personnel authorised to operate the Council's banks accounts.

Treasury Management Practices

10. Training and qualifications

The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Deputy Chief Executive will recommend and implement the necessary arrangements.

The Deputy Chief Executive will ensure that Council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and responsibilities. Those charged with governance are required to recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

The present arrangements are detailed in the schedule below.

Schedule

1.1 Qualifications/ experience for treasury staff	Members of the Treasury Team are required to have suitable experience and qualifications for them to carry out their duties competently and appropriate training is provided where necessary.
1.2 Details of approved training courses	The courses/events the Council would expect its treasury personnel to consider are: ▪ Certificate in International Treasury Management – Public Finance, a treasury management qualification offered by the *Association of Corporate Treasurers* ▪ Training courses for Accounting, Auditing, Best Value/Competition, Budgeting, Capital Finance & Borrowing, Financial Management and Treasury Management run by CIPFA and IPF ▪ Any courses/seminars run by Treasury Management Consultants. ▪ Attending CIPFA Conference ▪ Training attended by those responsible for scrutiny of the treasury function
1.3 Records of training received by treasury staff	Treasury-related training records are maintained by staff with their CPD support, with staff appraisal records by the Chief Accountant and with Human Resources.

1.4 Records of training received by those charged with governance	Training records are maintained of those people/committees responsible for governance of treasury management. Committee Services provide details of this.

Treasury Management Practices

11. Use of external service providers

The Council recognises that responsibility for the treasury management decisions remains with the organisation at all times. It recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and reviewed regular. The Council will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Deputy Chief Executive. Details of the current arrangements are set out in the schedule below.

Schedule

1.1 Contract threshold	The Council's Financial Regulations require that a formal contract is in place with external service providers. The contract will clearly state the services to be provided and the terms on which they will be provided.

1.2 Details of service providers and procedures and frequency for tendering services	(a) **Bankers to the Council** Lloyds Bank 25 Gresham Street, London EC2V 7HN Telephone 0808 202 1390 Contract period: From March 2015 Formal agreement in place: Yes (b) **Treasury advisor** Arlingclose Limited 35 Chiswell Street, London EC1Y 4SE Telephone 08448 808 200 Contract period: Aug 2017 to July 2020 Formal agreement in place: Yes This service may be re-tendered every 3 years (c) **Brokers** It is considered good practice for the Council to have at least two brokers and to spread business between them. Tradition (UK) Limited Beaufort house, 15 St. Botolph St, London, EC3A 7QX Telephone 0207 422 3500 Contract period: no formal contract Formal agreement in place: No Sterling/ BGC Brokers LP 1 Churchill Place, London, E14 5RD Telephone 020 7894 7742 Contract period: no formal contract Formal agreement in place: No
1.3 Regulatory status of services provided	The Council's external service providers are regulated by the Financial Services Authority (FSA) and Bank of England.

1.4
Details of service provided by Treasury Advisor
	The Service provided by the Council's treasury advisors is:
	
	Financial Strategy and Investment Policy
	• Attend 4 strategy meetings per year and review the Council's financial position in respect of its objectives, strategy, current financial circumstances, assets and liabilities.
	• Advise on suitable investment strategies to support the Council's financial objectives in the short, medium and longer term.
	
	Market Updates and Interest Rate Forecasting
	• Provide regular interest rate forecasts.
	• Provide regular updates on economic and political changes that may impact the Council's investment strategy.
	
	Monitoring and Reporting
	• Provide data on the performance of external fund managers for comparison purposes.
	• Monitor and report on performance of in-house investments against external fund managers on a quarterly basis.
	
	Counterparty Creditworthiness
	• Advise on investment counterparty creditworthiness, including provision of prudent parameters, based on information obtained from leading credit rating agencies (Fitch, Standard and Poors, Moody's).
	• Provide regular alerts of changes in creditworthiness, monthly reports and analyses.
	• Check compliance with counterparty creditworthiness policy on a quarterly basis.
	
	Training and Documentation
	• Provide training to treasury management staff where necessary, including access to a technical support helpline.
	• Provide template documents and advice on:
	  • Treasury management strategy report
	  • Annual review report
	  • Annual investment strategy
	
	Future investment of capital receipts
	The Council may decide to place funds with external fund managers to provide an element of diversity to the investment portfolio. Part of the service required from our appointed advisor will be to assist and advise on the selection and appointment process and to provide ongoing performance monitoring.

Treasury Management Practices

12. Corporate governance

The Council is committed to the pursuit of proper corporate governance throughout its business and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council has adopted and implemented the key recommendations of the CIPFA Treasury Management Code of Practice (Revised 2009). This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Deputy Chief Executive will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

Schedule

1.1 Stewardship responsibilities	The Chief Finance Officer ensures that systems exist to deliver proper financial administration and control and maintaining a framework for overseeing and reviewing the treasury management function.
1.2 List of documents to be made available for public inspection.	The following documents are freely available for public inspection: ▪ Annual Statement of Accounts ▪ Budget Book ▪ 4 Year Capital Plan ▪ Treasury Management Policy ▪ Treasury Management Strategy ▪ Budget Monitoring Reports ▪ Annual Treasury Report (Outturn)
1.3 Council's website.	Financial information is additionally available on the Council's website.
1.4 Procedures for consultation with stakeholders.	Members and senior officers of the Council are consulted via reports to the Corporate Policy & Resources Committee and officer/member briefing and training sessions.
1.5 Externally managed funds.	The Council currently has no external fund managers.

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Corporate Policy & Resources Committee

20 February 2023

Title	**Capital Strategy 2023/24**
Purpose of the report	To approve the report
Report Author	Sam Masters Treasury Management and Capital Accountant
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Community Affordable Housing Recovery Environment Service Delivery
Recommendations	**The Committee is asked to make a recommendation to Council to approve the recommendations outlined below.** 1. the Capital Strategy as set out in this report 2. that all development and investment projects, along with all significant projects follow the previously approved business case governance process as set out in section 11 of this report 3. that no financing sources, unless stipulated in regulations or necessary agreements, are ring fenced 4. the Council plans to continue its use of capital receipts to fund the costs of eligible proposals (subject to full business cases for each project). 5. the financing of the Capital Programme and revenue implications as set out in section 14 of this report. 6. the financing of the Capital Programme being delegated to the Corporate Policy & Resources Committee to provide sufficient flexibility to allow for the most effective use of Council resources
Reason for Recommendation	The Council is required by law to approve before start of each financial year a Capital Strategy for the medium to long term setting out its approach to identifying needs for capital expenditure. managing capital expenditure, financing it, and managing risks associated with delivering capital objectives. .

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	When long term investment decisions are undertaken, decision makers can rely on clear and informed information. This would include: • A long-term view of capital expenditure plans and any financial risks to which the Council is exposed. • Ensuring due regard to the long-term financing, affordability implications and potential risks. • A clear overview of the Council's asset management planning arrangements and any maintenance requirements that have resource and business planning implications. The Capital Strategy will continue to help support informed decision making in the delivery of Spelthorne Borough Council's long-term plans and ambitions.

1. Executive Summary

1.1 The report sets out the Council's Capital Strategy for 2023/24

1.2 The Capital Strategy has been updated to reflect the significant change to strategic approach agreed at Extraordinary Council Meeting (ECM) on 2nd February 2023 which was focused on ensuring the long term financial viability of the Council's housing delivery programme, underpinned by 50 year viability modelling. Whilst some of the analysis and tables in the Strategy are aligned with the proposed Capital Programme for 2023/24, the Strategy is seeking to look longer term in terms of ability of the Council to identify and fund its capital needs. Parallel to this, the Council will be updating its Sinking Funds reserves modelling over the next 50 years.

1.3 During the ECM a significant amount of funding was secured from Homes for England totalling some £54.9m. This, along with other capital receipts, grants and contributions, means that circa 27% of the scheme will be funded from non-borrowing sources, up from 6% in 2022/23, greatly reducing the council's reliance on external borrowing. Funding streams total £100.6m.

1.4 The proposed Capital Programme, as detailed in Appendix A, proposes a gross budget of £446.4m and a net budget of £345.8m after funding.

1.5 The Council's long term capital investment is underpinned by the objectives of the Corporate Plan. Capital proposals are considered within the Council's overall medium to long-term priorities, and the preparation of the Capital Programme is an integral part of the financial planning process. This includes taking full account of the revenue implications of the projects as part of the revenue budget setting process.

1.6 In addition to the capital budgets and revenue implications, the report sets out the following:

(a) Policy and contextual background

(b) The Council's asset base

(c) Delivery Strategies

(d) Budget setting and prioritisation

(e) Governance

(f) Key projects and programmes

(g) Capital funding

(h) Risk management

2. Policy and Contextual background

2.1 Spelthorne Borough Council's Corporate Plan 2021 to 2023 provides the starting point for this document, dealing with our five priorities:

(a) Community

(b) Affordable Housing

(c) Recovery

(d) Environment

(e) Service Delivery

2.2 The Capital Strategy helps to underpin these plans.

2.3 In 2016, the Council embarked on an ambitious capital programme with a plan to invest over £1bn in investment properties, to generate sufficient funds to:

(a) Support Council services

(b) Support the regeneration and transformation of the Borough

(c) Deliver much needed affordable housing for our younger residents and families in the Borough.

