2 February 2023	ITEM: 6
Corporate Overview and Scrutiny Committee	
Treasury Management Strategy 2023/24	
Wards and communities affected: All	**Key Decision:** Key
Report of: Gareth Moss, Chief Finance Officer	
Accountable Assistant Director: N/A	
Accountable Director: Gareth Moss, Chief Finance Officer	
This report is Public	

Executive Summary

The Treasury Management Strategy included in Annex 1 has been prepared in the context of the intervention initiated by the Department of Levelling Up, Housing and Communities (DLUHC) on 02 September 2022. It is presented following the issue of a Section 114 notice to Council members on 19 December 2022 which confirmed that exceptional financial support would be required by the Council in 2022/23 and 2023/24. The financial support required will enable the Council to mitigate the wider financial pressures that have arisen from the issues attached to the Council's investment strategy.

The Secretary of State's statutory directions included the requirement that Thurrock Council implements action plans to ensure that its capital, investment and treasury management strategies are sustainable and affordable, debt is strictly reduced and the MRP policy is revised.

The Treasury Management Strategy has been produced within context with a specific focus of reducing debt as part of delivering future financial sustainability. The strategy includes the capital and investment strategies and supersedes all existing strategies. The strategy is based on assumptions that are reasonable to support the current positions set out the but remain subject to significant change and so it is expected a further update to the strategy will be required during the 2023/24 financial year.

The Treasury Management Strategy is a critical component of the way the Council manages cash-flow and provides the framework for the management of borrowing and investments. The strategy also sets out the projected funding of the Council's capital plans, which is a key driver for the borrowing needs of the Council.

The intervention has led directly to focussed activity to review all commercial investments held by the Council. Key decisions have been taken in respect of specific investments which support the plans to move to a more sustainable financial footing and to also reduce debt significantly.

The projected financial outturn for 2022/23 reported to Cabinet on 14 December 2022 confirmed the need for exceptional financial support of £452m in respect of 2022/23 and £184m in respect of 2023/24. This support is expected to be in the form of a capitalisation direction and the strategy includes consideration of these balances.

The Council is considering all the levers available to repay the exceptional support required from government. It is clear that holding existing commercial investments continues to create significant financial pressures and leaves the Council exposed to significant financial risk. Hence, the divestment of investments is a priority for the Council and the strategy considers assumptions that support the reduction of debt through asset sales including property sales under the '3Rs' programme.

The Council has been exposed to a higher level of financial risk through the MRP policy that was in place which did not write down the borrowing funding the investment strategy over an appropriate period. Consequently, the MRP policy has been revised to include a full write down of the borrowing that funds the capital investment assets appropriately. While this has created significant additional financial pressures, it also ensures the Council's exposure to financial risk is reduced.

The wider investment portfolio is now under review and it is clear that most of the commercial Investments previously generating a net income stream are now being held at a net cost to the Council. This is set out in the strategy and is as a consequence of both the revised MRP policy and higher interest rates attached to the borrowing required to fund the investments.

Due to the Council's financial position, this is a holding Treasury Management Strategy and a revised strategy to be presented during 2023/24. This version includes all information known to date but there are areas that will be worked on over the coming months which will affect many of the assumptions included in the current version.

1. Recommendation(s):

1.1 That the Committee comment on the 2023/24 Treasury Management Strategy for consideration by Cabinet at their meeting on 8 February 2023.

1.2 That the Committee consider the current assumptions (set out on page 3 of the strategy) underpinning the Treasury Management Strategy and note that this will be subject to further updates in 2023/24.

1.3 That the Committee consider the strategy in the context of the directions issued by the Secretary of State for Levelling Up, Homes and

Communities and specifically the need for a strict debt reduction plan.

1.4 That the Committee note the increase in the Council's Capital Financing Requirement (CFR) in 2022/23 as a result of the expected support from DLUHC in the form of a capitalisation direction, as set out in section 3.16.

1.5 That the Committee note the divestment of investments and the sale of property assets are required to repay the Exceptional Financial Support from DLUHC and this is a key assumption supporting the strategy.

1.6 The Committee note the Council's borrowing level will exceed the CFR in 2022/23 but is planned to be managed within this from 23/24 and onwards, as set out in section 3.16.

1.7 That the Committee note the Prudential indicators included within the strategy that show commercial capital investments are generating net losses to the Council in the context of the revised MRP charges and current and projected interest rates, as set out in section 3.6.

1.8 That the borrowing strategy supporting the commercial investment portfolio will be reset alongside wider revisions to the strategy in 2023/24

2. Introduction and Background

2.1 The Treasury Management - Strategy has been produced in accordance with revised guidance contained in The Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services and the Prudential Code (The Code).

2.2 The issue of a Section 114 notice places limits on what the Council can spend with an assessment against strict criteria to support ongoing spend. All new spending and new agreements are reviewed on a case-by-case basis by formal spending review panels. This covers both revenue and capital expenditure and extends to all forms of service delivery including the Housing Revenue Account and to all Council owned entities

2.3 The Treasury Management Strategy sets out the strategic framework underpinning capital expenditure and the associated financing at the Council. The Treasury Management Strategy is a critical component of the way Thurrock Council manages cash-flow and also supports the management of investments and borrowing.

2.4 The Treasury Management Strategy sets out the Council's approach to ensuring cashflows are adequately planned to ensure the Council's capital programme and corporate investment plans are adequately funded, with cash being available when it is needed to discharge the Council's legal obligations and deliver Council services.

2.5 The strategy sets out a Treasury Management policy statement which define the policies and objectives of its treasury management activities as:

- the management of the authority'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 and the pursuit of optimum performance consistent with those risks.

- the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Authority and any financial instruments entered into manage these risks.

- the acknowledgement that effective treasury management will provide support towards achievement of its business and service objectives. Therefore, the Council is committed to the principles of achieving best value for money in treasury management, and to employing suitable, comprehensive performance measurement techniques within the context of effective risk management

3. Issues, Options and Analysis of Options

The Strategy sets out in detail sections of capital expenditure, borrowing, cash flow management, prudential indicators and the wider legal implications of the strategy. Further detail is set out below:

<u>Capital Expenditure</u>

3.1 The existing capital programme has been scaled back as part of an initial high-level review of capital activities. As part of this exercise, several projects have been put 'on hold'. Further reviews will be undertaken to determine the future of these schemes and 'a further wider review of the existing programme will be undertaken in 2023/24 New bids for capital projects have been reviewed on a case-by-case basis and proposals are part of the wider report on the agenda. There are further capital considerations set out in the strategy in respect of the exceptional financial support from DLUHC, in the form of a capitalisation direction required to support the financial position in 2022/23 and continuing in subsequent years. Table 1 below summarises the Council's capital expenditure plans and financing.

Table 1 - <u>Capital spending and funding plans</u>

	2021/22 actual	2022/23 forecast	2023/24 forecast	2024/25 forecast	2025/26 forecast	2026/27 forecast	2027/28 forecast
	£m	£m	£m	£m	£m	£m	£m
Capital Expenditure							
General Fund services	74	60	47	19	7	7	7
Council housing (HRA)	44	49	25	76	48	12	12
Total Capital Expenditure	**118**	**109**	**72**	**95**	**55**	**19**	**19**
'Projects for yield' investment	-	-	-	-	-	-	-
Total Capital Expenditure (including Investments)	**118**	**109**	**72**	**95**	**55**	**19**	**19**
Capital Financing							
External sources	17	15	26	19	5	5	5
Own resources	30	13	10	18	16	12	12
Total Financing	**47**	**28**	**36**	**37**	**21**	**17**	**17**
Net financing - Borrowing	**71**	**81**	**36**	**58**	**34**	**2**	**2**
- Net financing HRA	**13**	**36**	**12**	**55**	**32**	**-**	**-**
- Net financing GF	**58**	**45**	**24**	**3**	**2**	**2**	**1**
Net financing - Borrowing	**71**	**81**	**36**	**58**	**34**	**2**	**1**
Capitalisation Direction - GF		462	182	162	75	73	69
Total Financing Need for the Year including Capitalisation Direction	**71**	**543**	**218**	**220**	**109**	**75**	**71**

3.2 The table above confirms the total financing need and the strategy notes that a key lever to address the financing requirements of the Council is asset sales including the divestment of investments. Capital receipts generated from asset sales will be used:

- to finance any expenditure capitalised under any Capitalisation Direction granted by the Government; and

- to repay existing debt and to reduce the Capital Financing Requirement (CFR) and reducing the Minimum Revenue Provision (MRP) in subsequent years.

<u>Investments</u>

3.3 The investment strategy was largely paused strategy since Oct 2020 following changes to the regulations governing the use of Public Works Loan Board funding. Since that point there has been limited activity and the total of commercial investments is set out in the table below:

	31-Mar-22 £m	31-Dec-22 £m
Non Treasury Investments		
Non Treasury Investment (Capital):		
Service type investments	**30**	**29**
Subsidiary - Loan	23	22
Subsidiary - Equity	6	6
Loan to Third Party	1	1
Commercial type investments	**787**	**786**
Corporate Bonds	670	670
Equity	97	97
Corporate Bond - converted largely to Equity	20	19
Non Treasury Investment (Revenue):		
Commercial type investments	**234**	**232**
Pooled fund	103	103
Corporate Bonds	95	91
Other funds	31	33
Loans to Businesses	5	5
Total Investments	**1,051**	**1,047**

3.4 As noted, further rises in interest rates and hence increasing borrowing costs, combined with the revised MRP charges means these investments are no longer generating net income streams for the Council. In fact, the loss of income in relation to specific investments and the net cost of the wider remaining portfolio is driving the budget deficit identified in 2022/23 and will continue to be an issue for years to come without appropriate action. This can be seen in the table below:

Investment	14/15 £m	15/16 £m	16/17 £m	17/18 £m	18/19 £m	19/20 £m	20/21 £m	21/22 £m	22/23 £m
Gross Investment Income	(358)	(1,887)	(3,506)	(10,315)	(26,352)	(45,008)	(45,344)	(17,679)	(13,102)

3.5 As part of a wider assessment of the investment portfolio, a number of commercial investments are not considered revenue in nature and hence the associated borrowing funding these investments is not supporting the capital plans of the Council. This is not considered compliant with the requirements of the Prudential Code and further action will be considered to address this in 2023/24.

3.6 The Code requires local authorities to determine the Treasury Management Strategy and Capital Strategy and the associated Prudential Indicators on an annual basis in accordance with the requirements of the Prudential Code. The basis for the investment indicators is set out on page 44 of the strategy. The Table below summarises the indicators which, in all cases, demonstrate the ongoing financial concerns over holding the commercial investment portfolio.

	Benchmark	Performance
Gross Debt to net service expenditure	300%	938%
Commercial income to net service expenditure	5%	(74.14%)
Investment cover ratio (interest covered by investment income)	>3	0.66
Loan to value ratio	<80%	134%
Benchmark returns	5%	(8%)

3.7 The Strategy sets out the wider investments in Thurrock Regeneration Ltd (TRL) and Thurrock Regeneration Homes Ltd (TRHL). Both companies are owned by the Council and TRL delivers revenue returns through interest repayments on loans made to the companies. These loans are funded by borrowing and, consequently, returns have been significantly reduced by the increase in interest rates. The strategy confirms the wider repayment of borrowing remains linked to the sale of the property held by TRHL.

Borrowing levels

3.8 The borrowing levels set out in the report reflect the current planned capital programme in both the General Fund and the HRA. Borrowing is also required in respect of the exceptional support funding from government that relates to addressing revenue deficits arising. It is noted the associated interest costs arising from borrowing to support the capital programme will be met from the General Fund and HRA respectively

The Council is currently maintaining a fully borrowed position (excluding the capitalisation direction). This means that the capital borrowing need (the Capital Financing Requirement), has been fully funded with loan debt. This means the Council is having to use a significant percentage of the net revenue budget to meet MRP and interest costs. Thus, reducing the ability of the Council to spend on service delivery.

3.9 From September 2022 the council has agreed a planned refinancing of Local Authority temporary borrowing with PWLB borrowing. This has a maturity of one year to enable wider consideration of the borrowing strategy going forwards.

3.10 With the conversion of borrowing from temporary loans to PWLB, the council is projecting an increase in interest costs of £14m in 2022-23. If interest rates increase in line with expectations as borrowing is replaced by PWLB borrowing, then interest charges on borrowing could increase by a further £23m in 2023/24.

3.11 The capital programme will be subject to further review in 2023/24 and any revisions will need to be included fully in further updates to the strategy.

3.12 If the Council is granted exceptional financial support in the form of capitalisation direction from the Department for Levelling Up, Housing and Communities (DLUHC) as part of the recovery measures, the value of this will become part of a further increase to the capital programme and relevant elements will need to be financed from borrowing alongside an MRP charge for the entire balance. Consequently, the Council will incur interest costs and a provision for the repayment of principal (MRP). The strategy currently estimates a position for this.

3.13 There is no new capital investment activity planned and the overall level of debt for investments is projected to start reducing by 2024/25 and may happen prior to this. The expectation is that borrowing levels will be managed down in line with agreed redemption dates or sooner where the opportunity to do so is made available and can be managed in a financially sustainable way.

Capital Financing Requirement

3.14 The Capital Financing Requirement (CFR) sets out the level of borrowing required to support the planned capital activity of the Council. The report sets out the levels through to 2027/28 and confirms the level of borrowing will be within this limit throughout this period from 2023/24.

