Annex A(i)

TREASURY MANAGEMENT REPORT

1.1 The Local Government Act 2003 requires the Council to “have regard to” the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable.

1.2 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Council’s low risk appetite, providing adequate liquidity initially before considering investment return.

1.3 The second main function 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.

1.4 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.5 CIPFA defines treasury management as:

“The management of the local authority’s borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

Capital Strategy

1.6 The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report which will provide the following: -

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

1.7 The aim of the strategy is to ensure that all the Authority’s elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

1.8 The Council published its Capital Strategy in 2019. It has been reviewed by officers and has been updated for 2025/26 (Annex Evi) to be reviewed by Governance and Audit Committee before being published. If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

Treasury Management reporting

1.9 The Authority is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers: -
   - the capital plans, (including prudential indicators)
   - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
   - the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
   - an Annual Investment Strategy, (the parameters on how investments are to be managed)

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, this Authority will receive quarterly update reports.

c. **An annual treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.10 The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Governance and Audit Committee.

1.11 The Treasury Management Strategy for 2025/26 covers two main areas which meet the requirements of the Local Government Act 2003, DLUHC Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code:

Capital issues
- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

1.12 The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

1.13 Furthermore, pages 47 and 48 of the Code state that they expect “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

The Capital Prudential Indicators 2025/26 – 2027/28

The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity and reflects the outcome of the Council's underlying capital appraisal systems. Within this overall prudential framework there is an impact on the Council's treasury management activity – as it will directly impact on borrowing or investment activity and as such the Treasury Management Strategy for 2025/26 to 2027/28 complements these indicators.

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.

The Capital Expenditure Plans

The Council's capital expenditure plans are summarised below, and this forms the first of the prudential indicators. A certain level of capital expenditure is grant supported by the Government; any decisions by the Council to spend above this level will be considered unsupported capital expenditure. This capital expenditure needs to have regard to:

- Service objectives (e.g. strategic planning);
- Stewardship of assets (e.g. asset management planning);
- Value for money (e.g. option appraisal);
- Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
- Affordability (e.g. implications for the council tax);
- Practicality (e.g. the achievability of the forward plan).

The revenue consequences of capital expenditure, particularly the unsupported capital expenditure, will need to be paid for from the Council's own resources. This capital expenditure can be paid for immediately (by applying capital resources such as capital receipts, capital grants, or revenue resources), but if these resources are insufficient any residual capital expenditure will add to the Council's borrowing need.

The key risks to the plans are that the level of Government support has been estimated and is therefore maybe subject to change. Similarly some estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale. For instance anticipated asset sales may be postponed due to external factors such as the impact of the wider economy.

The Council is asked to approve the summary capital expenditure projections below.