As part of investing for the future success and wellbeing of the population, and all its stakeholders in Spelthorne.

Since 2018/19 the focus of the Capital Strategy has been on a) managing effectively investment assets already acquired but not purchasing any more and b) delivering an ambitious housing (mainly affordable and key worker rental) programme and service capital schemes such as the new Leisure Centre.

2.4 As at the 31 March 2022 the draft unaudited accounts show that the Council had total assets with a net book value as shown in the table below:

Asset type	£000
Land & Buildings - Municipal	85,540
Vehicles Plant & Equipment	1,760
Community Assets	191
Assets under Construction	42,220
Heritage Assets	215
Investment Property	916,375
Intangibles	337
Total	**1,046,638**

2.5 The majority of the capital expenditure is planned to be spent on land and buildings to provide affordable and keyworker housing through Knowle Green Estates Ltd. (KGE) the Council's wholly owned subsidiary and temporary accommodation through the Council. Private rental accommodation will be provided at Thameside and Benwell Phase II. The other significant capital scheme is the new Leisure Centre currently under construction with an expected completion in summer 2024.

2.6 All the land and building acquisition costs together with all design and construction expenditure incurred prior to completion of the final premises are included in the above table and will move into the appropriate category once the project is completed.

2.7 The Council has a planned maintenance budget for these properties.

2.8 The COVID-19 pandemic and global economic downturn has impacted on the Council's asset valuations and the investment property portfolio has seen a further decrease of £23.m as at 31 March 2022 (£51.9m as at 31 March 2021). Following on from the Pandemic we are now experiencing a cost of The Council, as a long term holder of assets has no immediate plans to sell off any of its properties and over the long term the value of property has always performed well. However over the short term values have suffered because of the COVID-19 pandemic, inflationary cost and the general economic downturn. However, in line with refreshed Chartered Institute of Public Finance and Accountancy guidance whether considering major investment decisions relating to individual assets as part of the options appraisal process disposal will be considered as one option.

3. Key projects

3.1 There are several key projects and programmes that require future capital investments for the Council to achieve its strategic goals and these are shown below:

(a) Several large-scale developments to deliver 558 apartments as part of our Housing Strategy and commitment to the residents of the Borough, particularly young families.

(b) A new leisure centre in Staines-upon-Thames the first of its kind being built in the UK to Pasivhaus standards, to deliver a greener building, to protect the wellbeing of our residents over the coming years and making the building carbon neutral.

(c) Continued investment in municipal infrastructure, such as local parks.

(d) An ongoing investment in digital transformation, where we aim to utilise technology to continue to deliver efficient, good quality services.

3.2 Our Capital Programme's delivery objectives continue to take place against a background of financial challenges. The potential impact of the Fair Funding Review could have a significant negative impact on the Council and some difficult decisions lay ahead, as the Council looks to ensure that despite further funding pressures it may encounter it can continue to ensure balanced budgets across all four years of the Outline Budget period.

3.3 It is therefore vital that the Council's Capital Strategy delivers a return on investment that is financial, such as capital receipts or new revenue streams, or delivers key strategic priorities

3.4 The Capital Strategy is intended to evolve each year, it is a dynamic plan that will respond to threats, opportunities and will change over time. For example the need to invest in Climate Change mitigation and de-carbonisation measures will become increasingly important.

3.5 The strategy is set over 5 years but is updated annually and includes short-, medium- and long-term investment revenue streams, or delivers key strategic priorities.

4. Our delivery strategies

4.1 The Council's capital programme is categorised into four main areas, the net costs per area and detailed below.

(a) Regeneration £49.9

(b) Affordable and keyworker housing £288.2m

(c) Efficiency £1.5m

(d) Operational £6.2 m, including decarbonising the Council's service delivery.

Ongoing Investment Assets and Regeneration Assets Portfolios • Support Council services • Invest in regeneration projects • Provide for the future	**Affordable and Keyworker Housing** • Regeneration of key strategic sites • Provide affordable housing for the residents of SBC
Efficiency • Produce ongoing revenue savings and additional income • Digital transformation enabling residents to have better access services	**Operational** • Reduce running costs • Greener outcomes • Rationalise property portfolio

5. Regeneration

For 2023/24 – 2026/27 the Council requires £49.9m to support the regeneration and transformation of the Borough. These are non-housing schemes to transform the built environment.

6. Asset Management Plan

6.1 The 2020/21 Asset Management Plan for our current property portfolio is available on the Spelthorne Borough Council's website https://www.spelthorne.gov.uk/article/19655/asset-management-plan

7. Affordable and Keyworker Housing developments

7.1 For 2023/24 – 2026/27 the Council requires £288.2m to develop the following properties and deliver 558 apartments based on the Cabinet meetings in February to April 2021 (these number are continuing to evolve) as shown below:

(a) Oast House – 184 affordable rental apartments

(b) Ashford MSCP site– 48 affordable rental apartments

(c) Victory Place– 127 key worker and affordable apartments

(d) Benwell Phase 1 – 55 private rentals. Apartments (Delivered)

(e) Benwell Phase 2 – 39 private rental apartments

(f) Thameside – 105 private rental apartments

(g) Total - 558 apartments

7.2 Upon completion these properties (other than Thameside and Benwell II) will be transferred, at cost to Knowle Green Estates Ltd (KGE) who will own and manage the buildings and tenants.

7.3 Going forward, it is Council strategy to continue to build new affordable homes across the Borough, where suitable, affordable premises can be found, this could also include existing houses that are suitable for multiple occupancy.

7.4 Each case will be evaluated on its own merits and consider how it assists the Council to achieve its Housing Strategy for residents, in the Borough.

8. Knowle Green Estates Ltd (KGE)

8.1 KGE is a wholly owned subsidiary of Spelthorne Borough Council and following a restructure of its property portfolio in the year end 31 March 2020, effectively started from scratch.

8.2 The Company has been established to manage each property as mentioned in 7.2 above and is looking at a 50-year time horizon for its properties.

8.3 The model approved by the KGE Board is based on the meetings with Cabinet between February and March 2021 and provides most of its apartments for affordable housing.

8.4 Affordable Housing tenants will include:

(a) Key workers, nurses, police, and teachers

(b) Younger residents

(c) The elderly and vulnerable

8.5 There will be a small element of private rental tenants.

8.6 The Council is introducing a new Componentisation Policy, in accordance with the CIPFA accounting code, to use different rates of depreciation for each component of the building, e.g., land at 0% and roof 4%, which reflects the different useful economic lives of each component part of the building.

8.7 Whilst the initial 50-year projections indicated that KGE would be able to provide substantial revenue contributions to SBC over the period and given the profiling of our tenants, will be operating on a small cash surplus based on the properties being delivered to time and to the number of apartments specified, the impact in 2022 of rising construction inflation, and rising interest rates has required the Council and company to revisit the model to ensure it continues to be financially sustaianblele

8.8 The Extraordinary Council Meeting on 2nd February 2023 considered the viability challenges and agreed a new strategy including seeking to maximise

Homes England grant funding for affordable and key worker units, increasing the number of units to be delivered across the portfolio and a capital injection into KGE.

9. Efficiency

9.1 The £1.5m of schemes in this category include improved use of technology to support our car parks and improve the customer experience, as well as investing in IT network storage upgrades and new hardware for improved ways of working.

10. Operational

10.1 The Council's operational capital strategy amounting to £6.2m is centred on capital improvement works to the Council's operational asset portfolio. This falls into two main categories:

(a) Land and Buildings, includes new community assets including toilet facilities, extensions to our day centres and new pavilions in our parks.

(b) Infrastructure, this includes new flood defences along the River Thames, replacement refuse vehicles and improvements to the River Ash broad walk improvement.

10.2 The main objectives of the operational element of the Capital Strategy are to ensure assets meet health and safety standards, are fit for purpose in terms of statutory guidance and legislation, as well as helping the Council to reduce costs and reduce its environmental footprint.

10.3 Another key objective of the operational element is to ensure that the Council continues to invest in its current buildings and long-term assets to avoid incurring significant future costs. As well as our municipal buildings, we have other operational assets, including vehicles, plant, and equipment.

10.4 The Council has a scheduled programme of condition surveys which ensures the Council's operational estate is fit for purpose.

10.5 Every 5 years on a rolling basis, the Council will review its municipal and land and buildings to identify sites, were there are development opportunities for both the Council and others, such a small strip or parcels of land, as well as, looking to pass over the running of community assets, such as village halls, to the community.

11. Governance

11.1 The main forum for reviewing all financial aspects of the Capital Programme is the Corporate Policy & Resources Committee who will make recommendations to Council.

11.2 The Development Sub Committee looks after the Council's investment, development and regeneration properties and makes recommendations to the Corporate Policy & Resources Committee

11.3 The Corporate Policy & Resources Committee review the strategic direction of the Capital Programme, ensures outcomes are aligned with a viable Business Case and that Value for Money (VfM) is delivered for the Council. It also monitors the expenditure and funding requirements of the capital programme and subsequent revenue impacts.

11.4 All business cases will require approval by Corporate Policy & Resources Committee and although development projects may have a budget allocation in the capital programme the approval to draw down the budget will only be obtained via Corporate Policy & Resources Committee approval and will align to the business case stage the project is at.