3.15 The CFR represents all unfinanced capital activity (i.e., that which cannot be funded from internal resources), regardless of its purpose. This forms a comparator for the levels of debt that the Council holds. Measures are being worked on with a view to bringing down the CFR for the Council, which is currently significant as it reflects the quantum of commercial investments the Council has purchased under the investment strategy. A key way to bring the CFR down is through the disposal of assets which also provides a funding source to repay debt. The value and timing of these receipts remains uncertain, but projections are included in the strategy to demonstrate a current assessment of the impact to the Council going forward. As plans for the sale of assets develop an updated position will be reported along with a revised strategy.

3.16 The CFR is expected to fall following asset disposals however will increase due to the capital programme but largely due to the expected capitalisation direction as set out below:

Capital Financing Requirement

	31.3.2022 actual	31.3.2023 forecast	31.3.2024 forecast	31.3.2025 forecast	31.3.2026 forecast	31.3.2027 forecast	31.3.2028 forecast
	£m	£m	£m	£m	£m	£m	£m
General Fund services	258	296	312	305	296	287	278
Council housing (HRA)	208	244	256	311	343	342	342
Loans	1	1	1	1	1	1	1
Capital investments	525	450	327	71	39	36	33
TRL Investments	25	23	23	22	21	20	19
Capitalisation Direction	0	452	612	340	390	408	424
CFR - Borrowing	**1,017**	**1,467**	**1,531**	**1,050**	**1,089**	**1,094**	**1,097**
CFR - Other Liabilities	12	12	12	12	11	11	11
TOTAL CFR	**1,029**	**1,479**	**1,542**	**1,062**	**1,101**	**1,105**	**1,108**
Reason for change							
Net financing		81	36	58	34	2	1
MRP charge		(82)	(106)	(100)	(34)	(36)	(37)
Repayment of debt		(11)	(49)	(600)	(36)	(34)	(31)
Capitalisation Direction		462	182	162	75	73	69
Annual change		**450**	**64**	**(480)**	**39**	**5**	**3**

3.17 Borrowing levels are expected to fall by using capital receipts from the disposal of asset and investments to repay back borrowing. Table below demonstrates the borrowing levels falling in line with the Capital Financing Requirement.

Borrowing Levels compared to Capital Financing Requirement:

	31.3.2022 actual	31.3.2023 forecast	31.3.2024 forecast	31.3.2025 forecast	31.3.2026 forecast	31.3.2027 forecast	31.3.2028 forecast
	£m	£m	£m	£m	£m	£m	£m
Gross Projected Debt	1,449	1,511	1,504	945	985	990	993
Capital Financing Requirement	1,017	1,467	1,531	1,050	1,089	1,094	1,097
Under/(over) Borrowing	**(432)**	**(45)**	**27**	**105**	**104**	**104**	**104**

Minimum Revenue Provision (MRP)

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

3.19 It should be noted that changes to the statutory guidance on MRP requires the Council to make a provision retrospectively for activities that were not previously provided for, which has added to the overall request for government support. This is in respect of the additional provision required to write down all capital investments over their expected useful economic lives. Previously there was no amount calculated for this provision on the basis that the investments were expected to be repaid in full. Given the wider issues with the Council's investments, a prudent approach has been taken to ensure the provision reflects the exposure to financial risk that has become clear. It is important going forward that the Council complies fully with all guidance and regulations in this area. The repayment of debt is crucial to the financial sustainability of the Council as once debt is repaid, there is no longer a need to make the provision for it.

3.20 The proposed detailed policy for MRP is included in the attached strategy under para 66-93.

Prudential Indicators

3.21 The purpose of prudential indicators (PIs) is to highlight whether the Council's capital financing and borrowing strategy is affordable, prudent and sustainable. They also provide a reference point or "dashboard" so that senior officers and Members can easily identify whether approved treasury management policies are being applied correctly in practice and take corrective action as required.

3.22 These are set out on page 44 of the strategy and show the increase in capital expenditure associated with the grant of a capitalisation direction, the balance between the debt of the authority and the CFR and the ongoing impact of finance costs on the financial position of the authority. This confirms the need for further action to reduce debt as soon as practicable.

Managing Cash Balances

3.23 The Council's policy on treasury investments is to prioritise security (safeguarding invested sums from loss) and liquidity over yield (ensuring cash is available when needed) - that is to focus on minimising risk rather than maximising returns. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). All investments to be less than 12 months, aligned with the debt reduction policy.

3.24 As at 31 December 2022 core cash and short-term (treasury) investments totalled £53m. With a current debt reduction strategy, investing for longer period is not an option for the Council as any surplus cash is only maintained for cashflow purposes only. Any excess cash balances above what is required for cashflow purposes will be applied to reducing the Council's borrowing levels.

3.25 For its cash flow generated balances, the Council will seek to utilise its own bank accounts, Money Market Funds and short-dated deposits.

Summary Considerations

3.26 The following points are noted:

a) The capital programme has been scaled back and continues to be reviewed in compliance with the requirements of the s114 notice.

b) The Council currently holds significant levels of short-term borrowing as it determines the longer-term borrowing strategy. The cost of this borrowing is no longer affordable following significant increases in interest rates and therefore needs to be reduced significantly;

c) Commercial investments are driving increased costs to the Council through the revised approach to the MRP and increased borrowing costs.

d) The updated MRP policy will be applied retrospectively, and this created a £129m of the pressure reported to Cabinet in the Q2 financial report on the 14 December 2022.

e) The Treasury Management Strategy including the Capital Strategy reflects the requirements of The Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services and the Prudential Code (The Code). These documents were updated in December 2021, and the broad focus of the changes are to ensure the capital programme, investment activity and the associated borrowing is proportionate to the financial capacity of the organisation. This strategy reflects the detailed requirements of the code and how the Council continues to manage capital, investment and borrowing activity. It is noted this strategy is based in underlying significant assumptions which are subject to change and a revision to this strategy is expected to be required during the next financial year.

4. Reasons for Recommendation

4.1 There is a statutory requirement for the Capital and Treasury Management Strategy, including the Annual Minimum Revenue Provision Statement to be ratified by Full Council. This report and appendices have been written in line with best practice and the Council's current spending plans.

5. Consultation (including Overview and Scrutiny, if applicable)

4.2 Consultation has been undertaken with the Commissioners to support the completion of the updated strategy.

6. Impact on corporate policies, priorities, performance and community impact

6.1 The issues identified in the commercial investment portfolio have driven intervention at the Authority and, subsequently, the issue of a Section 114 notice. This will fundamentally impact on how services are delivered in Thurrock and this forms part of the delivery of the wider improvement and recovery plan.

7. Implications

7.1 Financial

Implications verified by: **Jonathan Wilson**

Acting Director of Finance and s151 Officer

The financial implications are included in the main body of the report and appendix. The strategy is set in the context of the intervention ordered by the Secretary of State on 2 September 2022. The completion of the strategy addresses a specific direction to the Council and is a key document supporting the wider assessment of a path to financial sustainability.

7.2 Legal

Implications verified by: **Gina Clarke**

Corporate Governance Lawyer and Deputy Monitoring Officer

The Local Government Act 2003 provides the Council with the power to borrow and invest money for any purpose relevant to its functions and for the prudent management of its financial affairs. The Council is under a duty to determine and to keep under review how much money it can afford to borrow. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, provide that, in complying with this duty, the Council must have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities and CIPFA's Treasury Management Code of Practice.

CIPFA's Treasury Management Code of Practice requires the Council to agree a Treasury Management Strategy and investment Strategy for approval by the Full Council before the beginning of each financial year. The Council is also required to approve a Treasury Management Policy Statement.

As stated in this report, the Council is now subject to Government Directions which the Council must comply with, part of which includes ensuring that the Council's treasury management strategies are sustainable and affordable.

7.3 Diversity and Equality

Implications verified by: **Natalie Smith**

Strategic Lead – Community Development and Equalities

While there are no direct diversity implications noted in this report, it is noted that the wider intervention and requirements of the Section 114 notice will impact on the future capital plans of the Authority. These may link to wider service provision alongside revised plans for the use of existing assets and will be informed by consultation as appropriate.

7.4 **Other implications (where significant)** – i.e. Staff, Health Inequalities, Sustainability, Crime and Disorder, and Impact on Looked After Children

- Not applicable

8. Background papers used in preparing the report (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- CIPFA Prudential Code
- DLUHC's Statutory Guidance on Minimum Revenue Provision
- DLUHC's Guidance on Local Government Investments
- CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes
- Treasury Management Policy Statement
- Investment Strategy
- Treasury sector Briefings

9. Appendices to the report

- Annex 1 – Treasury Management Strategy 2023/24

Report Author:

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Financial Accountant

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TREASURY MANAGEMENT STRATEGY 2023/24

Contents

Treasury Management Strategy 2023/24

Due to the Council's financial position, a revised strategy will be brought forward during the course of the year. This version includes all information known to date, but there are areas that will be worked on over the coming months which will affect many of the assumptions included in the current version.

Main assumptions

- ***Financial support in the form of a capitalisation direction***
  Current budget deficit for 2022-23 and subsequent years assumes capitalisation direction from DLUHC. This has been assumed at the level reflected in the Medium-Term Financial Strategy (MTFS).

- ***Asset disposals and sale of capital investment – timing and sales value***
  There is uncertainty over the timing and value of asset sales and exiting investment arrangements.

- ***Impairment of investment assets***
  Work is still ongoing within this area which may have further treasury implications.

- ***Borrowing Levels***
  Borrowing included is based on levels of capitalisation direction, assumed refinancing of existing debt, capital receipts and the approved capital programme, all of which is subject to further review.

- ***Accounting Treatments***
  The information contained in this report assumes the accounting treatment for investments and some of the investment income has been correctly applied, however, this is still subject to further review.

- ***Open audit for 2020-21 statement of accounts and subsequent years***
  As these audits are still outstanding opening balances are assumed to be correct.

Introduction and Background

1. The Treasury Management Strategy is a critical component of the way Thurrock Council manages cash-flow. It also supports the management of investments and borrowing.

2. The second key function of the Treasury Management operation is the funding of the Council's capital plans, which is the key driver for the borrowing needs of the Council. This may involve arranging new or replacement loans or the **planned use of cash balances in the short-term**.

3. The Treasury Management Strategy (TMS) for 2023/24 – 2027/28 sets out the Council's approach to ensuring cashflows are adequately planned to ensure that the Council's capital programme and corporate investment plans are adequately funded, with cash being available when it is needed to discharge the Council's legal obligations and deliver Council services. Surplus monies are invested in low risk counterparties (Security), providing access to funds when required (Liquidity) before considering optimising investment return (Yield), with risk limitation being more important than return (yield).

4. Treasury risk management at the Council is conducted within the framework of CIPFA's Treasury Management Code of Practice 2021 Edition (the CIPFA Code) which requires the Council to approve a Treasury Management Strategy before the start of each financial year.

5. The Council's Treasury Management Strategy has been set in line with:

   - the Local Government Act 2003;
   - the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003, as amended;
   - Statutory Guidance on Minimum Revenue Provision issued by MHCLG (now DLUHC) 2018 (fourth edition);
   - Statutory Guidance on Local Government Investments issued by MHCLG (now DLUHC) 2018 (third edition);
   - the Prudential Code issued by CIPFA 2021 Edition;
   - the Treasury Management Code of Practice issued by CIPFA 2021 Edition.

6. The Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes: -

   (a) Treasury management investments arises from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use.

(b) **Investments for service purposes** (or service investments) are those taken or held primarily and directly for the delivery of public services (including housing, regeneration and local infrastructure) or in support of joint working with others to deliver such services. Service investments may or may not involve financial returns. Service investments will normally constitute capital expenditure under the 2003 Act. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

(c) **Investments for commercial purposes** represent those taken or held primarily for financial return and are not linked to treasury management activity or directly part of delivering services. Investments of this type will usually constitute capital expenditure under the 2003 Act. They are additional investments voluntarily taken primarily in order to generate net financial return or profit.

7. The main requirements within the 2021 edition of the Prudential Code relating to service and commercial investments include:

- emphasising that borrowing for the primary purpose of debt-for-yield investment is not permissible under the Prudential Code.

- the inclusion of proportionality as an objective of the Prudential Code and requiring an assessment to ensure risks associated with service and commercial investments are proportionate to an authority's financial capacity – i.e. that plausible losses could be absorbed in existing budgets or usable reserves without unmanageable detriment to local services.

- It is not prudent for local authorities to make any investment or spending decision that will increase the Capital Financing Requirement (CFR), and so may lead to new borrowing, unless directly and primarily related to the functions of the authority, and where any commercial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.

- An annual review should be conducted to evaluate whether commercial investments should be sold to release funds, as capital receipts to finance new capital expenditure or refinance maturing debt.

- A prudential indicator is required for the net income from commercial and service investments as a proportion of the net revenue stream.

- Create new Investment Management Practices to manage risks associated with non-treasury investments, (similar to the current Treasury Management Practices).

8. The main changes in the updated Treasury Management Code and guidance include:

- **The introduction of the Liability Benchmark as a treasury management indicator** with material differences between the liability benchmark and actual loans being explained.

- **Long-term treasury investments**, (including pooled funds), are likely to be classed as commercial investments.

- **Pooled funds** are to be included in the indicator for principal sums maturing in years beyond the initial budget year.

- Amendment to the **knowledge and skills register** for officers and members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each authority.

- **Reporting to members is to be done quarterly.** Specifically, the Chief Finance Officer (CFO) is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The CFO is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council and should be reported as part of the authority's integrated revenue, capital and balance sheet monitoring; and

- Environmental, Social and Governance (ESG) issues to be addressed within an authority's treasury management policies and practices TMPs.

9. The Capital Strategy or Annual Investment Strategy should include: -

- The authority's approach to investments for service or commercial purposes (together referred to as non-treasury investments), including defining the authority's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence.