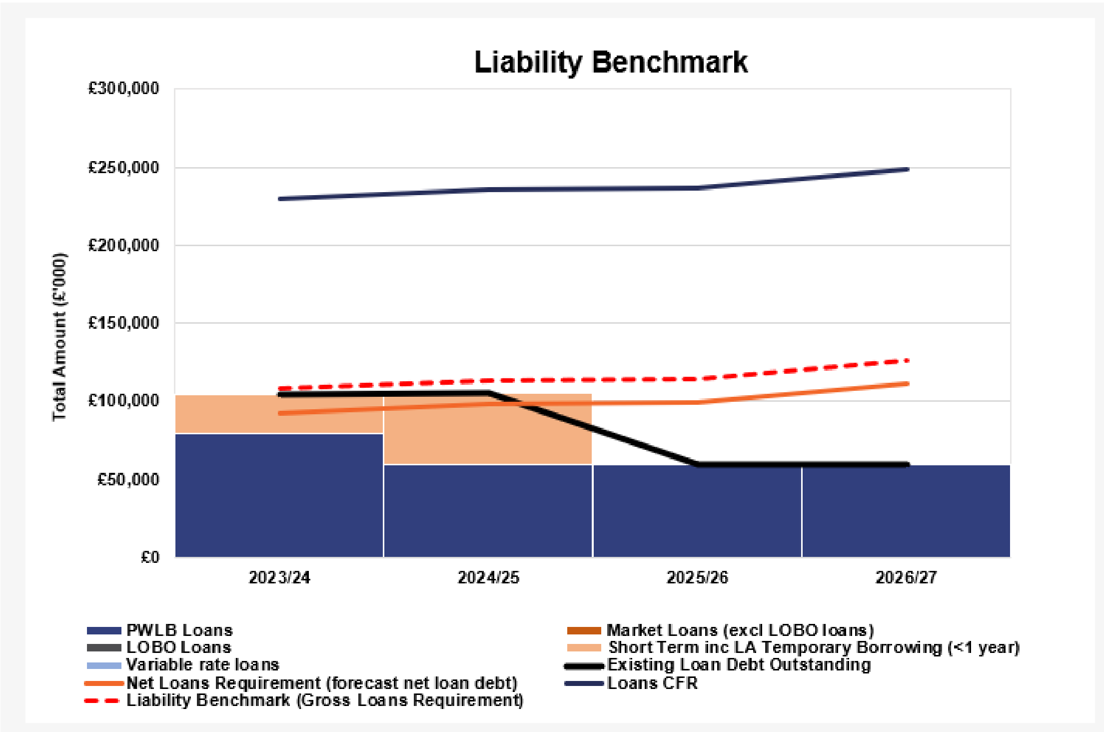
Capital Expenditure	**2025/26 Estimate £000**	**2026/27 Estimate £000**	**2027/28 Estimate £000**
Capital Expenditure	14,386	10,422	3,905
Commercial Activities	0	0	0
Financed by:			
Capital receipts	4,000	3,300	3,300
Capital grants & Contributions	5,998	3,230	3,230
Net financing need	**4,388**	**3,892**	**605**

The Council's Borrowing Need (the Capital Financing Requirement)
The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. The capital expenditure above which has not immediately been paid for will increase the CFR. Due to the nature of some of the capital expenditure identified above (ie grant), an element will be immediately impaired or will not qualify as capital expenditure for CFR purposes. As such the net financing figure above may differ from that used in the CFR calculation. 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 assets life, and so charges the economic consumption of capital assets as they are used.

The Council is asked to approve the CFR projections below:

	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Capital Financing Requirement				
CFR – services	153.112	153.874	167.284	169.216
CFR - Commercial activities/ non-financial investments	82.977	81.873	80.744	79.589
Total CFR	**236.089**	**235.748**	**248.028**	**248.806**
Movement in CFR	**6.542**	**-0.341**	**12.280**	**0.778**
Movement in CFR represented by				
Net financing need for the year (above)	2.971	-4.070	8.295	-3.431
Less MRP and other financing movements	3.571	3.729	3.985	4,119
Movement in CFR	**9.452**	**-0.341**	**12.280**	**0.778**

The net financing need for the year includes expenditure related to budgets approved in prior years in addition to the new capital expenditure approved in 2025/26.



Regulations have been issued which require full Council to approve an MRP Statement in advance of each year. The Council is recommended to approve the MRP Statement attached in Annex E(ii)

Minimum Revenue Provision (MRP) Policy Statement

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP).

The Authority is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance (2018) gives four ready-made options for calculating MRP, but the Authority can use any other reasonable basis that it can justify as prudent.

The MRP policy statement requires full council approval (or closest equivalent level) in advance of each financial year. As such the Council is recommended to approve the following MRP Statement

- For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

  Based on CFR – MRP will be based on the CFR. This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

- From 1 April 2008 for all unsupported borrowing (including PFI and finance leases but excluding CPIS expenditure) the MRP policy will be:

  Asset life method - MRP will be based on the annuity basis, in accordance with the regulations. Repayments included in annual PFI, or finance leases are applied as MRP.

There will be a presumption that capital receipts will be allocated to the appropriate assets in relation to the constraints of the medium-term financial strategy.