11.5 Assessment of the business cases will ensure that all aspects of a potential schemes are analysed and the impact on all the Borough's stakeholders identified. Therefore, the Council will be able to gain a full understanding on how a specific scheme will comply with the current Corporate Plan, and how it will influence the Council's overall strategy, local business economy, residents, officers, and impact on the resources of the Council.

12. Capital Funding

12.1 The Council is required to have a funded capital programme that is affordable, i.e., all capital expenditure should have a source of funding and if that funding source is borrowing, the cost of the borrowing should be built into a balanced revenue budget without adversely impacting on the delivery of services.

12.2 The key sources of funding for the Council are:

(a) Grants, including Homes England

(b) Contributions

(c) S106/Community Infrastructure Levy

(d) Capital Receipts (including principal repayment of loans from KGE and SDS which are accounted for as capital receipts)

(e) Direct Revenue Funding

(f) Borrowing

12.3 **Grants**

12.4 These are predominantly government grants and are usually provided to the Council for the specific use of funding either revenue or capital expenditure for certain schemes and programmes, including Disabled Facilities Grant (DFG) can also include Homes England grants. In the future we will want to explore potential for grant funding to support carbon reduction programme.As highlighted the Council is looking to maximise funding from Homes England (potentially in the region of £50m) to help funding the housing delivery programme, this will help reduce the amount of borrowing required to fund these schemes.

12.5 **Capital Contributions**

12.6 In comparison to grants, capital contributions are specific contributions received for projects and are normally provided by the government, external agencies, or private companies, who have a specific output or outcome they would like achieved through the capital works the Council is providing. Quite often, the scope of these projects is dependent on this external funding, without which the Council may decide to reduce the objectives and scope of a scheme.

12.7 **Community Infrastructure Levy/ Section 106 Receipts.**

12.8 Community Infrastructure Levy (CIL) is a planning charge introduced by the Planning Act 2008. The Council started charging CIL in May 2016.

Developers must pay a levy linked to planning applications - this is based on a Council approved policy and charging schedule. The income from this levy is held corporately and the Council decides how to allocate these funds via a Council.

12.9 The majority of CIL funding is used to fund strategic infrastructure projects with Surrey County Council. Where practical Council should utilise this resource to fund the capital programme.

12.10 S106 differs from CIL, as it is essentially a contract between a developer and the Council and like capital contributions they must be used for specific projects and outcomes rather than a more general objective.

12.11 **Capital Receipts**

12.12 Capital receipts are generated from the sale of non-current assets (i.e. strips of land), and apart from special circumstances, can only be used to fund the capital programme.

12.13 The Council holds all capital receipts corporately, which ensures they can be used to fund the overall programme; therefore, individual services are not reliant on their ability to generate capital receipts.

Once the schemes in the current housing delivery programme are completed this will mean a more significant stream of capital receipts will be available in future years to help fund the Capital Programme going forward.

12.14 **Direct Revenue Financing**

12.15 The Council, can, if it chooses to, fund capital expenditure via its revenue budget. Currently it is making Revenue Contributions to Capital of £750k per annum, the Council will keep under review whether it feels this is the appropriate level. This can be through in year underspends or via general or earmarked revenue reserves. Any funding of the capital programme via revenue resources would have to be considered considering the Council's overall revenue budget and the Medium-Term Financial Plan.

12.16 **Borrowing**

12.17 Borrowing can take the form of internal or external borrowing.

12.18 **Internal borrowing** is a temporary position where the Council uses its cash balances instead of externally borrowing at that point in time. If not used for internal borrowing, these cash balances would be invested on a medium to long term basis providing the Council with a return on investment. As such there is an opportunity cost associated with internal borrowing that is built into the revenue implications of the capital programme.

12.19 The Council's main objective when borrowing externally is to achieve an appropriate balance between securing low interest costs and achieving cost certainty over the period for which funds are required, particularly when dealing with assets under construction, which are funded via the short-term money market, as interest rates are currently cheaper.

12.20 **External borrowing** occurs when the Council borrows money from the open market, via financial institutions and investors or the government, via the Public Works Loan Board (PWLB). The current certainty rate at 27th January for 50-year maturity is 4.29%.

12.21 In September 2021, the PWLB implemented new lending criteria so that councils focus on housing delivery, regeneration, and service delivery projects rather than invest for a return to support services. The Council intends to only undertake capital expenditure which relates to these categories. SBC must regularly assess how to finance its external borrowing needs and the financial viability of capital projects in their capital programme particularly following the recent increases in the cost of local authorities' borrowing.

12.22 The Council have built this into the interest cost as part of the revenue implications of the programme.

12.23 Although the Capital Programme may identify a need to borrow to fund capital expenditure, the timing and type of borrowing (internal/external) is dependent on cashflow modelling in line with the Council's Treasury Management Strategy, which is also being presented to Council at this meeting.

12.24 As a general principle, SBC will borrow from the short-term money market as the loan interest rates are cheaper than borrowing from PWLB. Although it must be noted that the short-term money market is geared to the bank of England base rate which can be volatile and quick to react to market changes. Whereas the PWLB interest rate is dependent on the more stable Gilts Rate.

12.25 The Council's total borrowing requirement based on capital expenditure incurred historically but to be financed is represented by the Capital Financing Requirement (CFR). This is published in the statement of accounts, and as at 31 March 2022 was £1,117.7m.

12.26 All capital financing costs, i.e., interest costs and minimum revenue provision must be treated as a revenue cost and built into the Council's MTFP. In essence, the more the Council borrows, the greater the call on the revenue budget which then requires further service savings to be identified to fund this in the longer term. For this reason the Council monitors carefully its borrowing limits and prudential indicators.

12.27 .

13. Capital Programme Funding: 2023/24 to 2026/27

13.1 The table below summarises the Council's funding of the proposed Capital Programme as outlined in this report:

Type of Funding	2023/24 Estimated £000s	2024/25 Estimated £000s	2025/26 Estimated £000s	2026/27 Estimated £000s	Total
Capital Receipts, CIL and S106 funding	3,000	3,000	3,000	41,000	50,000
External Funding - Disabled Facilities Grant	973	973	973	973	3,892
Homes England Grant	7,031.4	26,504.3	4,110	17,300	3,000

Revenue Contributions to capital outlay	750	750	750	750	54,946
Grants & Other Contributions	1,051.4	804.3	250	250	2,356
Borrowing	43,997	116,635	156,069	15,512	332,214
Total	**56,803**	**148,667**	**165,152**	**75,785**	**446,407**

13.2 In total £114.2m (25.5%) of the programme is to be funded via external or internal sources of funding, with the remainder via borrowing (both internal and external).

14. Revenue implications of the programme

14.1 A summary of the revenue implications of the Capital Programme is shown below:

	2023/24	**2024/25**	**2025/26**	**2026/27**	**Total**
	£000s	**£000s**	**£000s**	**£000s**	**£000s**
Planned New Borrowing	43,997	116,635	156,069	15,512	332,214
Capital Financing Costs - Existing Borrowing	39,394	39,496	39,587	39,669	158,146
Commercial Income	(46,129)	(49,233)	(53,389)	(54,120)	(202,871)
Financed by:					
Net revenue stream	(13,608)	(13,608)	(12,611)	(12,234)	(52,133)
Sinking fund net contributions	1,037	875	2,891	3,668	8,471
	(12,571)	(12,733)	(9,720)	(8,566)	(43,662)

14.2 The Council aims to maximise its Balance Sheet assets and as such can utilise cash balances derived from working capital (such items as the appeals provision, reserves, etc.) before it borrows externally to finance the net cost of the capital programme.

14.3 Over the four year Capital Programme it is currently estimated that the Council will incur net financial income, through its revenue budget of £52.1m. This is made up of £202.9m of commercial income less financing costs (including Minimum Revenue Provision) of £158.1m.

14.4 The revenue costs of the Capital Programme are not uniform across the four years of the capital programme and are subject to significant fluctuations in line with the profiling of capital expenditure and funding (particularly capital receipts).

15. Minimum Revenue Provision (MRP)

15.1 MRP is applied where the Council must set aside a revenue allocation for provision of debt repayments (borrowing in the capital programme). The Council aligns the majority of its MRP with its annual principal repayments of debt to enable the MRP to be applied on an annual basis, ie the Council is paying its debt down on a year by year basis. MRP replaces other capital charges (e.g., depreciation) in the statement of accounts and has an impact on the Council's bottom line.

15.2 MRP will increase in the next few decades as principal repayments increase and interest payments on existing debt falls MRP is sensitive to both expenditure and funding changes.

15.3 The Council will continue to balance the use of capital receipts, grants, internal borrowing, and external borrowing to ensure the most efficient use of resources, including the need to fund MRP.

16. Risk Management

16.1 Major capital projects require careful management to mitigate the potential risks that can arise. Thee risks include risk that construction and capital scheme costs will rise and prove higher than estimated and that financing costs are higher than expected.The effective monitoring, management and mitigation of these risks is a key part of managing the capital strategy.

16.2 **General Risks**

16.3 General risks are those that are faced because of the nature of the major projects being undertaken. Most of these risks are outside of the Council's control, but mitigations have been developed as part of the business planning and governance process.

16.4 These risks are set out below along with key mitigations:

16.5 **Interest Rate Risk**

16.6 The Council is planning to externally borrow £332.2m, less internal sources of finance, as set out in this Capital Strategy over the next four years.