- An assessment of affordability, prudence and 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).

- Details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed;

- Limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments).

- Requirements for independent and expert advice and scrutiny arrangements (while business cases may provide some of this material, the information contained in them will need to be periodically re-evaluated to inform the authority's overall strategy).

- State compliance with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest primarily for financial return.

10. As this TMSS deals solely with treasury management investments, the categories of service delivery and commercial investments should be addressed as part of the Capital Strategy.

Treasury Management Policy Statement

11. In setting the Treasury Management Strategy, the Treasury Management Code recommends that the Treasury Management Strategy adopts the following to define the policies and objectives of its treasury management activities:

    - The Council defines its treasury management activities as the management of the authority'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 and the pursuit of optimum performance consistent with those risks.

    - The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Authority and any financial instruments entered into manage these risks.

    - The Council acknowledges that effective treasury management will provide support towards achievement of its business and service objectives. It is therefore committed to the principles of achieving best value for money in treasury management, and to employing suitable, comprehensive performance measurement techniques within the context of effective risk management

12. Appendix 3 sets out how the Council follows the key requirements of the Code.

13. This TMS, prepared in accordance with the statutory framework and codes of practice, covers the main 5 areas:

Section 1 Capital Expenditure

- Capital strategy
- Commercial activity
- Capital Finance Requirement (CFR)
- Liability Benchmarking
- Affordability
- Minimum Revenue Provision (MRP) policy statement

Section 2 Borrowing

- Overall borrowing strategy
- Alternative Borrowing Options
- Debt reduction Strategy
- Limits on external borrowing
- Maturity structure of borrowing
- Policy on borrowing in advance of need
- Debt rescheduling
- HRA Borrowing

Section 3 Managing Cash Balances

- The current cash position and cash flow forecast
- Investment return expectations
- Council policy on investing and managing risk
- Balancing short and long term investments

Section 4 Summary of Prudential Indicators

Section 5 Legal Implications

14. The Annual Investment Strategy (AIS) provides more detail on how the Council’s surplus cash is to be invested in 2023/24 and future years. Investments that are non- treasury in nature have been on pause since 2020/21 and has been the on-going approach. Following intervention the Council will be adopting an disinvestment strategy in line with the debt reduction direction and ensure compliance to all relevant statutory guidance and best practice.

SECTION 1 – CAPITAL EXPENDITURE

CAPITAL STRATEGY

Introduction

15. This capital strategy is a refreshed report for 2023/24, giving a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

16. The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

17. These plans have been generated following Department of Levelling Up, Housing and Communities (DLUHC) intervention from 02 September 2022 and subsequently the issue of a Section 114 notice on 19 December 2022. This places strict limits on what we can spend with a strict criteria where spend can continue. There is a stop on all new spending and new agreements that will incur a cost, with proposed new spending to be reviewed on a case-by-case basis by a formal spending review panel. This covers revenue and capital expenditure.

18. As well as considering the impact of any new items, the existing programme has been scaled back as part of a high-level review of capital activities. As part of this exercise, a number of projects have been put 'on hold' meaning that the budgets and financing for these have been temporarily removed from the forecast pending a decision on whether they can be reinstated. This will be continued, in conjunction with a review of the remaining programme, in greater detail throughout the year as the position of the Council's finances and impact of proposed government support develops. Table 1 below summarises the Council's capital expenditure plans and financing, both in terms of those projects agreed previously, and those forming part of the current budget cycle. The table sets out the Council's current expectations for financing the capital expenditure. Any shortfall of resources results in a funding borrowing need.

Table 1 – Capital spending and funding plans

	2021/22 actual £m	2022/23 forecast £m	2023/24 forecast £m	2024/25 forecast £m	2025/26 forecast £m	2026/27 forecast £m	2027/28 forecast £m
Capital Expenditure							
General Fund services	74	60	47	19	7	7	7
Council housing (HRA)	44	49	25	76	48	12	12
Total Capital Expenditure	**118**	**109**	**72**	**95**	**55**	**19**	**19**
'Projects for yield' investment	-	-	-	-	-	-	-
Total Capital Expenditure (including Investments)	**118**	**109**	**72**	**95**	**55**	**19**	**19**
Capital Financing							
External sources	17	15	26	19	5	5	5
Own resources	30	13	10	18	16	12	12
Total Financing	**47**	**28**	**36**	**37**	**21**	**17**	**17**
Net financing - Borrowing	**71**	**81**	**36**	**58**	**34**	**2**	**2**
- Net financing HRA	**13**	**36**	**12**	**55**	**32**	**-**	**-**
- Net financing GF	**58**	**45**	**24**	**3**	**2**	**2**	**1**
Net financing - Borrowing	**71**	**81**	**36**	**58**	**34**	**2**	**1**
Capitalisation Direction - GF		462	182	162	75	73	69
Total Financing Need for the Year including Capitalisation Direction	**71**	**543**	**218**	**220**	**109**	**75**	**71**

19. The main General Fund capital projects include A13 Widening works, Highways Infrastructure Improvements, Leisure centre works, Purfleet and Grays redevelopment, compliance spend, service reviews, essential capital maintenance and Digital improvements.

20. The Housing Revenue Account (HRA) is a ring-fenced account includes expenditure including housing development and tower block refurbishments.

21. There are no planned capital investments – 'commercial' following an agreed pause to the investment strategy since Oct 2020 and in line with the requirements under the revised Prudential code.

22. There is an additional line to reflect the capitalisation direction to be requested from DLUHC. A capitalisation direction allows the Council to finance revenue expenditure from capital resources (including borrowing). This allows the Council to then spread the cost of this expenditure over a number of years or finance from capital receipts.

23. All capital expenditure must be financed, from either external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) which are expected to be limited or debt (borrowing) as a last resort in light of the debt reduction policy.

24. As set out the Asset Disposal Strategy, capital receipts generated from asset sales will be used:

- to finance any expenditure capitalised under any Capitalisation Direction granted by the Government; and
- to repay existing debt and to reduce the Capital Financing Requirement (CFR) and reducing the Minimum Revenue Provision (MRP) in subsequent years.

25. Associated risks are:
    - slippage in the asset disposal programme could result in the need to set aside more MRP in the short-term as receipts follow in subsequent years
    - Not realising full expected asset receipts in the face of economic downturn which will lead to a higher MRP charge in subsequent years
    - interest rates start to rise, thus increasing interest charges. This could be mitigated by fixing borrowing through the PWLB to reduce the volatility from short-term borrowing rates.

Governance

26. Service managers bid annually in September to include projects in the Council's capital programme. Funding is only committed in response to a specific need by the relevant service and is subject to finance approval. These bids have been assessed for the forthcoming year specifically to ensure priority work can be delivered. The primary aim is to ensure capital expenditure incurred is justified in the light of the need to reduce overall borrowing following the intervention by DLUHC and also to maintain service delivery meeting statutory requirements, resulting in schemes which are funded from capital grants and developers contribution. The proposed programme is then considered by Directors' Board and subsequently by Commissioners.

27. The final proposed capital programme is then collated and reported with recommendations to the Corporate Overview and Scrutiny committee and then presented to Cabinet and to Council in February each year as part of the overall budget setting process.

28. Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue that is known as the Minimum Revenue Provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance as well as proceeds from investment repayment on maturity.

Commercial activity

29. The Council has previously made a number of commercial investments, in:

- investment assets for return;
- loans to third parties;
- shareholdings, and loans to limited companies and joint ventures

30. Such investments may be treated as capital expenditure for prudential borrowing purposes even though they do not create physical assets in the Council's accounts, meeting the definition of capital expenditure as set out in Regulation 25 of the 2003 Regulations. A loan to a third party towards expenditure which would, if incurred by the authority be capital expenditure, meets the definition of capital expenditure for the Council. Appropriate budgets in respect of these activities are agreed as part of the Council's budget setting and ongoing monitoring processes and considered as part of the Annual Investment Strategy.

31. The Council has investments in the following activities which fall within the category of non-treasury investments under the CIPFA Prudential Code and capital under Regulation 25 of the 2003 Regulations:

- a substantial investment within Solar farms currently invested £655m;
- other loans to third parties totalling £34m, of which £17m converted to equity in 2022/23;
- equity capital investment of £97m in external entities; and
- investment in the form of loan capital and equity in the Council's company, Thurrock Regeneration Limited, wholly owned subsidiary, of £28m.

32. The Council has invested a further £232m, which is not assessed to be capital expenditure for prudential borrowing purposes but is deemed to be defined as non-treasury commercial investment. These investments are as follows:

- CCLA investment of £103m within the Property Fund.
- Loans and bonds not meeting the definition of capital expenditure under Regulation 25 of the 2003 Regulations for the value of £91m.
- £33m invested in external funds

Table 2 – Non treasury Investments

	31-Mar-22 £m	31-Dec-22 £m
Non Treasury Investments		
Non Treasury Investment (Capital):		
Service type investments	**30**	**29**
Subsidiary - Loan	23	22
Subsidiary - Equity	6	6
Loan to Third Party	1	1
Commercial type investments	**787**	**786**
Corporate Bonds	670	670
Equity	97	97
Corporate Bond - converted largely to Equity	20	19
Non Treasury Investment (Revenue):		
Commercial type investments	**234**	**232**
Pooled fund	103	103
Corporate Bonds	95	91
Other funds	31	33
Loans to Businesses	5	5
Total Investments	**1,051**	**1,047**

33. In Oct 2020 the Council paused the investment strategy (investment strategy detailed in paragraph 35) in response to the updated requirements associated with borrowing from the Public Works Loan Board (PWLB) which essentially meant that new commercial investments could not be funded by PWLB borrowing. Since that period there has been some movement in the overall investment balance, consisting of loan restructures, loan investment repayments at maturity and a further investment of £2.7m based on a contractual agreement.

34. All these investments are funded from borrowing. Of the total £232m of commercial revenue investments, £130.421m were **previously** classified as capital and included in the Capital Financing Requirement (CFR). The individual investments have been subject to reassessment and the CFR has **now** been restated as these items have been reclassified leading to a lower restated CFR. The consequence of a reduced CFR in comparison to borrowing levels is reviewed in para 54.

35. The Council investments in commercial assets started in 2014/15. In Oct 2017 Full Council approved an investment strategy which set out an approach aimed at the generation of additional income to close budget gaps in future years.

36. There remain ongoing concerns over the application of the strategy and the principles set out within it and this remains a key focus of the ongoing Best Value Inspection. The findings of this will be considered in due course but it is noted there are no current plans for further commercial investments.

37. Investments were made with the objective to generate additional income and prudential indicators were revised to reflect these new investments.

However, the prudential indicators fell short of having clear target levels, i.e., minimum level of return.

38. The following table summarises the level of gross income generated from the commercial investments, revenue and capital in nature.

Table 3 Commercial Investment Income

Investment	*14/15 £m*	*15/16 £m*	*16/17 £m*	*17/18 £m*	*18/19 £m*	*19/20 £m*	*20/21 £m*	*21/22 £m*	*22/23 £m*
Gross Investment Income	(358)	(1,887)	(3,506)	(10,315)	(26,352)	(45,008)	(45,344)	(17,679)	(13,102)

39. This is the gross return and as these investments were acquired through borrowing there are associated interest costs, and for capital investments there are further MRP charges arising from the revised MRP policy detailed in para 77 which have been applied retrospectively. Previously the Council has benefited from commercial investments due to very low interest rates and through an MRP policy that did not write down the investments over their useful lives. Having considered the implications of applying MRP, the position for many of these investments, changes from net income to net expenditure. Overall, applying the MRP policy retrospectively back to 2018/19 means the investments creates a net cost to the Council as set out in table 4 below:

Table 4 Commercial Investment Net Income/expenditure

Investment	*14/15 £m*	*15/16 £m*	*16/17 £m*	*17/18 £m*	*18/19 £m*	*19/20 £m*	*20/21 £m*	*21/22 £m*	*22/23 £m*
Gross Investment Income	(358)	(1,887)	(3,506)	(10,315)	(26,352)	(45,008)	(45,344)	(17,679)	(13,102)
Net (income)/expenditure from investments	(327)	(1,727)	(3,136)	(8,897)	8,895	40,611	114,207	62,037	80,912

40. The investments currently generating a positive return for the Council are commercial investments classified as revenue as there are no associated MRP charges. However, these revenue investments are subject to potential impairment charges as reported above. Notwithstanding these revenue investments were acquired through borrowing, paragraph 51 of the Prudential Code 2021 states that a Council must not borrow to invest primarily for financial return. Paragraph 53 of the Code goes onto say that Council's should not automatically exit such investments but seek to rebalance their portfolios. The Council is considering options for the divestment of assets that seeks to balance the need to address the financial situation quickly and the wider achievement of best value in its returns.

41. The Statutory Guidance on Local Government Investments in 2018 requires local authorities to develop quantitative indicators to allow Members and the

public to assess a Council's total risk exposure because of its investment decisions. This should include how investments are funded and the rate of return received. Where investment decisions are funded by borrowing the indicators used should reflect the additional debt servicing costs taken on. The Council should consider the balance between security, liquidity and yield based on their risk appetite and the contribution of any investment activity.