Bracknell Forest Cambium Partnership LLP – Joint Venture
In December 2020, the Authority and Countryside Properties UK (“Countryside”) formed a Joint Venture (“JV”) named Bracknell Forest Cambium Partnership LLP, a limited liability partnership. The principal purpose of the Partnership is to lead on the regeneration of three sites identified by the Authority for mixed use development, and to bring forward additional sites for regeneration in accordance with the Bracknell Town Centre Vision 2032. Capital expenditure in relation to this partnership is to be treated as an investment for service purposes.

The Prudential Code paragraph 95 defines “investments for service purposes” as:

Investments for service purposes’ *(or service investments) are 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. Where the capital loan is classed as a service loan, authorities can opt not to provide MRP*

For capital expenditure funded from borrowing and identified as investment for service purposes, where there is an intention to repay the borrowing from future related receipts (including loans to companies wholly or partly owned by the Council) and there is a strong likelihood that this will happen, the MRP policy will be: Deferral method - MRP will be deferred and the liability repaid through future capital receipts from disposing of the asset or loan repayments from third part

Capital expenditure incurred during 2025/26 will not be subject to an MRP charge until 2026/27, or in the year after the asset becomes operational.

TREASURY MANAGEMENT STRATEGY STATEMENT

The Treasury Management service is an important part of the overall financial management of the Council's affairs. The prudential indicators in Annex E(i) consider the affordability and impact of capital expenditure decisions and set out the Council's overall capital framework. The Treasury Management service considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets its balanced budget requirement under the Local Government Finance Act 1992.

The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice - 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). This Council has adopted the revised Code.

As a result of adopting the Code the Council also adopted a Treasury Policy Statement. This adoption is the requirement of one of the prudential indicators.

The Code of Practice requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. A further treasury report is produced after the year-end to report on actual activity for the year, and a new requirement of the revision of the Code of Practice is that there is a mid-year monitoring report.

This strategy covers:

The Council's debt and investment projections;
The Council's estimates and limits on future debt levels;
The expected movement in interest rates;
The Council's borrowing and investment strategies;
Treasury performance indicators;
Specific limits on treasury activities;

Debt and Investment Projections 2025/26 – 2027/28
The borrowing requirement comprises the expected movement in the CFR and any maturing debt which will need to be re-financed.

	2025/26 Estimated	**2026/27 Estimated**	**2027/28 Estimated**
External Debt			
Debt at 31 March	£140m	£150m	£160m
Investments			
Investments at 31 March	£10m	£10m	£10m

Current Portfolio
The overall treasury management portfolio as at 31 March 2024 and for the position as at 31st October 2024 are shown below for both borrowing and investments

	Actual	Actual	Current	Current
	31/03/24	31/03/24	31/10/24	31/10/24
Treasury Investments	£000	%	£000	%
Money Market Funds	12,075	100	17,085	100
External Borrowing	£000	%	£000	%
Local Authorities	24,200	0	35,000	30
PWLB	80,000	100	80,000	70
Net Treasury Borrowing	92,125		97,915	

Limits to Borrowing Activity
Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well defined limits. For the first of these the Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2025/26 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes.

The Executive Director:Resources reports that the Council has complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

The Authorised Limit for External Debt
A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term.

The Council is asked to approve the following Authorised Limit:

Authorised limit	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Borrowing	£240m	£250m	£260m
Other long term liabilities	£20m	£20m	£20m
Total	£260m	£270m	£280m

Operational Boundary for External Debt
The Authority is also recommended to approve the Operational Boundary for external debt for the same period. The proposed Operational Boundary is based on the same estimates as the Authorised Limit but reflects directly the estimate of the most likely but not worst case scenario, without the additional headroom included within the Authorised Limit to allow for unusual cash movements.

Operational Boundary	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Borrowing	£230m	£240m	£250m
Other long term liabilities	£20m	£20m	£20m
Total	£250m	£260m	£270m

Borrowing in advance of need.
The Executive Director:Resources may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Executive Director:Resources will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities. Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism.