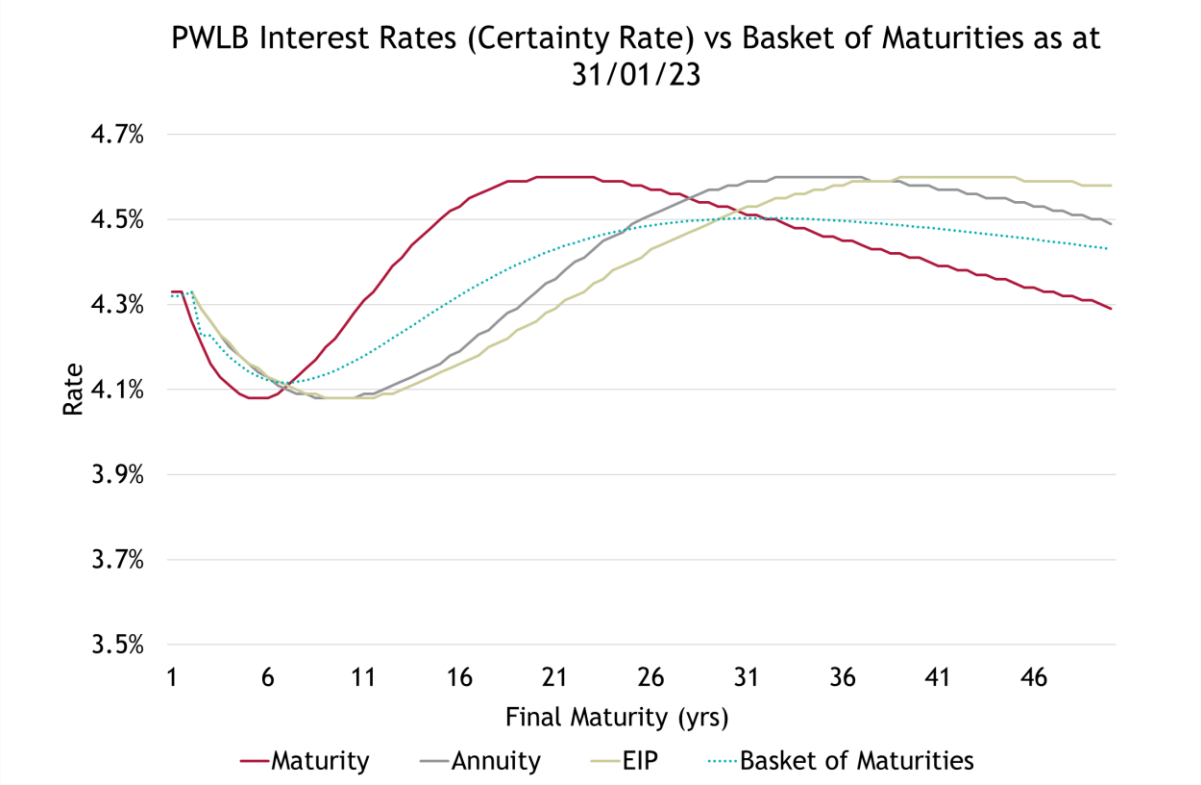
16.7 The Council will opt for fixed interest borrowing that matches the useful life of the asset, for purchases of land and buildings, this is 50 years and we are currently able to obtain a rate of 4.29% through PWLB.

16.8 The development aspect of each project is funded through the short-term money markets, where interest rates are currently around the 3.5% mark saving the Council significant sums.

16.9 The interest on development properties is capitalised, in accordance with the CIPFA Local Authority Accounting (capitalising borrowing costs) Code and rolled up into the total cost price of construction and on completion the short-term funds are repaid and a fixed term loan is taken out with PWLB.

16.10 Officers will use the above principles to mitigate our interest risk and also, look at the best options available through PWLB, which could mean that we obtain a basket of loans, including a mixture of annuity and maturity loans over the fifty-year period, in order to mitigate interest rate risk.

16.11 In some cases, officers have been able to reduce the total interest charge by significant sums by carefully monitoring the options available at the time of requiring a loan and this is best demonstrated by the chart below.



16.12 The chart shows the PWLB rates for Annuity, Maturity and Equal Instalments of Principal (EIP) loans, compared to a basket of maturities.

16.13 In the early years a maturity loan is more expensive that an annuity loan in terms of interest charge and cashflow. Around year 33 the benefits change, and a maturity loan becomes cheaper than the annuity loan.

16.14 Officer, in consultation with our advisers, will look at each loan and compare the PWLB rates over the next 50 years, to agree the actual loan, which could include a mix (basket) of annuity and maturity loans over the fifty-year term, in order to reduce cash outflow and mitigate interest risk for the Council.

16.15 **Inflation Risk**

16.16 Construction inflation over and above that budgeted by the council's professionals and advisors, and built into project budgets, could impact on the

affordability of the capital programme. A 1% rise in the cost of the affordable housing programme would increase the cost of the capital programme by approximately £2.8m.

16.17 Due to the delays in obtaining planning permission at Ashford Victory Place, we have seen that costs have increased by almost £4m, a 15% rise on the original budget, as building materials increase, the shortage of labour, and longer lead teams take their toll.

16.18 If the 15% increase was to be the 'norm' it would increase the gross cost of the capital programme by over £67.0m.

16.19 Whilst officers have done everything, they can to inform Council of these potential issues caused by the delays in not progressing our development projects. It is going to be very difficult to mitigate these risks particularly as the time span for guaranteed pricing has reduced considerably over the last few months.

16.20 Officers will continue to mitigate through the provision of contingencies, updating estimates regularly as they change and monitoring the impact through governance processes, until these outstanding development projects receive both council and planning approval.

16.21 **Legislative Risks**

16.22 Change in Law Risk – Capital schemes need to comply with the latest law and regulations, changes in which can impact construction costs and may be retrospective in their nature. This risk is mitigated by awareness of pipeline legislative changes and provision of contingencies.

16.23 **Commercial Risks**

16.24 The Council's capital programme relies on commercial activity as a key supporting strategy. This involves generation of income from property letting, sales receipts and other revenue/capital financial flows such as land deals with developers. In some cases, the Council commits to large projects, based on assumptions about future asset values and potential income streams. Should market movements mean that these assumptions are inaccurate, then the Council may suffer financially.

16.25 To mitigate this risk, the Council relies on expert advice on future asset values in making its decisions.

16.26 **Supplier Financial Stability**, construction companies and developers contracting with the Council that experience financial instability pose a significant risk. They may not be able to raise funding to finance operations, and their potential insolvency could lead to a costly process of changing suppliers without any guarantee of remaining within the overall budget. The Council could suffer direct financial loss, and any defects or other issues may not be resolvable as anticipated.

16.27 To mitigate this risk, the Council carefully considers the financial robustness of any contractor and requests appropriate financial standing assurance and support wherever possible.

16.28 **Transfer Risk**

16.29 When the Council plans and delivers projects, it is important to consider the risks associated with the project and whether the Council (or its subsidiaries such as KGE) is the best placed to take on that risk.

16.30 A key consideration for major capital schemes is whether these will be developer led or whether the Council will self-develop. For a developer led scheme the developer will take on a significant proportion of the risks associated with the project. However, the developer will price this risk in, so it will come at a cost.

16.31 Considerations can include whether there is resource capacity and expertise to take on specific risks in the context of the overall capital programme. The housing subsidiaries are newly incorporated and there may be an initial set-up risk as the company gains experience and embeds its delivery plan.

16.32 **Hybrid working –** a key issue with projects and overspending is the lack of communication between colleagues in the same office, with the onset of Hybrid Working, those small conversation had as you pass a colleague in the corridor or whilst having a cup of tea are going to be lost and the likelihood of missing a key element of the project are enhanced.

16.33 **Project Risks,** relates to the delivery of capital projects, which in many cases can be controlled, influenced, or directly mitigated in ways other than making contingencies available. These risks would mostly relate to unforeseen project delays and cost increases which could arise from a range of circumstances.

16.34 The effective management of these risks is mostly linked to the following strategies:

Project Risks

(a) Projects are required to maintain a risk register, to ensure effective monitoring.

(b) **Highlight reporting** - development projects, as an example, create monthly highlight reports to ensure stakeholders are aware of progress and risks of projects on an on-going basis.

(c) **Appointment of professional teams** - the Development team has recruited and retained the services of experts to provide robust planning and review to advise on financial feasibility and to ensure timely delivery of projects.

Experts also cover key surveying and financial planning roles to give assurance on quality of work and assumptions.

(d) **Risk of Revenue Write Off** – the Council commits to feasibility studies on many of its significant capital schemes at the point where spend is revenue in nature or when capital spend may be written off, should the scheme in question not progress.

This is managed through careful consideration and approval of all expenditure potentially at risk of revenue write-off. There is a further risk that any projects funded may not yield the required ongoing revenue savings and therefore may need to be written off to revenue.

16.35 The Council has an on-going Capital Programme and will continue to invest in capital projects beyond 2026/27 and will therefore need to ensure that funds are set aside for the future cost of borrowing.

17. Financial implications

17.1 Financial implications are set out in the main body of this report.

18. Legal considerations

18.1 The legal implications for each individual scheme within the capital programme will be considered when approval is sought for that scheme. Each scheme within the capital programme will be approved in accordance with the council's constitution.