42. The guidance is summarised below along with the Council's current state assessment and position in respect of actions taken:

Key Issue	Asessment	Action taken
Transparency and democratic accountability - proposals should be compliant with the investment strategy	The investment strategies have lacked targets for proposals to be measured against	Draft performance benchmarks set out in Table 5 below
Contribution – the contribution that investments make toward service delivery should be disclosed	Investment Strategy does not disclose contribution gross income or net of costs including operating and capital financing costs	Detailed above
Performance indicators should be published to allow Members and the public assess the authority's risk exposure	No published performance indicator	Draft performance benchmarks set out in Table 5 below
Security – there should be a process in place for assessment of risk of loss before entering and whilst holding an investment	Due diligence has been commissioned for each investment prior to entering. The Council through the use of external advisors performs an ongoing assessment of investment loss risk during the period of investment	Continuous assessment of investment loss risk during the period of investment
Liquidity – the investment strategy should set out the procedures for accessing funds to repay capital borrowed	No exit strategy	The Council has an asset disposal strategy to realise capital receipts to reduce borrowing costs, see planned receipts under the borrowing section
Proportionality – procedures for assessing the maximum amount that the revenue budget could reasonably support in terms of income shortfalls	The Council operated on the basis of building reserve balances to act as a cushion if expected income was not to materialise. The risk assessment has failed to factor significant default rates along with significant borrowing costs and MRP charges.	The dependency on this income is demonstrated through the various performance indicators below.
Capacity, skills and culture – capacity of Members and officers to manage an	No evidence that the capacity, skills and knowledge of Members and officers to	Member training to be provided and continuous use of external advisors.

investment portfolio	manage an investment portfolio had been considered or the evidence to support such an assessment. Management performed through external advisors.	

43. Set out in Table 5 below is a range of key performance indicators recommended in the Guidance.

<u>Table 5 – Performance indicators</u>

	Benchmark	*Performance*
Gross Debt to net service expenditure	300%	938%
Commercial income to net service expenditure	5%	(74.14%)
Investment cover ratio (interest covered by investment income)	>3	0.66
Loan to value ratio	<80%	134%
Benchmark returns	5%	(8%)

44. Because the investment portfolio has been entirely acquired using borrowing:

- Investment borrowing is just below 950% of the net service expenditure, where net service expenditure is a proxy for the size and financial strength of the Council. Borrowing levels exceed acceptable levels for a Council the size of Thurrock Council.

- Investment cover ratio measures the extent to which investment income net of expenses cover interest expense. Good practice is that this should be in excess of 3 and that 2 is the minimum acceptable amount. The figure reported above is based on gross investment income and provides cover just below 1. When calculated using net income (including MRP charges) there is no cover of interest expenses. The Council's investment cover ratio is negative and significantly below the minimum acceptable amount.

- The loan to value ratio is more than the value of the assets. This is because the Council solely used borrowing to finance the acquisitions and values have fallen since acquisition. Consequently, the Council is at risk of realising losses of £266.8m from disposing of the investment portfolio at current values. The Council will account for this applying IFRS 9 to ensure that there is an impairment allowance for all investments, those classified as revenue have a 'bottom line' impact (i.e. impact on the General Fund balance).

- Rate of return on investments is negative at 8%. Overall investments are not generating additional income for the Council but are being held at a cost. Results vary at an individual investment level with investments classified as revenue generally providing a positive return. However this is expected to change for some investments with rising costs of borrowing. Notwithstanding fundamentally, borrowing primarily for financial return is not compliant with the prudential code.

45. Based on the above performance, the commercial investment is being held at a cost to the Council rather than generating a return. Therefore, the commercial investment will be included in the asset disposal programme, concurrently ensuring full compliance with the Prudential Code and contributing to reducing the Council's borrowing levels.

Table 6 Investment in Council Regeneration Companies

Company - Subsidiaries	*Share Ownership*	*Shares*	*Loans from Thurrock Council 31/03/22 £m*	*Nominal value £m*	*Net worth as at 31/03/21 £m*
Thurrock Regeneration Ltd (TRL)	Limited by shares	100%	23	6	3
Thurrock Regeneration Homes Ltd	Limited by shares	100% owned by TRL	0	0	6

46. Thurrock Regeneration Ltd (TRL) is a wholly owned subsidiary of Thurrock Council. The principle focus of the Company is to support the achievement of the Council's wide regeneration goals through the delivery of specific schemes which support the economic development of the Borough. A subsidiary company of TRL, Thurrock Regeneration Homes Ltd (TRHL), was created in May 2017 to enable the separation of the rental and housing management functions of TRL's property from the developmental ambitions of TRL.

47. Thurrock Council's investment in TRL consists of equity share capital and loan advances. The Council has generated interest income from the loan issued to TRL. This is currently a debtor balance of £7m as at 31 March 2022. Other than income credited to Thurrock Council for servicing the loan, the Council is not expected to make a substantial return as the subsidiary is primarily for delivering the Council's service objectives.

48. TRL has been repaying Thurrock Council for the loan since 2017/18 with the remaining balance being fully paid through the sale of houses which is planned to take place over the next 5 years. The loan balance with TRL has been

subject to an impairment review confirming that the carrying value of the loan is the realisable value for the Council. However, Council funding for the next TRL housing development will need to be paused considering DLUHC direction for debt reduction, consistent with other capital projects of the Council.

Capital Financing Requirement

49. The CFR measures the extent to which capital expenditure has not yet been financed from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

50. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

51. The CFR includes any other long-term liabilities (e.g., finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility by the lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £12m of such schemes within the CFR.

52. The CFR will increase over the medium term. The major contributor is the capital programme, which covers capital not financed from grants and receipts. However, where the amounts needed to finance the capital programme, even just essential operational requirements, are in excess of these repayments this leads to an annual increase in the CFR.

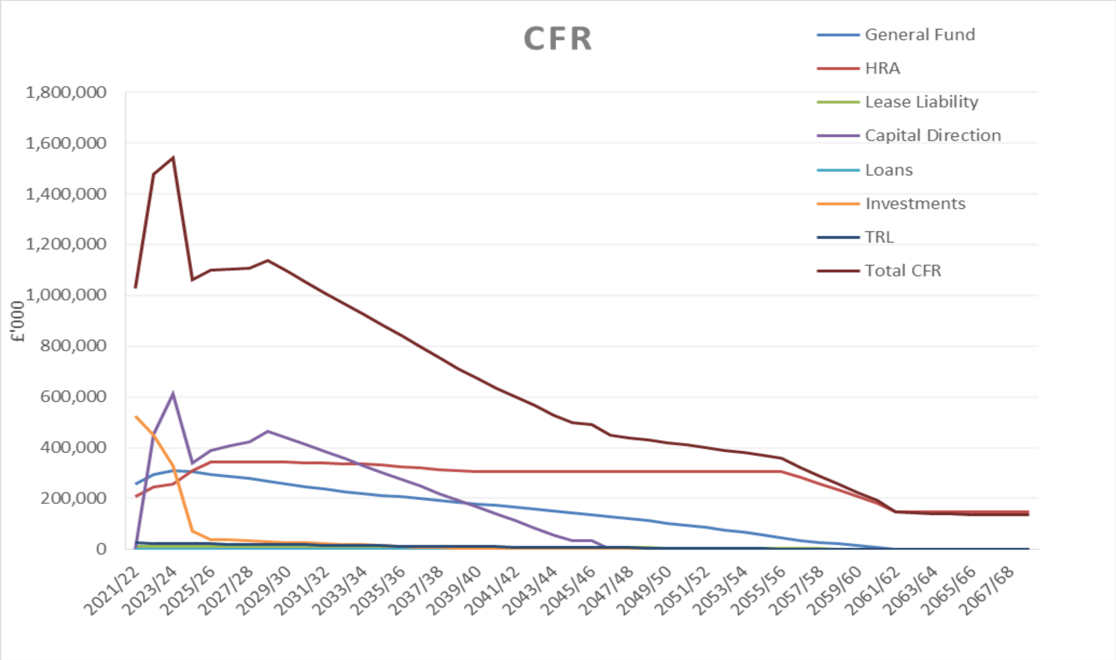
53. To fund the revenue deficit in 2022/23, and for continued support to set a balanced budget for 2023/24-2027/28, the Council is seeking a significant capitalisation direction from central government. The capitalisation direction has been added as capital expenditure. This will also result in a MRP charge in subsequent years, the MRP charge for the capitalisation direction will be spread over 20 years, adding an additional strain on the revenue budget. Also factored within the CFR calculation is the expected capital receipts from the asset disposal strategy to repay debt in line with the debt reduction strategy.

Table 7 - Capital Financing Requirement (Prudential indicator) - includes capitalisation direction

	31.3.2022 actual	31.3.2023 forecast	31.3.2024 forecast	31.3.2025 forecast	31.3.2026 forecast	31.3.2027 forecast	31.3.2028 forecast
	£m	£m	£m	£m	£m	£m	£m
General Fund services	258	296	312	305	296	287	278
Council housing (HRA)	208	244	256	311	343	342	342
Loans	1	1	1	1	1	1	1
Capital investments	525	450	327	71	39	36	33
TRL Investments	25	23	23	22	21	20	19
Capitalisation Direction	0	452	612	340	390	408	424
CFR - Borrowing	**1,017**	**1,467**	**1,531**	**1,050**	**1,089**	**1,094**	**1,097**
CFR - Other Liabilities	12	12	12	12	11	11	11
TOTAL CFR	**1,029**	**1,479**	**1,542**	**1,062**	**1,101**	**1,105**	**1,108**
Reason for change							
Net financing		81	36	58	34	2	1
MRP charge		(82)	(106)	(100)	(34)	(36)	(37)
Repayment of debt		(11)	(49)	(600)	(36)	(34)	(31)
Capitalisation Direction		462	182	162	75	73	69
Annual change		**450**	**64**	**(480)**	**39**	**5**	**3**

54. Without the exceptional support of capitalisation direction from DLUHC, with borrowing being paid in line with MRP, borrowing would have exceeded the CFR in 2021/22 and in subsequent years. Whilst it is possible that sometimes external borrowing might exceed the CFR on a temporary basis, this is very unusual and not permitted per Prudential Code, indicating that the Council would have been borrowing for a revenue or speculative purpose. Statutory guidance is that debt should remain below the capital financing requirement over the medium to long term but can be over for the short-term recognising borrowing requirements ahead of need for future capital expenditure.

Chart 1 - Capital Financing Requirement



55. With the exceptional support in the form of a capitalisation direction, the CFR is expected to increase significantly, as demonstrated in the chart above. The impact of the Capitalisation Direction is for external borrowing to remain within the CFR. This reflects that the Council has had to capitalise £452m of revenue expenditure (after applied capital receipts), which will then have to be repaid over the next 20 years or financed from capital receipts.

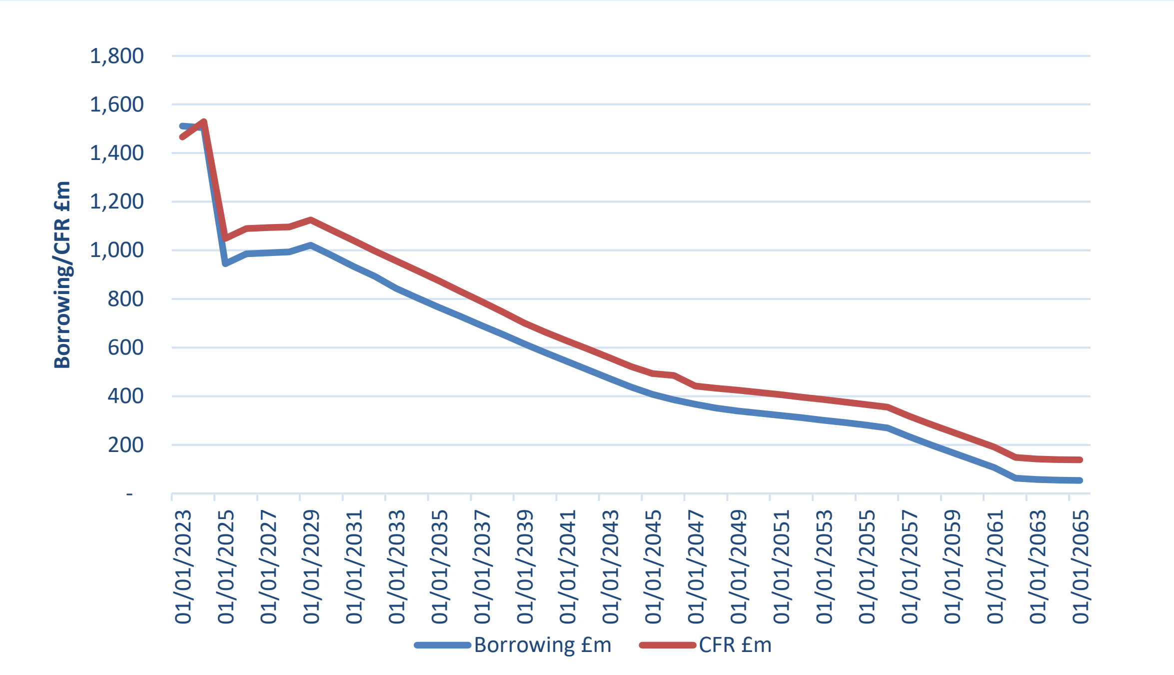
56. The capitalisation direction has been applied for the next 5 years only until the end of 2027/28. Exceptional support to the Council would need to continue beyond 2027/28, however if this continues in the form of a capitalisation direction the CFR will continue to be maintained at the same level. The Council is unable to fund the associated MRP charges resulting from the assumed capitalisation direction to 2027/28, without a further capitalisation direction to cover these costs, leading to a perpetuating capitalisation direction for the Council.

57. Following the intervention, the Council is also implementing a debt reduction strategy through asset disposals. Asset disposals, including general Council assets and investment assets, will generate capital receipts to be applied to repay external debt. Further measures include reducing the capital programme to only essential works, thus reducing the need to borrow. Asset sale proceeds as shown in table 20 have been factored into the revised CFR and projected debt levels. Gross debt is not forecasted to exceed the revised CFR in 2023/24 and in subsequent years.