Expected Movement in Interest Rates

The Council's treasury advisor, Link Asset Services has provided the following forecast on interest and borrowing rates:

	Dec-24	Jun-25	Dec-25	Jun-26	Dec-26	Dec-27
BANK RATE	4.75	4.25	4.00	3.75	3.50	3.50
5yr PWLB	5.00	4.80	4.50	4.40	4.20	3.90
10yr PWLB	5.30	5.00	4.80	4.50	4.40	4.10
25yr PWLB	5.60	5.40	5.20	5.00	4.80	4.50

For many years the Council was able to use internal resources to fund its annual capital programme, with borrowing reserved primarily for one-off large capital investments. However, since 2024/25 these resources were fully utilised, and the Council has increased its level of external borrowing to support past and current capital schemes. The level of external borrowing is likely to increase annually, however should remain substantially below the CFR over the next 3-years.

The Bank of England lowered its Bank Rate by 25bps to 4.75% in its November decision, as expected, marking the second rate cut in 4 years following the start of its cutting cycle in August. The decision was aligned with evidence of slowing price growth in the UK economy, with September's inflation print dropping to an over 3-year low of 1.7%.

Following the 30 October Budget, the outcome of the US Presidential election on 6 November, and the movement in the UK Bank Rate, economists have significantly revised central forecasts for the first time since May. In summary, the Bank Rate forecast is now 50bps – 75bps higher than was previously the case, whilst PWLB forecasts have been materially lifted to not only reflect the increased concerns around the future path of inflation, but also the increased level of government borrowing over the term of the current Parliament.

Reflecting on the 30 October Budget, the central case is that those policy announcements will be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be 2.7% y/y (Q4 2025) and 2.2% (Q4 2026) before dropping back in 2027 to 1.8% y/y.

The central view is that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent. The next forecasted reduction in Bank Rate is to be made in February and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (February, May, August and November).

Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data in the second half of 2025. The fact that the November MPC rate cut decision saw a split vote of 8-1 confirms that there are already some concerns around inflation's stickiness, and with recent public sector wage increases beginning to funnel their way into headline average earnings data, the market will be looking very closely at those releases

Regarding the PWLB forecast, the short to medium part of the curve is forecast to remain elevated over the course of the next year, and the degree to which rates moderate will be tied to the arguments for further Bank Rate loosening or otherwise. The longer part of the curve will also be impacted by inflation factors, but there is also the additional concern that with other major developed economies such as the US and France looking to run large budget deficits there could be a glut of government debt issuance that investors will only agree to digest if the interest rates paid provide sufficient reward for that scenario.

The recent outcome of the US Election paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts and an expansion of the current US budget deficit. Invariably the direction of US Treasury yields in reaction to core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks abound in Europe, the Middle East and Asia. In terms of current market view, pricing suggests that rates will continue on a reducing path, however there is considerable risks identified above and actual borrowing rates are unlikely to fall as sharply.

Investment and borrowing rates

- **Investment returns** are expected to reduce in 2025/56 in line with a falling UK Base rate.

- **Borrowing interest rates** have not substantially responded to the recent reduction in Base Rate and are reacting more to macroeconomic issues as noted above. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years however there is limited recourse to this as the Council runs its balances down and continues to invest in a capital programme in excess of receipts.

Borrowing Strategy 2025/26

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy was prudent when investment returns are low, however the ability to maintain this strategy is challenging as reserves and balances are depleted as part of the Council's budget strategy.

Against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 treasury operations. The Executive Director:Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp fall in long and short term rates then any long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- if it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from an increase in world economic activity or a further spikes in inflation risks, then the portfolio position will be re-appraised.

The current and short-term economic conditions place considerable challenges on the Council's treasury activities. There was a re-financing need in 2024/25 of PWLB loans taken out in 2017 at rates considerably higher than the original rate. Furthermore, as the Local Authority sector faces continuing budget pressures there has been a material drop in inter-authority lending leading to much lower liquidity (availability of lenders) and higher rates. The Council will continue to focus any borrowing activity at the shorter-dated maturities with the expectation that rates will fall over the coming 12 months. Any decisions will be reported to the Cabinet at the next available opportunity.