19. Equality and Diversity

19.1 The Capital programme impacts on all residents across the Borough. In particular, the provision for new housing within the Borough will assist a substantial number of our 3,500 residents, on our housing waiting lists, many of whom are key workers, the young and most vulnerable residents to benefit from our affordable house schemes. Before major new projects and programmes are undertake, equality impact assessments are undertaken.

20. Sustainability/Climate Change Implications

20.1 Each project will be required to provide details of its impact on the sustainability for the Borough and climate. Noting that at present, we are investing over £5.5m into green initiatives and reducing our carbon footprint in our properties, notably, £4m to build the first leisure centre in the United Kingdom to Pasivhaus standards and spending £1.5m on heat pumps at our Ashford Victory Place development.

21. Timetable for implementation

21.1 The Capital Strategy will need to be approved by Council and can then be issued immediately thereafter.

Background papers: as presented at previous or current meeting(s)
2023/24 to 2026/27 Capital Programme
KGE 50-year projections

CAPITAL PROGRAMME 2023/24 TO 2026/27

Appendix A

Committee / Service Head	Cost Centre	Description	Category for CFR calc - TMS	Revised Budget 2022-23	New Growth bids for 2022/23	New Growth bids for 2023/24	Adjustments	Revised Total Budget	Budget 2023/24	2024/25	2025/26	2026/27	Total for 4 Years
Community Wellbeing & Housing- DFG													
	Cost Code												
Karen Sinclair	402038261	Disabled Facilities Mandatory	OthCap	943,200	943,200	0	0	943,200	943,200	943,200	943,200	943,200	**3,772,800**
Karen Sinclair	402048261	Disabled Facilities Discretion	OthCap	29,600	29,600	0	0	29,600	29,600	29,600	29,600	29,600	**118,400**
Karen Sinclair	402038262	Grants received from Central Government	Funding	-972,800	-972,800	0	0	-972,800	-972,800	-972,800	-972,800	-972,800	**-3,891,200**
Karen Sinclair	402038262	Grants received from Central Government (Growth)	Funding	0	0	-30,000	0	-30,000	-30,000	0	0	0	**-30,000**
		Committee Total		0	0	-30,000	0	-30,000	-30,000	0	0	0	**-30,000**
Environment & Sustainability													
Jackie Taylor	415038252	Replacement refuse vehicle	OthCap	80,000	80,000	0	0	80,000	80,000	0	0	0	**80,000**
Jackie Taylor	415038225	Replacement refuse vehicle - external fund insurance claim	Funding	-45,000	-45,000	0	0	-45,000	-45,000	0	0	0	**-45,000**
Jackie Taylor	415038252	Procurement of new food waste vehicles (Growth)	OthCap	0	0	400,000	0	400,000	400,000	0	0	0	**400,000**
Jackie Taylor	415038252	Lease of seventeen waste & cleansing vehicles (Growth)	OthCap	0	0	3,220,000	0	3,220,000	805,000	805,000	805,000	805,000	**3,220,000**
Jackie Taylor	416068225	County Transit Site	OthCap	127,000	0	0	0	127,000	127,000	0	0	0	**127,000**
Jackie Taylor	416098252	Replacement Spelride Bus	OthCap	100,000	0	0	0	100,000	100,000	0	0	0	**100,000**
Jackie Taylor	416208252	Wheelie Bins (Growth)	OthCap	50,000	50,000	0	0	50,000	50,000	50,000	50,000	50,000	**200,000**
Jackie Taylor	416088225	Laleham Park- Portacabins	OthCap	116,000	116,000	0	0	116,000	116,000	0	0	0	**116,000**
Jackie Taylor	416088225	River Ash Broadwalk	OthCap	150,000	150,000	0	0	150,000	150,000	0	0	0	**150,000**
Jackie Taylor	416088252	River Ash Broadwalk - Bronzefield Reserve Funding	Funding	-150,000	-150,000	0	0	-150,000	-150,000	0	0	0	**-150,000**
Jackie Taylor	TBC	River Thames Scheme	OthCap	1,300,000	0	0	0	1,300,000	1,300,000	0	0	0	**1,300,000**
Heather Morgan	413148225	Air Quality	OthCap	24,500	0	0	0	24,500	24,500	0	0	0	**24,500**
		Committee Total		1,752,500	201,000	3,620,000	0	5,372,500	2,957,500	855,000	855,000	855,000	**5,522,500**
Neighbourhood Services													
Jackie Taylor	413028252	Car Park Management System update in Elmsleigh Surface+MSCP	OthCap	250,000	250,000	0	0	250,000	250,000	0	0	0	**250,000**
Jackie Taylor	413088252	PCN/Permit/Season Ticket management and issuance management system	OthCap	50,000	50,000	0	0	50,000	50,000	0	0	0	**50,000**
Jackie Taylor	TBC	Supply of 5 new CCTV cameras in Shepperton (Growth)	OthCap	0	0	35,000	0	35,000	35,000	0	0	0	**35,000**
		Committee Total		300,000	300,000	35,000	0	335,000	335,000	0	0	0	**335,000**
Corporate Policy & Resources													
Marta Inge	420748225	Property acquisition for families	HsgReg	35,000,000	35,000,000	0	0	34,527,510	5,587,510	5,930,000	6,120,000	16,890,000	**34,527,510**
	420748225	Local Authority Housing Fund Grant	HsgReg	0	0	-1,259,074	0	-1,259,074	-377,722	-881,352	0	0	**-1,259,074**
Marta Inge	420748225	Recruit an additional Development Manager - Affordable Housing (Growth)	Funding	0	0	150,000	0	600,000	150,000	150,000	150,000	150,000	**600,000**
Marta Inge	420748225	Funding for the additional Development Manager from Street Acquisitions budget (Growth)	Funding	0	0	-150,000	0	-600,000	-150,000	-150,000	-150,000	-150,000	**-600,000**
Nick Cummings - Richard Mortimer	410248225	Spelthorne Leisure Centre	HsgReg	48,370,000	0	0	0	41,391,144	7,253,000	23,348,000	7,143,000	368,628	**38,112,628**
Nick Cummings - Richard Mortimer	413288225	Ashford MSCP Residential Scheme	HsgReg	15,267,000	0	0	3,528,691	18,570,044	7,428,044	7,000,000	4,142,000	0	**18,570,044**
	413288225	Ashford MSCP Residential Scheme - Hones for England Grant	Funding		0	0	-4,630,027	-4,630,027	-2,778,016	0	-1,852,011	0	**-4,630,027**
Nick Cummings - Richard Mortimer	420528225	Whitehouse - Design Fees & Construction Phase B	HsgReg	3,910,000	0	0	2,325,710	5,557,535	2,223,014	3,334,521	0	0	**5,557,535**
	420528225	Whitehouse - Design Fees & Construction Phase B - Homes for England Grant	Funding		0	0	-1,385,657	-1,385,657	-831,394	-554,263	0	0	**-1,385,657**
Nick Cummings - Richard Mortimer	420548225	Thameside House	HsgReg	54,430,000	0	0	25,286,424	77,000,000	2,000,000	33,000,000	37,500,000	4,500,000	**77,000,000**
Nick Cummings - Richard Mortimer	420578225	Victory Place (Ashford Hospital car park site)	HsgReg	36,730,000	0	0	1,912,296	36,250,000	12,000,000	18,000,000	6,250,000	0	**36,250,000**
	420578225	Victory Place (Ashford Hospital car park site) - Homes for England Grant	Funding		0	0	-10,310,000	-10,310,000	-6,200,000		-4,110,000	0	**-10,310,000**
Nick Cummings - Richard Mortimer	420608225	Oast House	HsgReg	105,200,000	0	0	33,033,276	115,500,000	2,000,000	38,500,000	65,000,000	10,000,000	**115,500,000**
	420608225	Oast House - Homes for England Grant	Funding		0	0	-23,250,000	-23,250,000	0	-13,950,000	0	-9,300,000	**-23,250,000**
Nick Cummings / Paul Taylor	420608225	Oast House - NHS Funding	Funding	0	0	0	-45,000,000	-45,000,000	0	0	0	-35,000,000	**-35,000,000**
Nick Cummings - Richard Mortimer	420638225	Elmsleigh Centre	HsgReg	5,350,000	0	0	0	5,348,485	500,000	2,350,000	2,498,485	0	**5,348,485**
Nick Cummings - Richard Mortimer	420658225	William Hill (91/93 High Street)	HsgReg	6,000,000	0	0	0	5,925,800	200,000	4,225,800	1,500,000	0	**5,925,800**
Nick Cummings - Richard Mortimer	420668225	Tothill MSCP (Growth)	HsgReg	4,500,000	0	0	77,832,030	82,000,000	2,500,000	5,000,000	32,500,000	42,000,000	**82,000,000**
	420668225	Tothill MSCP - Homes for England Grant	Funding		0	0	-20,000,000	-20,000,000	0	-12,000,000	0	-8,000,000	**-20,000,000**
Nick Cummings - Richard Mortimer	420678225	Decathlon Unit	HsgReg	2,150,000	0	0	-2,000,000	150,000	150,000	0	0	0	**150,000**
Paul Taylor	436098253	Centros Upgrade - systems and processes	OthCap	384,400	384,400	0	0	384,400	190,000	194,400	0	0	**384,400**
Nick Cummings - Richard Mortimer	420688225	Elmsleigh Centre WCs	HsgReg	60,000	60,000	0	0	56,570	56,570	0	0	0	**56,570**
Nick Cummings - Richard Mortimer	420688239	Elmsleigh Centre WCs	Funding	-40,000	-40,000	0	0	-40,000	-40,000	0	0	0	**-40,000**
Nick Cummings - Richard Mortimer	420698225	Ashford Community Centre	HsgReg	3,500,000	3,500,000	0	0	3,500,000	3,500,000	0	0	0	**3,500,000**
Nick Cummings - Richard Mortimer	420708225	Cedars Rec Toilet block	HsgReg	250,000	250,000	0	0	250,000	250,000	0	0	0	**250,000**
Nick Cummings - Richard Mortimer	420718225	Greeno Rec	HsgReg	1,200,000	1,200,000	0	0	1,200,000	1,200,000	0	0	0	**1,200,000**
Nick Cummings - Richard Mortimer	420728225	Manor Park Pavilion	HsgReg	750,000	750,000	0	0	750,000	750,000	0	0	0	**750,000**
Nick Cummings - Richard Mortimer	420738225	Revelstoke	HsgReg	400,000	400,000	0	0	400,000	400,000	0	0	0	**400,000**
Nick Cummings - Richard Mortimer	420758225	Benwell II	HsgReg	0	0	8,662,000	120,607	8,662,000	2,888,000	5,774,000	0	0	**8,662,000**
Nick Cummings - Richard Mortimer	426768020	Sandhills Meadow Bridge - Contribution	HsgReg	200,000	200,000	0	0	200,000	200,000	0	0	0	**200,000**
		Committee Total		323,611,400	41,704,400	7,402,926	37,463,350	331,748,729	41,049,006	119,271,106	156,691,474	21,458,628	**338,470,214**
Regulatory & Administration													
Jodie Hawkes	436098252	Centro Upgrade	OthCap	190,000	0	0	0	170,495	170,495	0	0	0	**170,495**
Alistair Corkish	436108252	General Hardware, Software and Mobiles/Tablets (Growth)	OthCap	50,000	50,000	25,000	-33,903	25,000	25,000	0	0	0	**25,000**
Alistair Corkish	436148252	Network Infrastructure	OthCap	170,000	170,000	0	0	170,000	170,000	0	0	0	**170,000**
Roy Tilbury	436268252	Customer Services Contact Cent	OthCap	40,000	0	0	0	34,463	34,463	0	0	0	**34,463**
Roy Tilbury	436298253	SharePoint Upgrade	OthCap	70,000	0	0	0	16,485	16,485	0	0	0	**16,485**
Alistair Corkish	436108252	General Hardware - Homeworking Kit (Growth)	OthCap	0	0	46,000	0	46,000	46,000	0	150,000	0	**196,000**
Alistair Corkish	436108252	General Hardware - Tablets (Growth)	OthCap	0	0	31,000	0	31,000	31,000	11,000	11,000	40,000	**93,000**
Alistair Corkish	436108252	General Hardware - Mobiles (Growth)	OthCap	0	0	21,000	0	21,000	21,000	21,000	10,000	9,000	**61,000**
Alistair Corkish	436108252	Service Delivery Harware Printers (Growth)	OthCap	0	0	38,000	0	38,000	38,000	0	0	0	**38,000**
Alistair Corkish	436108252	Service Delivery Hardware Infrastructure (Growth)	OthCap	0	0	5,000	0	5,000	5,000	0	350,000	0	**355,000**
Sandy Muirhead	435128252	SharePoint redesign & Relaunch	OthCap	155,000	0	0	0	155,000	155,000	0	0	0	**155,000**
Sandy Muirhead	435158253	Corporate EDMS Project	OthCap	100,000	0	0	0	99,045	99,045	0	0	0	**99,045**
TBC	TBC	Acquisition of GovTech	OthCap	0	0	20,000	0	20,000	20,000	0	0	0	**20,000**
TBC	TBC	website upgrade	OthCap	0	0	85,000	0	85,000	85,000	0	0	0	**85,000**
		Committee Total		775,000	220,000	271,000	-33,903	916,488	916,488	32,000	521,000	49,000	**1,518,488**
Total				**326,438,900**	**42,425,400**	**11,298,926**	**37,429,447**	**338,342,717**	**45,227,994**	**120,158,106**	**158,067,474**	**22,362,628**	**345,816,201**