Table 8 – Borrowing compared to CFR

	31.3.2022 actual	31.3.2023 forecast	31.3.2024 forecast	31.3.2025 forecast	31.3.2026 forecast	31.3.2027 forecast	31.3.2028 forecast
	£m	£m	£m	£m	£m	£m	£m
Gross Projected Debt	1,449	1,511	1,504	945	985	990	993
Capital Financing Requirement	1,017	1,467	1,531	1,050	1,089	1,094	1,097
Under/(over) Borrowing	**(432)**	**(45)**	**27**	**105**	**104**	**104**	**104**

Chart 2 Borrowing compared to CFR



Liability Benchmarking

58. A new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum. Table below has been split further between GF and HRA.

Table 9 – Liability Benchmark (Prudential indicator)

Liability Benchmark						
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m	£m
Existing Loan Debt Outstanding (A)	1,511	405	405	190	190	190
Loans CFR (B)	1,467	1,530	1,049	1,089	1,094	1,097
Net Loans Requirement (C)	1,471	1,464	905	945	950	953
Liability benchmark (Gross Loans Requirement) (D)	1,511	1,504	945	985	990	993
(Over)/Under Liability Benchmark (E=D-A)	**-**	**1,099**	**540**	**796**	**800**	**803**

59. There are four components to the LB: -

- **Existing loan debt outstanding (A):** the Council's existing loans that are still outstanding in future years. Current debt is mainly short-term due to be repaid in the year 2023-24. HRA debt levels remain unchanged over that period.

- **Loans CFR (B):** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP. The GF CFR is forecasted to fall significantly in 24/25 and then stabilise and in comparison, HRA CFR is projected to increase.

- **Net loans requirement (C):** this will show the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast (forecasted debt).

- **Liability benchmark (D)** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

Table 10 – Liability Benchmark (Prudential indicator - GF)

Liability Benchmark (GF)						
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m	£m
Existing Loan Debt Outstanding (A)	1,351	244	244	29	29	29
Loans CFR (B)	1,225	1,276	740	748	754	757
Net Loans Requirement (C)	1,311	1,291	678	686	691	695
Liability benchmark (Gross Loans Requirement) (D)	1,351	1,331	718	726	731	735
(Over)/Under Liability Benchmark (E=D-A)	**-**	**1,087**	**474**	**697**	**702**	**706**

Table 11 – Liability Benchmark (Prudential indicator - HRA)

Liability Benchmark (HRA)						
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m	£m
Existing Loan Debt Outstanding (A)	161	161	161	161	161	161
Loans CFR (B)	242	254	309	341	340	340
Net Loans Requirement (C)	161	173	228	260	259	259
Liability benchmark (Gross Loans Requirement) (D)	161	173	228	260	259	259
(Over)/Under Liability Benchmark (E=D-A)	**-**	**12**	**67**	**99**	**98**	**98**

60. The Council's debt is mainly short-term with repayment of £1,106m in 2023/24 based on the projected debt balance as at 31 March 2023. As existing loans comes to maturity, the Council is to only replace borrowing up to the loan requirement level – Liability Benchmark, with the aim of reducing debt. Capital receipts from asset sales will be applied to reduce borrowing levels. However, we have assumed special support from DLUHC will be in the form of a capitalisation direction, partially funded through increased borrowing.

Consequently, borrowing levels will not fall significantly following assets sales due to the assumed ongoing capitalisation direction.

Affordability

61. The objective of the affordability indicator is to ensure that the level of investment in capital assets proposed remains within sustainable limits and, in particular, highlight the impact of capital financing costs (i.e. MRP, investment income and interest payments) on the Council's "bottom line" i.e. General fund balance. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The estimates of financing costs include current commitments, costs of the expected capitalisation direction i.e., interest and MRP charges, and capital receipts from asset disposals applied to reduce borrowing. Table below sets out the expected ratio of capital financing costs to income:

Table 12 – Ratio of net capital financing costs to income (Prudential indicator)

Net Capital Financing Costs to income	*21/22*	*22/23*	*23/24*	*24/25*	*25/26*
HRA	29%	29%	30%	33%	30%
GF	27%	34%	52%	48%	21%

62. By way of comparison, the ratio of capital financing charges for the General Fund and HRA at other unitary authorities tends to be around 5-7% and 25-33% respectively. Therefore, whilst the HRA ratio is broadly in line of other housing authorities, the General Fund ratio is considerably more and is a major pressure on the revenue budget.

63. Expressed as a percentage of the net revenue budget capital financing charges (net of interest receivable) will be as high as 128% in 2023/24 and then start to fall following a strategy of disinvestment, as shown below. The net revenue stream is the amount funded from Council Tax, business rates and general government grants.

Table 13 – Ratio of net finance costs to net revenue streams (Prudential indicator)

Financing costs to net revenue stream	*21/22*	*22/23*	*23/24*	*24/25*	*25/26*
Net Finance costs to net revenue stream	76%	91%	128%	117%	57%

64. This is the result of the Council's capital and revenue investments since 2016/17. Finance costs are forecasted to continue to increase significantly with increased interest rates and due to the associated costs of the expected capitalisation direction i.e., interest and MRP charges.

65. The ratio of net expenditure of commercial and service investments compared to net revenue stream illustrates the degree of Council's resources absorbed within the costs of these investments, contributing significantly to the deficit position of the Council.

Table 14 – Ratio of net finance costs from Commercial and service investments to net revenue streams (Prudential indicator)

	21/22	*22/23*	*23/24*	*24/25*	*25/26*
Net Finance costs from commercial and service investments to net revenue stream	**52%**	**65%**	**81%**	**75%**	**72%**

THE MINIMUM REVENUE PROVISION POLICY STATEMENT – 2023/24

Introduction

66. Following the intervention on 02 September 2022, there are certain actions to be taken by the Council, including the need to review its minimum revenue provision (MRP) policy to ensure prudent provision is made in accordance with the associated statutory requirements and guidance and to implement a debt reduction policy.

67. The purpose of this statement is to explain how the Council intends to discharge this duty in 2023/24.

Background

68. Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 ('the 2003 Regulations') requires local authorities to 'charge to a revenue account a minimum revenue provision (MRP) for that year'. The minimum revenue provision is an annual amount required to be set aside from the General Fund to meet the capital cost of expenditure funded by borrowing or credit arrangements, that is, capital expenditure that has not been financed from grants, revenue contributions or capital receipts.

69. The calculation of MRP is covered in regulation 28 of the 2003 Regulations. From 31 March 2008, Regulation 28, as amended by Regulation 4(1) of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 ('the 2008 Regulations'), requires each authority to:

> 'determine for the current financial year an amount of minimum revenue provision which it considers to be **prudent**.'

70. In setting a prudent level of MRP local authorities must have regard to guidance issued by the Department for Levelling Up, Housing & Communities (DLUHC) (formally the Ministry of Housing, Communities and Local Government (MHCLG)). The latest version of this guidance was issued in February 2018.

71. In setting a level that the Council considers to be prudent the broad aim is to ensure that debt is repaid over a period reasonably commensurate with the period the related expenditure provides benefit to the Council.

72. The MRP is built on the following principles:

- The Council has incurred capital expenditure that it will need to fund from future years' revenue budgets.
- The Capital Financing Requirement (CFR) is the measure of how much expenditure is yet to be charged to revenue.
- The MRP policy explains how the Capital Financing Requirement will be charged to the revenue budget in future years.

73. Authorities are required to submit to a meeting of their Council an annual statement of their policy on making MRP for the forthcoming financial year.

Options for making Minimum Revenue Provision for the repayment of debt

74. The statutory guidance on MRP presents four 'options' for calculating a prudent amount of MRP. However, approaches other than the four listed in the guidance are not ruled out, provided they are consistent with the statutory duty to make a prudent provision.

Table 15 – Options for making Minimum Revenue Provision

Option	Calculation method	Applies to
Option 1 – regulatory method	Applying the statutory formula set out in the 2003 Regulations (as amended) before it was revoked by the 2008 Regulations.	Only available for capital expenditure incurred before **1 April 2008** and government supported capital expenditure incurred after this date.
Option 2 – CFR method	Multiplying the CFR at the end of the preceding financial year by 4%.	Also only available for capital expenditure incurred before **1 April 2008** and government supported capital expenditure incurred after this date.
Option 3 – asset life method	Amortising expenditure over an estimated useful life for the relevant assets created using either the equal instalment or annuity method.	Available for any capital expenditure but must be used for capital expenditure incurred on or after **1 April 2008** that does not form part of the Authority's government supported capital expenditure.
Option 4 – depreciation method	Making charges to revenue based on proper practices for depreciation as they apply to the relevant assets.	Also available for any capital expenditure but must be used for capital expenditure incurred on or after **1 April 2008** that does not form part of the Authority's government supported capital expenditure.

75. As noted in the preceding table, revenue provision under Option 3 can be calculated in one of two ways – equal instalments or annuity method. The equal

instalments method produces a profile of MRP charges of an equal amount in each year. The annuity method produces a profile of annual MRP charges that starts low but which increase in each successive year. Caution must be exercised in applying the annuity method, which is more commonly used as a method of establishing loan repayments. The statutory guidance on MRP indicates that this method may be appropriate where benefits are expected to increase in later years. It can be argued that the annuity method takes account of the time value of money.

76. The Guidance also includes specific recommendations for setting MRP in respect of revenue expenditure which is statutorily defined as capital expenditure under Regulation 25 (1) of the 2003 Regulations. MRP must be calculated in accordance with Option 3 (as set out in the previous table). The maximum periods to be applied for amortising revenue expenditure defined by Regulation as capital expenditure are as set out in the table below:

Table 16 – MRP amortisation period for capital expenditure under Regulation 25 (1) of the 2003 Regulations

Expenditure Type	MRP maximum amortisation period
Direction under s.16(2)(b) Revenue expenditure capitalised under Direction from the Secretary of State	20 years
Regulation 25 (1) (b) Loans or grants to third parties for capital purposes	Life of assets being financed by loan
Regulation 25 (1) (d) Purchase of shares in limited companies	20 years

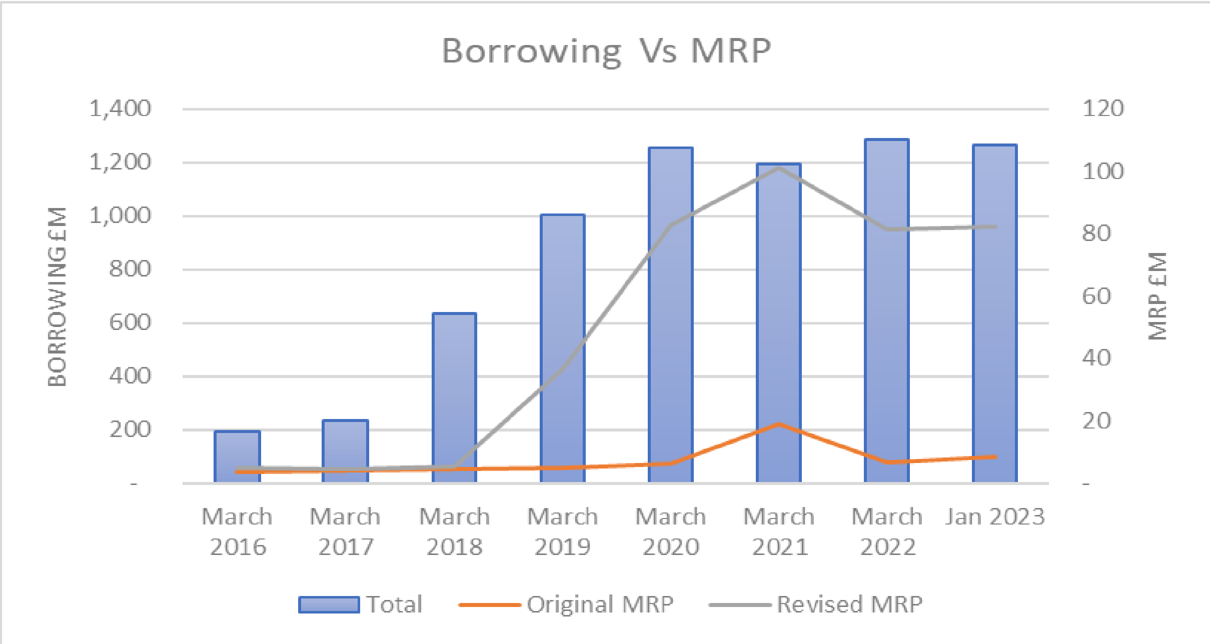
MRP Policy for 2023-24

77. In previous years, the Council has not applied MRP to its capital investments, on the basis that investments will generate future capital receipts and loan repayments that will be applied to repay borrowing. However, this has been reassessed and is inconsistent with current statutory guidance, which states that no categories of debt should be excluded from the requirement to make MRP. The policy below has been updated to ensure compliance with statutory guidance. The policy will be applied with retrospective effect, such that MRP will now be charged for each year since the investments were made. Because the accounts for 2020/21 are still open, pending conclusion of the external audit for that year, the correction for MRP related to 2020/21 and earlier years is expected to be made in that year's accounts. The revised MRP charges will also be applied in 2021/22 and 2022/23. To cover the costs of retrospective adjustments for prior years' MRP, exceptional financial support will be

requested from DLUHC to the extent that these charges cannot be covered by existing reserves.