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. 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.

Debt rescheduling

There may be potential opportunities to generate savings by switching from long-term debt to short-term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

All rescheduling will be reported to the Council, at the earliest meeting following its action.

Annex E(v)

Investment Strategy 2025/26 – 2027/28

Investment Policy

The Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy

The Authority's investment policy has regard to the following: -

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

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

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

1. 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.

2. 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.

3. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. 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 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.
    - **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.

5. Lending and transaction limits, (amounts and maturity), for each counterparty will be set through applying the matrix table shown under the Council's creditworthiness policy

6. This authority has engaged external consultants, (see paragraph 1.5), 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.

7. All investments will be denominated in sterling.

Creditworthiness policy

This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following maturities .

Dark pink	5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
Light pink	5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	not to be used

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long term rating where applicable)	Money and/or % Limit	Time Limit
Banks	orange	£7m	1 yr
Banks – part nationalised	blue	£7m	1 yr
Banks	red	£7m	6 months
Banks	green	£7m	100 days
Banks	No colour	£0m	0 days
Debt Management Account Deposit Facility	AAA	£10m	6 months
Local authorities	n/a	£7m	1 yr
Money Market Funds (CNAV,LVNAV & VNAV)	AAA	£10m	liquid
Enhanced money market funds with a credit score of 1.25	Dark pink / AAA	£10m	liquid
Enhanced money market funds with a credit score of 1.5	Light pink / AAA	£10m	liquid

The creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue influence to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-, viability rating of A-, and a support rating of 1 There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored in real time. The Council is alerted to changes to ratings of all three agencies through its use of our creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that supporting government

In the normal course of the council's cash flow operations it is expected that both Specified and Non-specified investments will be utilised for the control of liquidity as both categories allow for short term investments.

The use of longer term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the Council's liquidity requirements are safeguarded however the current investment limits for 2024/25 restrain all investments to less than 1 year. Any amendment to this strategy will require the credit-criteria to be amended to include a long-term rating. This will be addressed through the formal approval by Council of a revised Treasury Management Strategy and Annual Investment Strategy.

Country and Sector Considerations
Due care will be taken to consider the country, group and sector exposure of the Council's investments. The current investment strategy limits all investments to UK Banks, Building Societies and Local Authorities, in addition to Sterling denominated AAA Money Market Funds.

Economic Investment Considerations

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates. The criteria for choosing counterparties set out above provides a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria above, under the exceptional current market conditions the Executive Director:Resources may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly the time periods for investments will be restricted.

Examples of these restrictions would be the greater use of the Debt Management Deposit Account Facility (a Government body which accepts local authority deposits), Money Market Funds, and strongly rated institutions. The credit criteria have been amended to reflect these facilities.

Treasury Management Limits on Activity
There are four further treasury activity limits, which were previously prudential indicators. The purpose of these are to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

Upper limits on variable interest rate exposure – This identifies a maximum limit for variable interest rates based upon the debt position net of investments

Upper limits on fixed interest rate exposure – Similar to the previous indicator this covers a maximum limit on fixed interest rates.

Maturity structures of borrowing – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Total principal funds invested for greater than 364 days – These limits are set with regard to the Council's liquidity requirements and are based on the availability of funds after each year-end. The Council is asked to approve the limits:

	2025/26	2026/27	2027/28
Interest rate Exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	£260m	£270m	£280m
Limits on variable interest rates based on net debt	£260m	£270m	£280m
Maturity Structure of fixed interest rate borrowing 2017/18			
		Lower	**Upper**
Under 12 months		0%	100%
12 months to 2 years		0%	100%
2 years to 5 years		0%	100%
5 years to 10 years		0%	100%
10 years and above		0%	100%
Maximum principal sums invested > 364 days			
Principal sums invested > 364 days	£m 0	£m 0	£m 0

Performance Indicators
The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. For 2025/26 the relevant benchmark will relate only to investments and will be the Sterling Overnight Index Average (SONIA) The results of these indicators will be reported in the Treasury Annual Report.