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Corporate Policy & Resources Committee

20 February 2022

Title	**Estimated 2023/24 to 2026/27 Capital Programme**
Purpose of the report	To make a recommendation to Council that the report is approved.
Report Author	Sam Masters, Interim Treasury Management and Capital Accountant
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Community Affordable Housing Recovery Environment Service Delivery
Recommendations	**Corporate Policy & Resources Committee is asked to recommend that Council approve the proposed Capital Programme for 2023/24 to 2026/27.**
Reason for Recommendation	As part of the 2023/24 budget setting process and to ensure that the Council has a planned approach to its Capital expenditure and that it is financially sustainable.

1. Key issues

1.1 The estimated Capital Programme forms an integral part of the Council's Capital Strategy.

1.2 The Council is being asked to approve a multi-year Capital Programme of £446.4m gross and £345.8m net of receipts and grants detailed in Appendix A. Included in the proposed scheme is £70.9m for new projects.

1.3 Also included are two estimated multiyear expenditure items for the leasing, and the purchase of, of multiple waste vehicles. These schemes replace prior schemes previously agreed with the exception of an £80k budget for an individual damaged refuse truck with and expected £45k insurance receipt. The new schemes are included to provide a holistic view of the Council's estimated Capital Programme, and to allow officers to plan their medium-term financial strategy. Also included is the River Thames project, which has been preapproved for 2023/24. In total these items amount to £5.0m.

1.4 Due to the delays in developing the Council's projects caused by several factors, including, the moratorium, Brexit, supply chain challenges, construction price inflation and shortages of labour, all the Capital Projects have been reviewed by the Budget Managers and reprofiled to reflect the

latest capital monitoring information and expectation of when budgeted expenditure will be incurred, as shown in appendix A.

1.5 The aggregate estimated Capital Programme attributable to each committee for 2023/24, before funding is applied, is shown in the table below.

	2023/24	**2024/25**	**2025/26**	**2026/27**	**Total**
	Estimated £000s	**Estimated £000s**	**Estimated £000s**	**Estimated £000s**	**Estimated £000s**
Community Wellbeing & Housing - DFG	972.8	972.8	972.8	972.8	3,891.2
Environment & Sustainability	3,152.5	855.0	855.0	855.0	5,717.5
Neighbourhood Services	335.0	0.0	0.0	0.0	335.0
Corporate Policy and Resources	51,426.1	146,806.7	162,803.5	73,908.6	434,945.0
Regulatory & Administration	916.5	32.0	521.0	49.0	1,518.5
Total before funding	**56,802.9**	**148,666.5**	**165,152.3**	**75,785.4**	**446,407.2**

1.6 The largest element of the Capital Programme continues to be the provision of housing for our residents, with a further £69.4m included in the growth bids for 2023/24.

1.7 Other elements of the Council's Capital Programme include several smaller initiatives to reduce our carbon footprint and utilising the Green Initiatives Fund set aside by Council last year and various Information Technology (IT) projects such as, equipment refresh, upgrades to systems and improvements to ways of working which will help facilitate efficiencies.

1.8 The majority of our Capital Programme is and will continue to be funded by borrowing from the Public Works Loan Board (PWLB), in compliance with the Prudential and Treasury Management Codes and Government guidance and revenue contributions as the Council has very limited capital receipts or capital reserves. Additionally following the February Extraordinary Council Meeting we will be seeking to maximise Homes England grant support for our affordable and key worker housing schemes

1.9 Under the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code regime, councils have a requirement to set out how the financing of their Capital Programme is prudent and affordable and to publish prudential indicators. Any new borrowing would result in a charge to the General Fund for principal and interest on completion of schemes. However, borrowing which relates to residential schemes will be offset by interest and principal repayments from Knowle Green which will be equal to or larger than the payments that is being made by the Council. Along with Homes England

grant support, it is the rental income streams from the residential schemes delivering housing for the borough's residents which makes the financing affordable and prudent for the Council.

1.10 If borrowing is not undertaken the programme would need to be financed from additional capital receipts through the selling of assets or a significant revenue contribution to Capital from the services proposing the capital works.

1.11 The Council is not currently looking to dispose of any of its properties, which means that future capital receipts will be limited. There will still be a small of amount of receipts from the Council's share of Right to Buy, as we come to the end of the contract to improve the resiliency of the Capital Programme, the Council is maintaining its revenue contribution to capital and over time its repair and renewal funds. Borrowing will be undertaken to fund acquisitions for residential and regeneration purposes and developments where future income streams or cashable savings are generated, for example reducing the office footprint.

2. Prudential Indicators (PI)

2.1 There are several key indicators to ensure that the Council operates its activities within defined boundaries, which can be seen in Appendix B.

Operational Boundary

2.2 The Operational Boundary for External Debt is not a limit and actual borrowing could vary around this boundary for short times during the year. It acts as an early warning indicator to ensure the authorised limit is not breached.