78. The table below compares original MRP charges with borrowing levels (excluding HRA borrowing), illustrating that as the Council's borrowing levels increased, the MRP charges associated with the investments funded by the borrowing did not increase proportionally. The table also shows the revised MRP charges in line with the revised policy set out in this statement following statutory guidance, demonstrating the impact of the understatement of MRP over a number of years.

Chart 3 – MRP – Original compared to Revised



Pre-1 April 2008 debt and government supported debt

79. For all capital expenditure incurred pre-1 April 2008, and government supported debt arising on or after 1 April 2008, MRP is calculated on a 50-year 'Annuity' basis. This method has been applied as its takes account of the time value of money. This approach delivers lower MRP charges in the short term than the equal instalment method, with MRP charges increasing in future years. The appropriateness of this methodology remains under ongoing review but is compliant with current statutory guidance.

Unsupported borrowing (general)

80. For most of its future capital borrowing (debt) arising, the Council has adopted Option 3 (the asset life method). For general unsupported debt arising from 1 April 2008, and up to 31 March 2013, MRP is calculated using the equal

instalments basis over the useful life of the relevant assets estimated when the capital expenditure was incurred.

81. In the main, for any general capital debt arising from 1 April 2013, the MRP is based on the ‘useful-life’ approach using the annuity method. The discount rate used in the annuity calculation varies with the life of the assets being financed, and links to the applicable Public Works Loan Board standard new loan rate for annuity loans (and applying the certainty rate discount of 0.2%). This is a compliant approach and the annual MRP charges for each asset reflects the time value of money.

82. Under this option, the estimated useful lives of assets should not exceed 50 years.

83. MRP usually begins in the financial year following that in which the expenditure was incurred. However, the statutory guidance allows for MRP to be deferred until the financial year following the one in which the assets become operational. This will mainly cover the more significant capital and regeneration schemes. These schemes are in various stages of development and construction work spans over more than one financial year. The Council will provide MRP on debt when such projects transfer the assets into use and therefore generating benefits to the Council. MRP will be aligned with the period of benefit consumption.

Unsupported borrowing - equity

84. For unsupported borrowing covering equity capital - for example the acquisition of shares in companies, MRP is calculated based on the asset useful life method using equal instalments. The maximum amortisation period for equity stated in statutory regulations is 20 years. The Council has considered further whether this should be shorter in line with the asset useful life for each of the individual equity capital investments. All equity capital investments have an asset useful life that is or exceeds 20 years and initial intentions were to hold these investments over a longer period, therefore the 20 year period has been applied. The amortisation payback period is currently under review as the Council’s plans for holding and divesting of investments crystalise.

Unsupported borrowing - capital loans (Commercial Loans)

85. For unsupported borrowing covering loans for capital purposes, MRP is calculated usually based on the asset useful life method using equal instalments. These loans meet the definition of Regulation 25 (1) of the 2003 Regulations and are loans towards capital expenditure of third parties, meeting the Council’s own definition of capital expenditure.

86. In the case of loan capital, where the capitalised expenditure can be linked to an asset, the estimated life of that asset is the maximum MRP period. The Council has provided loans to third parties outside the geographic area of Thurrock and therefore it is not deemed that there is a relationship of benefit

consumption in line with asset life for the Council. In the case of the Council's loans the benefit consumption would be over the period that the Council is in receipt of investment returns/interest, which is effectively the loan period. MRP is calculated over the period of the loan as this is commensurate with the benefits to the Council. See table below. This amortisation period is within the maximum period defined by the statutory regulations related to the life of the underlying assets.

Table 17 – MRP amortisation period for Commercial loans

Investment	**Amortisation period - years**	**Basis for amortisation**
Solar Farms	9-10	Loan period as benefit consumption is based on investment returns.
Regeneration Housing	5	Loan period as benefit consumption is based on investment returns

Unsupported borrowing - capital loans (Non-Commercial Loans)

87. For unsupported borrowing covering loans for capital purposes that are non-commercial, MRP is calculated based on the asset useful life method using equal instalments. These loans meet the definition of Regulation 25 (1) of the 2003 Regulations and are loans towards capital expenditure of third parties or subsidiary undertaking, meeting the Council's own definition of capital expenditure.

88. In the case of loan capital, where the capitalised expenditure can be linked to an asset, the estimated life of that asset is the maximum MRP period. For the loan provided to the subsidiary undertaking, the life of the assets are 40 years with MRP starting in 2018/19, which is the following year the assets become operational. In the case of the Royal Opera House loan, the MRP charge is calculated over the period of the loan as this is commensurate with the benefits to the Council.

IFRS 9

89. Under capital accounting, IFRS 9 impairment charges (expected and actual credit losses) for capital investments, will have an overall nil impact on the Council's GF balance. The impairment charge for an asset that has a falling value, is the difference between actual/expected asset value and the original cost/carrying value. Some authorities may use expected and actual credit losses as a proxy for the annual MRP for capital investment. However, as the Council is charging MRP on its capital investments from inception over the

amortisation period, expected and actual credit losses under IFRS 9 will have a nil impact on MRP charges.

Capital Receipts

90. The Council will also apply capital receipts to reduce the CFR and thus repay its borrowing, having an impact of reducing MRP charges in future years. As part of a strategy to reduce debt, the council will use the capital receipts from the disposal of investments to repay borrowing. The Council under its asset disposal strategy is also reviewing non-investment assets for disposals to generate capital receipts to reduce borrowing levels and costs.

Housing Revenue Account (HRA)

91. The duty to make MRP does not extend to cover borrowing or credit arrangements used to finance capital expenditure on housing assets. Housing assets means any land, dwellings or other property to which Section 74(1) of the Local Government Housing Act 1989 (duty to keep a Housing Revenue Account) applies.

92. This follows the rationale that assets held in the Housing Revenue Account are self-financing. Instead, local authorities are required to make a charge to their Major Repairs Reserve, to maintain the functionality of housing assets.

Annual MRP statement

93. The options adopted above ensure compliance to the current statutory requirements. The current statutory regulations and guidance is under review by DLUHC, the policy will be required to be revised for any regulatory framework changes once confirmed. Changes are expected to come into force for the financial year beginning 01 April 2024.

SECTION 2 – BORROWING

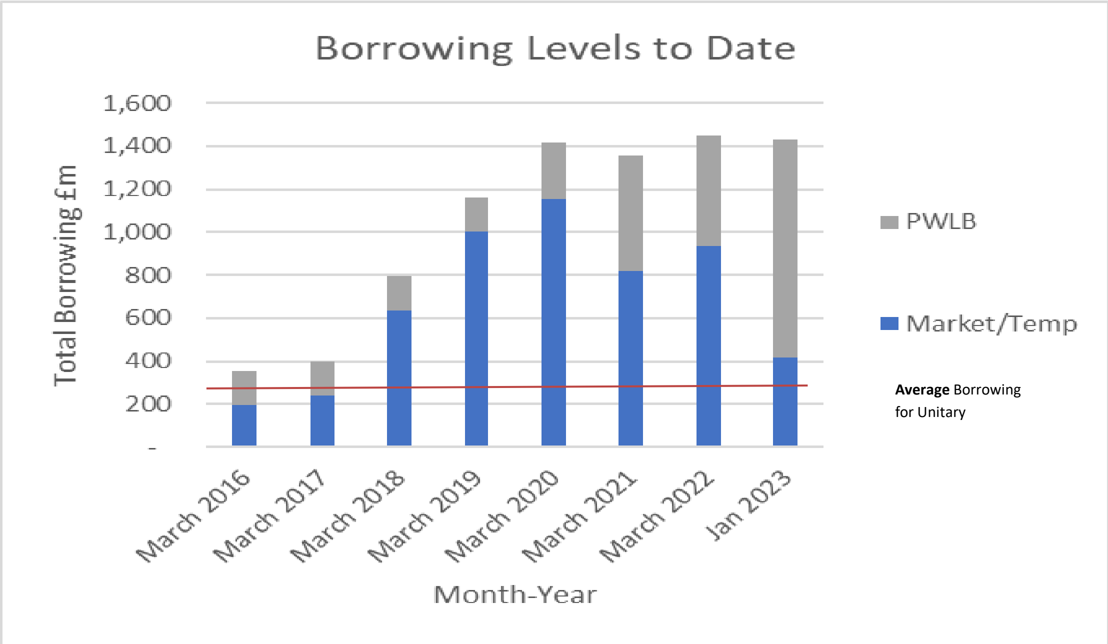
Overall borrowing strategy

94. One of the main functions of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

95. The Council's levels of borrowing and investments are calculated by reference to the current balance sheet and projected forward based on planned capital activity. The Council's key objectives when borrowing money are to balance low interest costs with cost certainty over the period for which funds are required. A further objective is to provide sufficient flexibility to review the level and type of borrowing should the Council's long-term plans change.

96. Since 2011/12 the Council's borrowing strategy has been based on the use of temporary borrowing from other local authorities to fund both the capital programme and commercial investments. The impact of this since 2016/17 is shown in the Chart below. Until December 2021, this has provided the Council with the benefit of lower interest costs compared with those available through fixing borrowing through PWLB. However, since the beginning of 2022 interest rates have been increasing exposing the Council to significant fluctuations in interest rates. The Council has been unable to continue securing temporary borrowing from other local authorities since July 2022, as the wider financial issues at the Council became known in the sector. Consequently, the Council has replaced temporary borrowing with PWLB fixed term borrowing.

Chart 4 Borrowing to date



97. The increased levels of borrowing over the years and the associated high interest costs are not sustainable and affordable for the Council, along with the significant MRP charges, reiterating the importance of the debt reduction policy. Asset sales mainly through a divestment strategy will allow the Council to use capital receipts to repay borrowing and reduce interest costs and MRP charges.

98. The previous capital strategy approved on 23 February 2022 would have seen external borrowing increase by £281.5 million over 2022/23 to 2024/25. Further capital bids have been received in 2022/23 which have been reviewed for 2023/24 following the issue of the Section 114 notice which restricts capital spend to essential projects only. The existing capital programme has been scaled back as part of a high-level review of capital activities. As part of this exercise, a number of projects have been put ‘on hold’. At this point £132m has been added to the Council’s debt for the capital programme covering the period 2023/24 to 2027/28, a significant initial reduction to the programme approved on 23 February 2022 and further reviews will be undertaken. Debt levels as at January 2023 were over four times the level which a local authority the size of Thurrock Council can reasonably sustain of £290m for general fund. The capital programme for 2023/24 to be only for essential capital works and where possible to be fully funded from sources other than external borrowing.

99. Accordingly, the key factors influencing the 2023/24 strategy are:
    - the need to reduce borrowing to a sustainable level,
    - the current economic and market environment,
    - MRP charges, and
    - interest rate forecasts.

100. The Council is currently maintaining a fully borrowed position (excluding the capitalisation direction). This means that the capital borrowing need (the Capital Financing Requirement), has been fully funded with loan debt. This means the Council is having to use a significant percentage of the net revenue budget to meet MRP and interest costs. Therefore, this is reducing the available funding to meet service delivery costs.

101. From September 2022 the council has refinanced the temporary borrowing from local authorities with PWLB borrowing for 12 months as it comes up for maturity. This is a holding position that enables the Council to consider its borrowing needs further and set a longer term strategy.

102. The Council has appointed Link Group as its treasury management advisor and part of the service is to assist the council to formulate a view on interest rates. The following table gives their view as at November 2022.

Table 18 Interest rate forecast – (includes PWLB certainty rates)

Link Group Interest Rate View	08.11.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

103. Currently rising inflation is driving interest rate rises. Inflation in November 2022 was at 10.7%, after reaching 11.1% in October 2022, the highest rate in 70 years. The Bank of England is forecasting inflation to fall back to the 2% target sustainability in the medium term.

104. The Bank of England Monetary Policy Committee (MPC) increased base rate from 3.0% to 3.5% on 14 December 2022 in response to help to bring inflation back to the 2% target sustainability in the medium term (2-3 years) and to reduce the risks of a more extended and costly tightening later.

105. With the conversion of borrowing from temporary loans to PWLB, the council is expected an increase in interest costs of £14m in 2022-23. If interest rates increase in line with expectations and borrowing converting to PWLB borrowing, then interest charges on borrowing could increase by a further £23m in 2023/24. This makes it critical that assets are disposed of promptly through the asset disposal strategy to avoid the need to consider fixing interest rates by taking out fixed term loan debt for a significant element of the total debt. The application for capitalisation direction and exceptional support brings considerable uncertainty. To manage ongoing revenue budget pressures a capitalisation direction has been sought in 2022/23 and will be required in

subsequent years. This will create the need for some additional borrowing as the Council considers a path to financial sustainability.

Alternative Borrowing Options

106. Given that the Council is having to seek substantial exceptional support from central government in order to balance the budget lawfully, the Council has limited alternative borrowing options as it is not currently an attractive investment option for wider lenders. Therefore, the primary source of borrowing will remain with PWLB.

Debt Reduction Strategy

107. In view of the unsustainably high level of borrowing highlighted in Chart 2, the strategy will be to use capital receipts from the asset disposal programme to repay borrowing. The loan portfolio as at 31 March 2023 is forecast to be £1,511m. The target is to reduce borrowing over the medium term to the level of debt associated with the capital programme for the general fund and the HRA. The Council intends to set a target level for borrowing as there is more certainty over its financial position.

Table 19 Current Borrowing

Source of Loan	*31/03/2022 £m*	*31/03/2023 £m*
PWLB Borrowing	511	1,260
Market loans	101	56
Temporary Borrowing	837	196
Total	*1,449*	*1,511*

108. The target receipts from asset sales over the next six years under the asset disposal programme are set out below, which will substantially reduce the Council's borrowing levels.