Treasury Management Advisers
The Council uses Link Asset Services as its treasury management consultants. The Council recognises that responsibility for treasury management decision remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

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 subject to regular review.

Member and Officer Training
The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. Following the nomination of the Governance and Audit Committee to examine and assess the effectiveness of the Treasury Management Strategy and Policies, initial training was provided and additional training was has been undertaken as necessary. Officer training is carried out in accordance with best practice and outlined in TMP 10 Training and Qualifications to ensure that all staff involved in the Treasury Management function are fully equipped to undertake the duties and responsibilities allocated to them.

SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated.

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating **	Circumstance of use	Maximum period
Debt Management Agency Deposit Facility* (DMADF) * this facility is at present available for investments up to 6 months	No	Yes	Govt-backed	In-house	364 Days
Term deposits with the UK government or with Local Authority (including Parish Councils) in England, Wales, Scotland or Northern Ireland with maturities up to 364 Days	No	Yes	High security although LAs not credit rated.	In-house and by external fund managers subject to the guidelines and parameters agreed with them	364 Days
Term deposits with credit-rated deposit takers (banks and building societies), including callable deposits, with maturities up to 364 Days	No	Yes	*As per list of approved Counterparties*	In-house and by external fund managers subject to the guidelines and parameters agreed with them	364 Days
Certificates of Deposit issued by credit-rated deposit takers (banks and building societies) : up to 364 Days. *Custodial arrangement required prior to purchase*	No	Yes	*As per list of approved Counterparties*	To be used by external fund managers only subject to the guidelines and parameters agreed with them	364 Days
Gilts : up to 364 Days	No	Yes	Govt-backed	To be used by external fund managers only subject to the guidelines and parameters agreed with them	364 Days

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating **	Circumstance of use	Maximum period
Money Market Funds CNAV, LVNAV, and VNAV *These funds do not have any maturity date*	No	Yes	*AAA Rating by Fitch, Moodys or S&P*	In-house and by external fund managers subject to the guidelines and parameters agreed with them	The period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements
Forward deals with credit rated banks and building societies < 1 year (i.e. negotiated deal period plus period of deposit)	No	Yes	*As per list of approved Counterparties*	In-house and by external fund managers subject to the guidelines and parameters agreed with them. Tracking of all forward deals to be undertaken and recorded.	1 year in aggregate
Commercial paper *[short-term obligations (generally with a maximum life of 9 months) which are issued by banks, corporations and other issuers]* *Custodial arrangement required prior to purchase*	No	Yes	*As per list of approved Counterparties*	To be used by external fund managers only subject to the guidelines and parameters agreed with them	9 months
Treasury bills [*Government debt security with a maturity less than one year and issued through a competitive bidding process at a discount to par value*] *Custodial arrangement required prior to purchase*	No	Yes	Govt-backed	To be used by external fund managers only subject to the guidelines and parameters agreed with them	1 year

NON-SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated.

Investment	(A) Why use it? (B) Associated risks?	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum credit rating **	Circumstance of use	Maximum maturity of investment
Deposits with Authority's Banker where credit rating has dropped below minimum criteria	Where the Council's bank no longer meets the high credit rating criteria set out in the Investment Strategy the Council has little alternative but to continue using them, and in some instances it may be necessary to place deposits with them, these deposits should be of a very short duration thus limiting the Council to daylight exposure only (i.e. flow of funds in and out during the day, or overnight exposure).	No	Yes	n/a	In-House	*364 Days*
Term deposits with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	(A) (i) Certainty of rate of return over period invested. (ii) No movement in capital value of deposit despite changes in interest rate environment. (B) (i) Illiquid : as a general rule, cannot be traded or repaid prior to maturity. (ii) Return will be lower if interest rates rise after making the investment. (iii) Credit risk : potential for greater deterioration in credit quality over longer period	No	No	*As per list of approved Counterparties*	In-house and by external fund managers subject to the guidelines and parameters agreed with them	*5 Years*
Certificates of Deposit with credit rated deposit takers (banks and building societies) with maturities greater than 1 year *Custodial arrangement required prior to purchase*	(A) (i) Although in theory tradable, are relatively illiquid. (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of CD which could negatively impact on price of the CD.	No	Yes	*As per list of approved Counterparties*	To be used by external fund managers only subject to the guidelines and parameters agreed with them	*5 years*