2.3 The Operational Boundary links directly to the Council's Capital finance Report (CFR) and estimates of other cashflow requirements. The Council intends to keep the Operational Boundary at £1,350m for 2023/24 through to 2026/27, as detailed in the Treasury Management Strategy Report.

Authorised Limit

2.4 Another key indicator is the Authorised Limit which represents the maximum level of borrowing beyond which further external debt is prohibited, without Council approval.

2.5 This is a statutory limit determined under Section 3 (1) of the Local Government Act 2003 and it has been set at £1,450m for 2023/24 through to 2026/27, as detailed in the Treasury Management Strategy Report.

2.6 Council will approve the Authorised Limit and Operational Boundary via the Treasury Management Strategy Report.

Estimates of financing costs to net revenue stream

2.7 This indicator compares the total principal and net interest payments on external debt to the revenue spending of the Council that is funded by government grants and local taxpayer. It is a measure of affordability of borrowing, and is shown in table 2 of Appendix B.

2.8 As the Council continues to repay its loans, the interest charge will start to reduce, and the capital repayment element will increase, and therefore the ratio will start to fall over the coming years and highlights the importance of the Council continuing with its policy to build its reserves as well as using the

net investment income to support its service deliver and regeneration programme.

If our net investment income from our property portfolio were included (which was why Council took out the loans) the ratios would be as follows:

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Net Revenue Stream & Investment Portfolio Rent	59.7	62.9	66.0	66.4
Financing costs	39.4	39.5	39.6	39.7
Ratio	(0.7)	(0.6)	(0.6)	(0.6)

Commercial income, related costs, and net contributions to future costs

2.9 The Council's commercial income, as shown in table 3 of Appendix C shows a strong net income position after allowing for landlord costs, financing costs and net contributions to the reserves (sinking funds).

3. Financial implications

3.1 The planned financing of the 2023/24 proposed Capital Schemes is as follows:

Type of Funding	2023/24 Estimated £000s	2024/25 Estimated £000s	2025/26 Estimated £000s	2026/27 Estimated £000s	Total
Capital Receipts, CIL and S106 funding	3000	3000	3000	41,000	50,000
External Funding - Disabled Facilities Grant	973	973	973	973	3,892
Homes for England Grant	7,031	26,504	4,110	17,300	54,946
Revenue Contributions to capital outlay	750	750	750	750	3,000
Grants & Other Contributions	1051.4	804.3	250	250	2,356
Borrowing	43,997	116,635	156,069	15,512	332,214
Total	**56,803**	**148,667**	**165,152**	**75,785**	**446,407**

It can be noted that over the four year period funding from non-borrowing sources will equate to approximately 26% of the planned expenditure.

4. Equality and Diversity

4.1 The provision for new housing within the Borough will assist a substantial number of our 3,500 residents, on our housing waiting lists, many of whom are key workers, the young and most vulnerable residents to benefit from our affordable house schemes.

5. Sustainability/Climate Change Implications

5.1 The Council will be investing more than £40m in the development of the first leisure centre in the United Kingdom to be built to the exacting Pasivhaus standards (with £4m of the cost relating to achieving the Pasivhaus standards), which will be a reduce our carbon footprint to nil, for this building. Further, at Victory Place keyworker and affordable housing residential scheme, we are investing an additional £1.5m for air source heat pumps to reduce the impact the development will have on the environment.

6. Timetable for implementation

6.1 Schemes included in the Capital Programme are programmed to commence in 2023/24 and will be monitored monthly by officers to ensure that any slippage of schemes is identified at an early date and the programme is adjusted accordingly.

6.2 Bimonthly reports are also provided to the Development Subcommittee for discussion and review.

6.3 Any schemes incomplete at the end of March 2022 may be incorporated as part of the revised programme for 2023/24.

6.4 Quarterly reports are prepared by the Finance Team as part of the Capital monitoring process, to show the status of the schemes and presented to Committees and Council the expected variance from the approved budget., along with the appropriate narrative.

Background papers: N/A

Appendices:
A - 2023/24 to 2026/27 Capital Programme
B – Prudential Indicators.

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CAPITAL PROGRAMME 2023/24 TO 2026/27