Table 20 Targeted Receipts from asset sales

Target Assets sales	*Capital Investments Receipts*	*Revenue Investments Receipts*	*Other asset sales*	*Total*
	£m	*£m*	*£m*	*£m*
2022/23	1	6	10	16
2023/24	19	70	30	120
2024/25	570	78	30	678
2025/26	6	-	30	36
2026/27	4	-	30	34
2027/28	2	-	30	32
2028/29	-	-	-	-
2029/30	-	-	-	-
2030/31	-	5	-	5
2031/32 - 2039/40	-	10	-	10
Total	*602*	*169*	*160*	*931*

109. Due to the lack of availability of borrowing from the local authority market, the Council's debt is currently expected to be funded entirely from PWLB within 2 years with the exception of £29m of existing market loans. PWLB funding will be fixed for a short-term period in line with target asset receipts to enable a further update to the borrowing strategy to be developed.

110. A debt reduction strategy will be based on the use of capital and revenue receipts to repay borrowing. This will save the Council interest and bring overall borrowing down. The wider concern is there is not yet a clear path to financial sustainability as there is a projected ongoing need for exceptional financial support which, until resolved, will increase the level of debt in future years.

Limits on external borrowing

111. The Prudential Code requires the Council to set two limits on its total external debt, as set out in Table 21 below. Borrowing limits for 2021/22 and 2022/23 are as previously set within the 2022/23 Capital Strategy.

Table 21 Borrowing limits (Prudential Indicators)

Borrowing Limits	2021/22 Actual	2022/23 Forecast	2023/24 limit	2024/25 limit	2025/26 limit	2026/27 limit	2027/28 limit
	£m	£m	£m	£m	£m	£m	£m
Authorised limit – borrowing	1,570	1,634	1,728	1,199	1,242	1,247	1,251
Authorised limit – PFI and leases	-		13	13	12	12	12
Authorised limit – total external debt	**1,570**	**1,634**	**1,740**	**1,211**	**1,254**	**1,259**	**1,262**
Operational boundary – borrowing	1,470	1,534	1,571	1,090	1,129	1,134	1,137
Operational boundary – PFI and leases	-	-	12	11	11	11	11
Operational boundary – total external debt	**1,470**	**1,534**	**1,582**	**1,101**	**1,140**	**1,145**	**1,148**
Gross Projected Debt	**1,449**	**1,511**	**1,504**	**945**	**985**	**990**	**993**

112. **Authorised Limit for External Debt (Prudential Indicator)** - The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. This is the limit prescribed by section 3(1) of the Local Government Act 2003 representing the maximum level of borrowing which the Council may incur. It reflects the level of external debt which, while not desired, could be afforded in the short term, but may not be sustainable in the longer term. The boundary is based on the Operational Boundary plus a tolerance of 10% where there is headroom.

113. **Operational Boundary (Prudential Indicator)** - This is the limit which external debt is not normally expected to exceed. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit. This has been set at the level of the CFR forecast plus a tolerance for working capital (cash) requirement.

114. Limits have increased, compared to 2021/22 due to the inclusion of the projected capitalisation direction which is being sought from the DLUHC. In the absence of factoring the capitalisation direction, limits for the current year would have been breached, as highlighted in the report above. Following the approval of the pending capitalisation direction, the Acting Director of Finance and s151 officer reports that the Council will have complied with these prudential

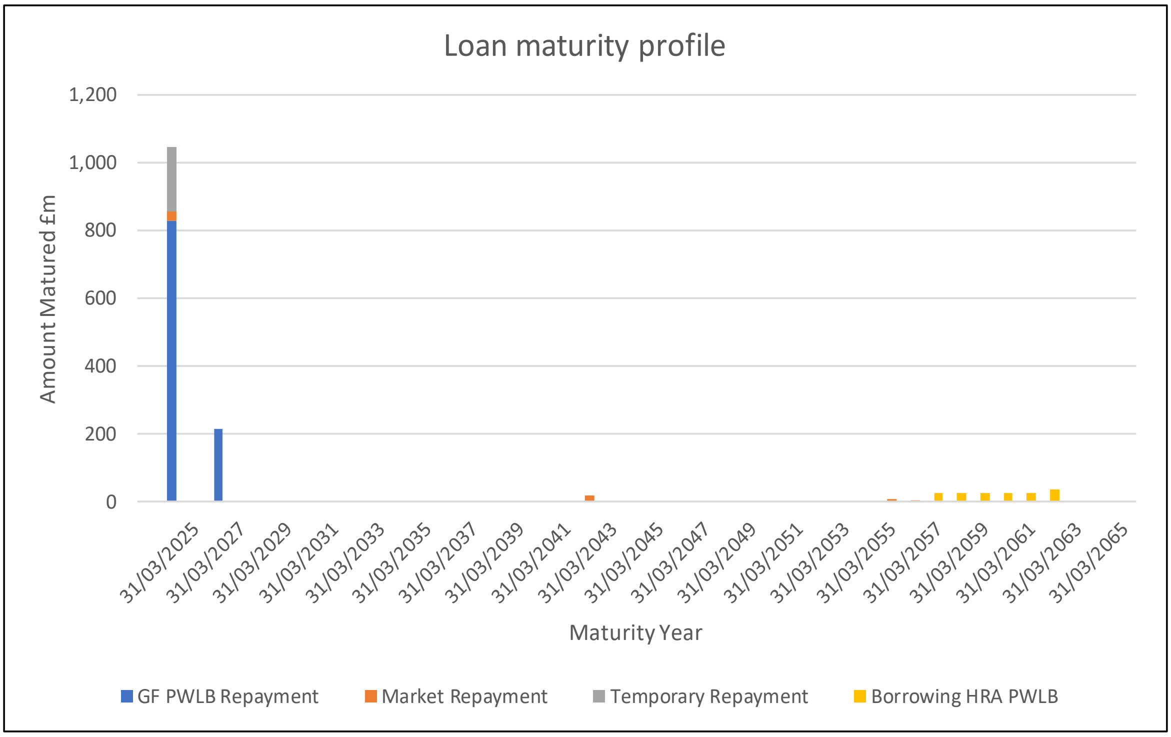
indicators in the current year. This view takes into account current commitments, existing plans, and the proposals in this report. Any changes will be reflected within the revised treasury management strategy to be presented in 2023/24.

Maturity structure of borrowing (Prudential Indicator)

115. Managing the maturity profile of debt is essential for reducing the Council's exposure to large fixed rate sums falling due for refinancing within a short period, and thus potentially exposing the Council to additional cost. However this is the approach the Council has adopted following the intervention since September 2022 as financial recovery plans are formed.

116. With limited access to inter authority loans and other money market borrowing, borrowing is replaced with PWLB for a period no more than 12 months as it comes up to maturity in 2022-23. The Secretary of State's statutory direction include that Thurrock Council implements action plans to ensure that its Capital, investment and treasury management strategies are sustainable and affordable and debt is strictly reduced. With PWLB debt being no more than 12 months will ensure that there is no build of cash balances unnecessarily which would be attracting high borrowing rates and will ensure that repayment will be manageable.

<u>Chart 5 Borrowing to date</u>



117. Table below sets out current upper and lower limits for debt. This indicator is set to control the Authority's exposure to refinancing risk. The principal repayment profile for current council borrowing remains within these limits.

Table 22 Debt maturity profile limits (Prudential indicator)

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	100%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	50%	0%
10 years and within 40 years	50%	0%
Over 40 years	50%	0%

118. Table 23 below sets out the upper limits for interest rate exposures.

Table 23 Interest rate exposures

	2022/23 Upper	2023/24 Upper	2024/25 Upper
Limit on fixed interest rates based on net debt	100%	100%	100%
Limit on variable interest rates based on net debt	70%	60%	50%

119. The current base rate stands at 3.5% and it is estimated that there will be further increases in the base rate during 2023/2024 and then will start to fall in 2024/25. For inter-authority borrowing, current rates are lower than the PWLB 12 month rate. With the Council having limited access to this option, a review of PWLB rates shows that at the shorter end and at the longer term the rates are consistent at around 4.4%-4.5% (PWLB certainty rate – 27/01/23).

120. With an expected rise in long and short term rates during 23/24 and then falling in 2024/25, the balance of the loan portfolio as short term PWLB loans is to be maintained and to be reviewed as forecasted interest rates begin to fall at the end of 2023/24.

Policy on borrowing in advance of need

121. The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Also borrowing for future needs will only be possible if there is sufficient headroom within the authorised limit for external borrowing. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will

be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. There are no plans to borrow in advance of need while the Council reduces its overall borrowing over the next 20 years, unless this is required temporarily for cashflow purposes.

122. Following the changes to the PWLBs lending terms, effective from 26 November 2020, the PWLB will no longer lend to local authorities that plan to buy commercial assets primarily for yield. The Council will only include in its capital programme capital expenditure on projects and schemes that have characteristics consistent with the PWLB's lending criteria.

Debt rescheduling

123. There may be opportunities to generate savings by debt restructuring. However, these savings will need to be considered in the light of the current treasury position and the cost of debt repayment (premiums incurred).

124. The reasons for any rescheduling to take place will include:

- generating cash savings and/or discounted cash flow savings;
  - helping to fulfil the treasury strategy; and
  - enhancing the balance of the portfolio by amending the maturity profile and/or the balance of volatility.

125. The Council has £29 million of loans which are LOBO loans (Lenders Option Borrowers Option) where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. All of these loans, excluding one with Barclays, could now be amended at the request of the lender only and there remains an element of refinancing risk. Officers will continue to monitor any developments in this area.

126. Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a large difference between premature redemption rates and new borrowing rates.

127. Should it make economic sense to proceed with a debt rescheduling opportunity it will be reported to Cabinet and Full Council at the earliest meeting following its action.

HRA Borrowing

128. On 1 April 2012, the Council notionally split each of its existing long-term loans into General Fund and Housing Revenue Account (HRA) pools. New long-term loans will be assigned in their entirety to one pool or the other. Interest payable and other costs and income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged or credited to the respective

revenue account. The Council will credit interest to the HRA based on the average balances of its reserves and revenue account balance at the average 7 day SONIA rate for the year.

129. The Council continues to undertake new housing related schemes utilising borrowing and the abolition of the cap on housing debt has increased the funding flexibility available to the Council to deliver its investment in both existing housing stock and new housing schemes.

SECTION 3 – MANAGING CASH BALANCES

The current cash position and cash flow forecast

130. The Council's policy on treasury investments is to prioritise security (safeguarding invested sums from loss) and liquidity over yield (ensuring cash is available when needed) - that is to focus on minimising risk rather than maximising returns. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). All investments to be less than 12 months, aligned with the debt reduction policy.

Investment return expectations

131. The current forecast above includes a forecast for Bank Rate to reach 4.5% in Q2 2023.

132. As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

133. Core cash and short-term (treasury) investments to be maintained at £40m. Treasury officers will work closely with the Corporate Finance team to monitor slippage within the capital programme and income through the Collection Fund, which will impact on cashflow levels. With a current debt reduction strategy, investing for longer period is not an option for the Council as any surplus cash is only maintained for cashflow purposes only. Any excess cash balances above what is required for cashflow purposes will be applied to reducing the Council's borrowing levels.

134. For its cash flow generated balances, the Council will seek to utilise its own bank accounts, Money Market Funds and short-dated deposits, (overnight to 100 days), in order to benefit from interest receivable.

135. Money market fund (MMFs) yields remain low currently and are not expected to rise substantially.

136. Where the Council holds excess funds, they may be invested with any of the counterparties detailed in Appendix 2. The balance is expected to meet only essential requirements at any specific time.

137. This section covers treasury management investments. Non-treasury investments have been covered above under the capital section.

Council policy on investing and managing risk

138. The aim is to manage risk and reduce the impact of any adverse movement in interest rates on the one hand but, at the same time, not setting the limits to be so restrictive that they impair opportunities to reduce costs or improve performance. The overarching principle to manage security first, followed by liquidity and finally yield.

Balancing short and long-term investments

139. With the current financial standing of the Council non-specified investment limits has been set to be £nil for treasury management. The current investment portfolio for non-treasury investments which stands at £1,047m consists of non-specified investments. The Council proposes to follow a strategy of no further investment subject to current contractual obligations with a view of disinvestment where appropriate.

SECTION 4 - SUMMARY OF PRUDENTIAL INDICATORS (PIs)

140. The purpose of prudential indicators (PIs) is to highlight whether the Council's capital financing and borrowing strategy is affordable, prudent and sustainable. They also provide a reference point or "dashboard" so that senior officers and Members can:

- easily identify whether approved treasury management policies are being applied correctly in practice and,
- take corrective action as required.

141. As the Council's S151 officer, the Director of Finance has a responsibility to ensure that appropriate PIs are set and monitored and that any breaches are reported to Members.

142. The Director of Finance has confirmed that the PIs set out below are all expected to be complied with in 2022/23 with the exception of borrowing exceeding CFR, which was reported in prior year. Amendments to the strategy including PIs will be reported throughout 2023/24 if necessary to ensure compliance with proposed indicators for 2023/24-2025/26.