Investment	**(A) Why use it?** **(B) Associated risks?**	**Share/ Loan Capital?**	**Repayable/ Redeemable within 12 months?**	**Security / Minimum Credit Rating?**	**Circumstance of use**	**Maximum maturity of investment**
Callable deposits with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	(A) (i) Enhanced income ~ Potentially higher return than using a term deposit with similar maturity. (B) (i) Illiquid – only borrower has the right to pay back deposit; the lender does not have a similar call. (ii) period over which investment will actually be held is not known at the outset. (iii) Interest rate risk : borrower will not pay back deposit if interest rates rise after deposit is made.	No	No	*As per list of approved Counterparties*	In-house and by external fund managers subject to the guidelines and parameters agreed with them	*5 years*
UK government gilts with maturities in excess of 1 year *Custodial arrangement required prior to purchase*	(A) (i) Excellent credit quality. (ii)Very Liquid. (iii) If held to maturity, known yield (rate of return) per annum ~ aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss.	No	Yes	Govt backed	To be used by external fund managers only subject to the guidelines and parameters agreed with them	*10 years including but also including the 10 year benchmark gilt*

<u>**Investment**</u>	<u>**(A) Why use it?**</u> <u>**(B) Associated risks?**</u>	<u>**Share/ Loan Capital?**</u>	**Repayable/ Redeemable within 12 months?**	**Security / Minimum credit rating ****	**Circumstance of use**	**Maximum maturity of investment**
Forward deposits with credit rated banks and building societies for periods > 1 year (i.e. negotiated deal period plus period of deposit)	(A) (i) Known rate of return over period the monies are invested ~ aids forward planning. (B) (i) Credit risk is over the whole period, not just when monies are actually invested. (ii) Cannot renege on making the investment if credit rating falls or interest rates rise in the interim period.	No	No	*As per list of approved Counterparties*	In-house and by external fund managers subject to the guidelines and parameters agreed with them. Tracking of all forward deals to be undertaken and recorded.	*5 years*
Deposits with unrated deposit takers (banks and building societies) but with unconditional financial guarantee from HMG or credit-rated parent institution : any maturity	(A) Credit standing of parent will determine ultimate extent of credit risk	No	Yes	*As per list of approved Counterparties*	In-house and by external fund managers subject to the guidelines and parameters agreed with them	*1 year*

BRACKNELL FOREST COUNCIL

CAPITAL STRATEGY 2025/26 – 2027/28

1 Purpose

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code requires local authorities to produce a Capital Strategy to demonstrate that capital expenditure and investment decisions are taken in line with service objectives and take account of stewardship, value for money, prudence, sustainability and affordability.

The Capital Strategy is a key document for the Council and forms part of the authority's integrated revenue and capital budget and balance sheet planning. It provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services. It also provides an overview of how associated risk is managed and the implications for future financial sustainability. It includes an overview of the governance processes for approval and monitoring of capital expenditure.

2 Scope

This Capital Strategy includes all capital expenditure and capital investment decisions. It sets out the long term context in which decisions are made with reference to the life of the projects/assets. The capital strategy specifically focusses on the key areas of:

- Capital expenditure
  Investments for service purposes
  Investments for commercial purposes

- Debt, borrowing and treasury management
  Investments for treasury management purposes

2.1 Investment for Service Purposes

Capital expenditure is incurred on the acquisition or creation of assets, or expenditure that enhances or adds to the life or value of an existing fixed asset that is needed to provide services. Fixed assets are tangible or intangible assets that yield benefits to the Council generally for a period of more than one year, e.g. land, buildings, roads, vehicles. This is in contrast to revenue expenditure which is spending on the day to day running costs of services such as employee costs and supplies and services.