Appendix A

Committee / Service Head	Cost Centre	Description	Category for CFR calc - TMS	Revised Budget 2022-23	New Growth bids for 2022/23	New Growth bids for 2023/24	Adjustments	Revised Total Budget	Budget 2023/24	2024/25	2025/26	2026/27	Total for 4 Years
Community Wellbeing & Housing- DFG													
	Cost Code												
Karen Sinclair	402038261	Disabled Facilities Mandatory	OthCap	943,200	943,200	0	0	943,200	943,200	943,200	943,200	943,200	**3,772,800**
Karen Sinclair	402048261	Disabled Facilities Discretion	OthCap	29,600	29,600	0	0	29,600	29,600	29,600	29,600	29,600	**118,400**
Karen Sinclair	402038262	Grants received from Central Government	Funding	-972,800	-972,800	0	0	-972,800	-972,800	-972,800	-972,800	-972,800	**-3,891,200**
Karen Sinclair	402038262	Grants received from Central Government (Growth)	Funding	0	0	-30,000	0	-30,000	-30,000	0	0	0	**-30,000**
		Committee Total		0	0	-30,000	0	-30,000	-30,000	0	0	0	**-30,000**
Environment & Sustainability													
Jackie Taylor	415038252	Replacement refuse vehicle	OthCap	80,000	80,000	0	0	80,000	80,000	0	0	0	**80,000**
Jackie Taylor	415038225	Replacement refuse vehicle - external fund insurance claim	Funding	-45,000	-45,000	0	0	-45,000	-45,000	0	0	0	**-45,000**
Jackie Taylor	415038252	Procurement of new food waste vehicles (Growth)	OthCap	0	0	400,000	0	400,000	400,000	0	0	0	**400,000**
Jackie Taylor	415038252	Lease of seventeen waste & cleansing vehicles (Growth)	OthCap	0	0	3,220,000	0	3,220,000	805,000	805,000	805,000	805,000	**3,220,000**
Jackie Taylor	416068225	County Transit Site	OthCap	127,000	0	0	0	127,000	127,000	0	0	0	**127,000**
Jackie Taylor	416098252	Replacement Spelride Bus	OthCap	100,000	0	0	0	100,000	100,000	0	0	0	**100,000**
Jackie Taylor	416208252	Wheelie Bins (Growth)	OthCap	50,000	50,000	0	0	50,000	50,000	50,000	50,000	50,000	**200,000**
Jackie Taylor	416088225	Laleham Park- Portacabins	OthCap	116,000	116,000	0	0	116,000	116,000	0	0	0	**116,000**
Jackie Taylor	416088225	River Ash Broadwalk	OthCap	150,000	150,000	0	0	150,000	150,000	0	0	0	**150,000**
Jackie Taylor	416088252	River Ash Broadwalk - Bronzefield Reserve Funding	Funding	-150,000	-150,000	0	0	-150,000	-150,000	0	0	0	**-150,000**
Jackie Taylor	TBC	River Thames Scheme	OthCap	1,300,000	0	0	0	1,300,000	1,300,000	0	0	0	**1,300,000**
Heather Morgan	413148225	Air Quality	OthCap	24,500	0	0	0	24,500	24,500	0	0	0	**24,500**
		Committee Total		1,752,500	201,000	3,620,000	0	5,372,500	2,957,500	855,000	855,000	855,000	**5,522,500**
Neighbourhood Services													
Jackie Taylor	413028252	Car Park Management System update in Elmsleigh Surface+MSCP	OthCap	250,000	250,000	0	0	250,000	250,000	0	0	0	**250,000**
Jackie Taylor	413088252	PCN/Permit/Season Ticket management and issuance management system	OthCap	50,000	50,000	0	0	50,000	50,000	0	0	0	**50,000**
Jackie Taylor	TBC	Supply of 5 new CCTV cameras in Shepperton (Growth)	OthCap	0	0	35,000	0	35,000	35,000	0	0	0	**35,000**
		Committee Total		300,000	300,000	35,000	0	335,000	335,000	0	0	0	**335,000**
Corporate Policy & Resources													
Marta Inge	420748225	Property acquisition for families	HsgReg	35,000,000	35,000,000	0	0	34,527,510	5,587,510	5,930,000	6,120,000	16,890,000	**34,527,510**
	420748225	Local Authority Housing Fund Grant	HsgReg	0	0	-1,259,074	0	-1,259,074	-377,722	-881,352	0	0	**-1,259,074**
Marta Inge	420748225	Recruit an additional Development Manager - Affordable Housing (Growth)	Funding	0	0	150,000	0	600,000	150,000	150,000	150,000	150,000	**600,000**
Marta Inge	420748225	Funding for the additional Development Manager from Street Acquisitions budget (Growth)	Funding	0	0	-150,000	0	-600,000	-150,000	-150,000	-150,000	-150,000	**-600,000**
Nick Cummings - Richard Mortimer	410248225	Spelthorne Leisure Centre	HsgReg	48,370,000	0	0	0	41,391,144	7,253,000	23,348,000	7,143,000	368,628	**38,112,628**
Nick Cummings - Richard Mortimer	413288225	Ashford MSCP Residential Scheme	HsgReg	15,267,000	0	0	3,528,691	18,570,044	7,428,044	7,000,000	4,142,000	0	**18,570,044**
	413288225	Ashford MSCP Residential Scheme - Hones for England Grant	Funding		0	0	-4,630,027	-4,630,027	-2,778,016	0	-1,852,011	0	**-4,630,027**
Nick Cummings - Richard Mortimer	420528225	Whitehouse - Design Fees & Construction Phase B	HsgReg	3,910,000	0	0	2,325,710	5,557,535	2,223,014	3,334,521	0	0	**5,557,535**
	420528225	Whitehouse - Design Fees & Construction Phase B - Homes for England Grant	Funding		0	0	-1,385,657	-1,385,657	-831,394	-554,263	0	0	**-1,385,657**
Nick Cummings - Richard Mortimer	420548225	Thameside House	HsgReg	54,430,000	0	0	25,286,424	77,000,000	2,000,000	33,000,000	37,500,000	4,500,000	**77,000,000**
Nick Cummings - Richard Mortimer	420578225	Victory Place (Ashford Hospital car park site)	HsgReg	36,730,000	0	0	1,912,296	36,250,000	12,000,000	18,000,000	6,250,000	0	**36,250,000**
	420578225	Victory Place (Ashford Hospital car park site) - Homes for England Grant	Funding		0	0	-10,310,000	-10,310,000	-6,200,000		-4,110,000	0	**-10,310,000**
Nick Cummings - Richard Mortimer	420608225	Oast House	HsgReg	105,200,000	0	0	33,033,276	115,500,000	2,000,000	38,500,000	65,000,000	10,000,000	**115,500,000**
	420608225	Oast House - Homes for England Grant	Funding		0	0	-23,250,000	-23,250,000	0	-13,950,000	0	-9,300,000	**-23,250,000**
Nick Cummings / Paul Taylor	420608225	Oast House - NHS Funding	Funding	0	0	0	-45,000,000	-45,000,000	0	0	0	-35,000,000	**-35,000,000**
Nick Cummings - Richard Mortimer	420638225	Elmsleigh Centre	HsgReg	5,350,000	0	0	0	5,348,485	500,000	2,350,000	2,498,485	0	**5,348,485**
Nick Cummings - Richard Mortimer	420658225	William Hill (91/93 High Street)	HsgReg	6,000,000	0	0	0	5,925,800	200,000	4,225,800	1,500,000	0	**5,925,800**
Nick Cummings - Richard Mortimer	420668225	Tothill MSCP (Growth)	HsgReg	4,500,000	0	0	77,832,030	82,000,000	2,500,000	5,000,000	32,500,000	42,000,000	**82,000,000**
	420668225	Tothill MSCP - Homes for England Grant	Funding		0	0	-20,000,000	-20,000,000	0	-12,000,000	0	-8,000,000	**-20,000,000**
Nick Cummings - Richard Mortimer	420678225	Decathlon Unit	HsgReg	2,150,000	0	0	-2,000,000	150,000	150,000	0	0	0	**150,000**
Paul Taylor	436098253	Centros Upgrade - systems and processes	OthCap	384,400	384,400	0	0	384,400	190,000	194,400	0	0	**384,400**
Nick Cummings - Richard Mortimer	420688225	Elmsleigh Centre WCs	HsgReg	60,000	60,000	0	0	56,570	56,570	0	0	0	**56,570**
Nick Cummings - Richard Mortimer	420688239	Elmsleigh Centre WCs	Funding	-40,000	-40,000	0	0	-40,000	-40,000	0	0	0	**-40,000**
Nick Cummings - Richard Mortimer	420698225	Ashford Community Centre	HsgReg	3,500,000	3,500,000	0	0	3,500,000	3,500,000	0	0	0	**3,500,000**
Nick Cummings - Richard Mortimer	420708225	Cedars Rec Toilet block	HsgReg	250,000	250,000	0	0	250,000	250,000	0	0	0	**250,000**
Nick Cummings - Richard Mortimer	420718225	Greeno Rec	HsgReg	1,200,000	1,200,000	0	0	1,200,000	1,200,000	0	0	0	**1,200,000**
Nick Cummings - Richard Mortimer	420728225	Manor Park Pavilion	HsgReg	750,000	750,000	0	0	750,000	750,000	0	0	0	**750,000**
Nick Cummings - Richard Mortimer	420738225	Revelstoke	HsgReg	400,000	400,000	0	0	400,000	400,000	0	0	0	**400,000**
Nick Cummings - Richard Mortimer	420758225	Benwell II	HsgReg	0	0	8,662,000	120,607	8,662,000	2,888,000	5,774,000	0	0	**8,662,000**
Nick Cummings - Richard Mortimer	426768020	Sandhills Meadow Bridge - Contribution	HsgReg	200,000	200,000	0	0	200,000	200,000	0	0	0	**200,000**
		Committee Total		323,611,400	41,704,400	7,402,926	37,463,350	331,748,729	41,049,006	119,271,106	156,691,474	21,458,628	**338,470,214**
Regulatory & Administration													
Jodie Hawkes	436098252	Centro Upgrade	OthCap	190,000	0	0	0	170,495	170,495	0	0	0	**170,495**
Alistair Corkish	436108252	General Hardware, Software and Mobiles/Tablets (Growth)	OthCap	50,000	50,000	25,000	-33,903	25,000	25,000	0	0	0	**25,000**
Alistair Corkish	436148252	Network Infrastructure	OthCap	170,000	170,000	0	0	170,000	170,000	0	0	0	**170,000**
Roy Tilbury	436268252	Customer Services Contact Cent	OthCap	40,000	0	0	0	34,463	34,463	0	0	0	**34,463**
Roy Tilbury	436298253	SharePoint Upgrade	OthCap	70,000	0	0	0	16,485	16,485	0	0	0	**16,485**
Alistair Corkish	436108252	General Hardware - Homeworking Kit (Growth)	OthCap	0	0	46,000	0	46,000	46,000	0	150,000	0	**196,000**
Alistair Corkish	436108252	General Hardware - Tablets (Growth)	OthCap	0	0	31,000	0	31,000	31,000	11,000	11,000	40,000	**93,000**
Alistair Corkish	436108252	General Hardware - Mobiles (Growth)	OthCap	0	0	21,000	0	21,000	21,000	21,000	10,000	9,000	**61,000**
Alistair Corkish	436108252	Service Delivery Harware Printers (Growth)	OthCap	0	0	38,000	0	38,000	38,000	0	0	0	**38,000**
Alistair Corkish	436108252	Service Delivery Hardware Infrastructure (Growth)	OthCap	0	0	5,000	0	5,000	5,000	0	350,000	0	**355,000**
Sandy Muirhead	435128252	SharePoint redesign & Relaunch	OthCap	155,000	0	0	0	155,000	155,000	0	0	0	**155,000**
Sandy Muirhead	435158253	Corporate EDMS Project	OthCap	100,000	0	0	0	99,045	99,045	0	0	0	**99,045**
TBC	TBC	Acquisition of GovTech	OthCap	0	0	20,000	0	20,000	20,000	0	0	0	**20,000**
TBC	TBC	website upgrade	OthCap	0	0	85,000	0	85,000	85,000	0	0	0	**85,000**
		Committee Total		775,000	220,000	271,000	-33,903	916,488	916,488	32,000	521,000	49,000	**1,518,488**
Total				**326,438,900**	**42,425,400**	**11,298,926**	**37,429,447**	**338,342,717**	**45,227,994**	**120,158,106**	**158,067,474**	**22,362,628**	**345,816,201**

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Table 1: Prudential Indicators - Authorised Limit and Operational Boundary

The Authorised Limit for External Debt sets the maximum level of external borrowing that the Council can incur. It reflects the level of borrowing which, while not desirable, could be afforded in the short-term, however it is not sustainable. It is the Council's expected maximum borrowing need with headroom for unexpected cashflow. The limit also provides scope for the Council to borrow in advance of need.

The Operational Boundary for External Debt is not a limit and actual borrowing could vary around this boundary for short times during the year. It acts as an early warning indicator to ensure the authorised limit is not breached.

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Authorised borrowing limit	1,450	1,450	1,450	1,450
Operational boundary	1,350	1,350	1,350	1,350

Table 2: Financing Costs to Net Revenue Stream.

This is a measure of the affordability of borrowing. The Council's financing costs relate substantially to borrowing when commercial property was acquired prior to March 2019. As the CIPFA TM Code notes, commercial investments are taken or held primarily for financial return and are not linked to treasury management activity nor do they form part of delivering direct services. However, as commercial property was directly related to borrowing costs, Table 3 also shows the net income after costs and contributions to future costs. This illustrates the affordability of the commercial investments.

	2023/24	2024/25	2025/26	2026/27
Net Revenue Stream, £m	13.6	13.7	12.6	12.2
Financing costs, £m	39.4	39.5	39.6	39.7
Ratio	2.9	2.9	3.1	3.2

Table 3: Commercial Income, Related Costs and Contributions to Sinking Funds

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Commercial income	(46.1)	(49.2)	(53.4)	(54.1)
Landlord costs	7.9	8.8	6.8	6.3
Contribution to sinking funds	1.0	0.8	2.9	3.7
Financing costs	39.4	39.5	39.6	39.7
Net income after landlord & financing costs & net contributions to sinking fund	**2.2**	**(0.02)**	**(4.1)**	**(4.5)**

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