Table 24 Summary of Prudential Indicators

	31.3.2022 actual	31.3.2023 forecast	31.3.2024 forecast	31.3.2025 forecast	31.3.2026 forecast	31.3.2027 forecast	31.3.2028 forecast
	£m	£m	£m	£m	£m	£m	£m
Capital expenditure	71	81	36	58	34	2	1
Capital expenditure including Capitalisation Direction	71	543	218	220	109	75	71
Capital financing requirement	1,029	1,479	1,542	1,062	1,101	1,105	1,108
Net debt vs CFR under(over) borrowed	(432)	(45)	27	105	104	104	104
Liability Benchmarking		1,511	1,504	945	985	990	993
Ratio of net financing costs to income - HRA	29%	29%	30%	33%	30%		
Ratio of net financing costs to income - GF	27%	34%	52%	48%	21%		
Net Finance costs to net revenue stream	76%	91%	128%	117%	57%		
Net Finance costs from commercial and service investments to net revenue stream	52%	65%	81%	75%	72%		
Authorised limit for external debt	1,570	1,634	1,740	1,211	1,254	1,259	1,262
Operational debt boundary	1,470	1,534	1,582	1,101	1,140	1,145	1,148
Limit on surplus funds held for more than 364 days for treasury investments (i.e. non-specified investments)	-	-	-	-	-	-	-
Limit on surplus funds held for more than 364 days for non-treasury investments (i.e. non-specified investments)		1,047	1,047				
Maturity Structure of borrowing							
Upper limit under 12 months		100%	100%	100%	100%	100%	100%
Upper limit 10 years to 40 year		50%	50%	50%	50%	50%	50%
Upper limit 40 years or more		50%	50%	50%	50%	50%	50%

SECTION 5 - LEGAL IMPLICATIONS

143. The Local Government Act 2003 provides that a local authority has the power both to borrow and invest money for any purpose relevant to its functions and for the prudent management of its financial affairs. The Act requires the Council to determine and to keep under review how much money it can afford to borrow. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended, provide that, in complying with this duty, the Council must have regard to the Prudential Code for Capital Finance in Local Authorities published by CIPFA. The Council is also required to have regard to the CIPFA Treasury Management Code of Practice.

144. The CIPFA Treasury Management Code of Practice 2021 and the Secretary of State's Investment Code both require the Section 151 officer (Director of Finance) to present an Annual Treasury Management Strategy Statement, which includes an Annual Investment Strategy, for the forthcoming year for approval by the Full Council before the beginning of each financial year.

145. The CIPFA Prudential Code for Capital Finance in Local Authorities sets out various indicators that are to be used to support capital expenditure plans and treasury management decisions. The prudential and treasury indicators have to be set by the Full Council when the budget is set and are monitored during the year. The prudential indicators are included in section above of this report.

146. The Council is also required to approve a Treasury Management Policy Statement setting out the overarching framework for treasury management services within the Council. This statement is set out in Appendix 3.

APPENDICES

1 ANNUAL INVESTMENT STRATEGY

2 APPROVED COUNTERPARTY LIST

3 CIPFA TREASURY MANAGEMENT CODE

4 POLICY ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CONSIDERATIONS

APPENDIX 1
ANNUAL INVESTMENT STRATEGY

Investment policy

The Authority's investment policy deals with investments in financial instruments held for treasury management purposes and is set with regard to the requirements of:

- DLUHC's Guidance on Local Government Investments ('DLUHC's Investment Guidance'), and
- CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes 2021 Edition ('the Treasury Management Code').
- CIPFA's Treasury Management Guidance Notes 2021

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Authority will aim to achieve the optimum return on its investments (yield) commensurate with the proper levels of security and liquidity and with regard to the Authority's risk appetite.

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider "laddering" investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

The above guidance from MHCLG and CIPFA places a high priority on the management of risk. This Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

i. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

ii. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "**credit default swaps**" and overlay that information on top of the credit ratings where applicable. This may mean that institutions fall out of, or can be added to, the approved counterparty list. Should this list need to be revised approval will be obtained from Full Council.

iii. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 2 under the categories of 'specified' and 'non-specified' investments.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.

- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

iv. **Lending limits**, (amounts and maturity), for each counterparty will be set Appendix below.

v. **Transaction limits** are set for each type of investment in Appendix 2.

vi. This authority has engaged **external consultants**, (Appendix 3), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

vii. All investments will be denominated in **sterling**.

viii. As a result of the change in accounting standards for 2022/23 under IFRS 9, this Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. When IFRS9 was introduced, Government provided a statutory override to avoid unrealised gains and losses on financial instruments impacting the General Fund balance, but this override was due to end 31 March 2023. Therefore, any balance on the Pooled Instruments Adjustment Account would have to be charged to the General Fund on 1 April 2023. This would have had an implication for whether to continue holding the CCLA funds. However, this statutory override has now been extended to March 2025.

However, this authority will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

Creditworthiness Policy

The primary principle governing the Council's investment criteria is the security of its investments followed by liquidity, although the yield or return on the investment is also a key consideration.

After this main principle, the Council will ensure that:

- it maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security and monitoring their security. This is set out in the specified and non-specified investment sections below; and

- it has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Director of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to those which determine which types of investment instrument are either specified or non-specified as they provide an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by the Council's treasury advisors, Link Group, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur, and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty at the minimum Authority criteria will be suspended from use, with all others being reviewed in light of market conditions.

The Council considers the following relevant matters when proposing counterparties:

- the financial position and jurisdiction of the institution;
- the market pricing of credit default swaps for the institution;
- any implicit or explicit Government support for the institution; and
- Standard & Poor's, Moody's and Fitch's short and long term credit ratings.

Creditworthiness - When setting minimum sovereign debt ratings, Council will not set a minimum rating for the UK.

Changes to the credit rating will be monitored and, in the event, that a counterparty is downgraded and does not meet the minimum criteria specified in Appendix 2, the following action will be taken immediately:

- no new investments will be made;
- existing investments will be recalled if there are no penalties; and
- full consideration will be given to recall or sale of existing investments if this is possible.

Specified and Non-specified investments

The DLUHC's Guidance on Local Government Investments made under section 15(1) of the Local Government Act 2003, places restrictions on local authorities around the use of specified and non-specified investments.

A specified investment is defined as an investment which satisfies all of the conditions below:

- the investment and any associated cash flows are denominated in sterling;
- the investment has a maximum maturity of one year;
- the investment is not defined as capital expenditure; and
- the investment is made with a body or in an investment scheme of high credit quality; or with the UK Government, a UK Local Authority or parish/community council.

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes.

These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with: -

- The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
- Supranational Bonds of less than one year's duration.
- A Local Authority, Housing Association, Parish Council or Community Council.
- Pooled investment vehicles (such as Money Market Funds) that have been awarded a high credit rating by a credit rating agency e.g., Standard and Poor's, Moody's and/or Fitch rating agencies.
- A body that is considered of a high credit quality (such as a bank or building society. This category covers bodies with a minimum Short-Term rating of BBB- (or the equivalent) as rated by Standard and Poor's, Moody's and Fitch rating agencies.

In accordance with the Code, the Authority has set out additional criteria to limit the time and the amount of monies which will be invested in these bodies.

Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. This is nil for treasury management investment. For non-treasury investments limits are based on the current holding of £1.047m. The Council proposes to follow a strategy of no further investment subject to current contractual obligations with a view of disinvestment where appropriate.

Country of Domicile

Investments to be restricted to UK counterparties.

Schedule of investments

The criteria for providing a pool of high quality short, medium and long-term, cash-based investment counterparties along with the time and monetary limits for institutions on the Council's counterparty list are set out in Appendix 2.

Other considerations

To ensure sufficient liquidity, detailed cashflow forecasts will be kept by the Treasury team to provide as accurate a picture as possible of the movement and timing of income and expenditure and the resulting daily cash balances.

When considering placing investments or temporary borrowing, officers will refer to the cashflow forecast to determine the best duration for the transaction.

Under the Markets in Financial Derivatives II Directive (MiFID II), the Council opted up to professional status in 2017.

APPENDIX 2
Approved counterparty list

	Minimum credit criteria			Max % of total investments/ £ limit per institution	Max. maturity period
Specified Investments**	**Fitch**	**Moodys**	**S&P**		
Money market funds: CNAV and VNVAV	AAA	Aaa	AAA	£20m	Daily Liquidity
Local authorities/DMO	N/A	N/A	N/A	£5m	Up to 1 year
RBS Bank plc (the Council's bankers)	A+	A1	A	£40m	Overnight deposits
Term deposits with banks and building societies*	A+	A1	A	£5m	Up to 12 months
Overnight deposits with banks and building societies*	A+	A1	A	£20m	Overnight deposits
Other Funds - CCLA Diversified Fund	N/A	N/A	N/A	£1m	On call - 28 days notice
Non-specified Investments - non treasury	**N/A**				

* Non rated Building Societies will be considered only if they have assets in excess of £5bn

** No more than £20m will be invested with any one counterparty other than the Council's Bank

APPENDIX 3
CIPFA TREASURY MANAGEMENT CODE

i. The Council has formally adopted CIPFA's Code of Practice on Treasury Management 2021 and complies with the requirements of the Code as detailed in this Appendix. There are no changes to the requirements formally adopted in the 2017 update with regard to reporting which are summarised below:

- Maintaining a Treasury Management Policy Statement setting out the policies and objectives of the Council's treasury management activities.

- Maintaining a statement of Treasury Management Practices that sets out the manner in which the Council will seek to achieve these policies and objectives.

- Presenting the Full Council with an annual TMSS statement, including an annual investment strategy and Minimum Revenue Provision policy for the year ahead (this report) a half year review report and an annual report (stewardship report) covering compliance during the previous year.

- A statement of delegation for treasury management functions and for the execution and administration of statement treasury management decisions. (see below)

- Delegation of the role of scrutiny of treasury management activities and reports to a specific named body. At Thurrock Council this role is undertaken by the Strategic Investment Advisory Panel which will be reporting to Cabinet.

Treasury Management Practices (TMPs)

ii. The Council is currently updating its TMPs and these will be presented to Full Council for approval during 2023/24. The current practices have been included in this revised Treasury Management Strategy.

Knowledge and Skills

iii. The Council uses the knowledge and skills of its officers when considering treasury investment and borrowing decisions and where necessary it also relies on the expert knowledge of specialist external advisors.

iv. Finance staff are professionally qualified to advise the Council on all areas of finance. Included within the team is an officer with specialist knowledge of treasury management. All finance staff undertake Continuous Professional Development and maintain knowledge and skills through regular technical updates from appropriate bodies and attending specialist courses. Staff follow the Treasury Management Practices approved by Full Council. The complexity of the investment portfolio requires reliance on expert advisors where there is shortfall of knowledge and skills within the finance team. The training needs of treasury management officers are periodically reviewed.

v. Training for Members on treasury management is being developed and will be open to all Members to assist in their understanding of the treasury management strategy.

Treasury management consultants

The Council uses Link Group (Link Treasury Services Ltd) as its external treasury management advisors. They provide a range of services to the Council including:

- technical support on treasury matters and capital finance issues
- economic and interest rate analysis
- debt services including advice on the timing of borrowing
- debt rescheduling advice
- generic investment advice on interest rates, timing and investment instruments
- credit ratings and creditworthiness information.

vi. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

vii. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

viii. The scope of investments within the Council’s operations now includes both conventional treasury investments, (the placing of residual cash from the Council’s functions), and more commercial type investments, such as investment in energy renewables. The commercial type investments require specialist advisers, and the Council uses Camdor in relation to this activity.

Treasury Management Delegations and Responsibilities

ix. The respective roles of the Council, Strategic Investment Advisory Panel and Section 151 officer are summarised below. Further details are set out in the Treasury Management Practices.

(i) **Full Council**

- Approval of annual strategy, mid-year review and Annual Report

- Approval of amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practice;

- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following (TM Code): -

    - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;

    - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;

    - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;

    - Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;

    - Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury

(ii) **Strategic Investment Advisory Panel with responsibility for scrutiny**

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

(iii) **The S151 (responsible) officer and Director of Finance**

- budget consideration and approval;

- approval of the division of responsibilities;

- receiving and reviewing regular monitoring reports and acting on recommendations;

- approving the selection of external service providers and agreeing terms of appointment.

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;

- submitting regular treasury management policy reports;

- submitting budgets and budget variations;

- receiving and reviewing management information reports;

- reviewing the performance of the treasury management function;

- 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.

- preparation of a Capital Strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe

- ensuring that the Capital Strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money

- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the Council

- ensure that the Council has appropriate legal powers to undertake expenditure on non-financial assets and their financing

- ensuring the proportionality of all investments so that the Council does not undertake a level of investing which exposes the Council to an excessive level of risk compared to its financial resources

- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities

- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees

- ensuring that members are adequately informed and understand the risk exposures taken on by the Council

- ensuring that the Council has adequate expertise, either in house or externally provided, to carry out the above

APPENDIX 4 - Policy on Environmental, Social and Governance (ESG) considerations

The Councils Treasury Management Strategy should set out its policy and practices relating to environmental, social and governance (ESG) investment considerations. This is a developing area, and it is not implied that the organisation's ESG policy will currently include ESG scoring or other real-time ESG criteria at individual investment level.

Typical ESG considerations are shown below, which are examples of factors that are considered by Credit Rating Agencies, such as Fitch, Moody's and Standard & Poor's when assigning credit ratings to counterparties:

- Environmental: Emissions and air quality, energy and waste management, waste and hazardous material, exposure to environmental impact.
- Social: Human rights, community relations, customer welfare, labour relations, employee wellbeing, exposure to social impacts.
- Governance: Management structure, governance structure, group structure, financial transparency.

This Council is supportive of ESG factors and will seek to incorporate these into the decision-making process for investments. Within this, the Council acknowledges the Statement on ESG in Credit Risk and Ratings which commits signatories to incorporating ESG into credit ratings and analysis in a systemic and transparent way. The Council currently uses ratings from Fitch, Moody's and Standard & Poor's to support its assessment of suitable counterparties.

The Council will continue to evaluate additional ESG-related metrics and assessment processes that it could incorporate into its investment process and will update accordingly.