The capital programme is the authority's plan of capital works for future years, including details on the funding of the schemes. Included are the projects such as the purchase of land and buildings, the construction of new buildings, design fees and the acquisition of vehicles and major items of equipment.

Local authorities are permitted to treat as capital various types of expenditure which do not create or enhance Council-owned assets providing that spend creates an asset which would be classified as capital expenditure in another entity's accounts. The Council has used these powers to deliver against its priorities by establishing joint ventures, making loans available to undertake capital investment.

The establishment of Bracknell Forest Cambium Partnership has combined private sector expertise and commercial acumen with public sector ambition and resources in a joint venture with Countryside. The principal purpose of the Partnership is to lead on the regeneration of the three sites identified by the Council for mixed use development, and to bring forward additional sites for regeneration in accordance with the Bracknell Town Centre Vision 2032. The Partnership aspires to deliver exceptional regeneration and community outcomes across Bracknell, acting as a catalyst for sustainable growth and economic development.

A Business Plan is published each year setting out activity and performance and reviewing the initial objectives of the partnership, as set out in the Members Agreement, including risk and future opportunities. The Business Plan and Members Agreement addresses matters related to security, risk, liquidity and proportionality as well as demonstrating that Members and Officers have the necessary skills to evaluate investment decisions.

A recent review of the partnership was undertaken by the Council's Treasury advisors to consider the recent changes in the Prudential Code and an evaluation of the statutory powers and associated regulatory framework. This has informed the accounting treatment and confirmed the treasury management implications. This review has confirmed the view that expenditure related to the Joint Venture should be treated as investment for service purposes and the Council's Minimum Revenue Provision (MRP) Policy had been updated to reflect this.

A detailed description of the Council's approach to ensuring that its land and property assets best serve day to day service requirements is set out in the Asset Management Strategy, which is a key supporting document of the Capital Strategy.

2.2 Commercial Investments

These are investments for policy reasons outside of normal treasury management activity. These are investments taken for mainly financial reasons and may include:

- investments arising as part of business structures, such as shares and loans in subsidiaries or other outsourcing structures
- investments explicitly taken with the aim of making a financial surplus for the Council.

Commercial investments also include fixed assets which are acquired and held primarily for financial benefit, such as investment properties. A Commercial Property Investment Strategy was approved by the Council in November 2016 setting out the due diligence required before considering an investment decision. The Cabinet receives an annual report setting out performance of the portfolio and a review of risk.

CIPFA released guidance on prudential property investment in 2019. This considers the concept of ‘proportionality’ when considering the size and scale of new property investments, whether they are consistent with the authority’s corporate and financial strategies and if they expose the authority to unacceptable levels of risk.

The council is aware of the range of risks associated with investment in commercial property and works to ensure appropriate due diligence and prudence. These risks include the reliance on income from commercial properties to fund council services. It has also sought to provide greater diversification of risk through acquisitions in terms of property type, location, management costs and covenant strength.

Due to the nature of the assets, such investments do not always give priority to security and liquidity over yield. In these cases, such a decision will be explicit, with the additional risks set out and the impact on financial sustainability identified and reported. The Council’s approach to managing such risks is threefold:

- The overall level of investment in commercial properties has been capped at £90m, with the aim of achieving additional net rental income of £3m. This figure represents only 1% of the Council’s gross revenue expenditure.
- The investment matrix adopted by the Council (Commercial Property) specifies a number of minimum criteria that need to be fulfilled before any property is considered for purchase, including particularly the strength of the tenancy and the age and condition of the building. Any potential investment opportunity that has not met these criteria has been rejected. The relatively low yields that the Council is receiving from purchases made reflects the market view that they represent a relatively low level of risk.
- The portfolio will be reviewed annually in the context of specific and general market conditions at the time in order to determine the optimum approach to each property, having regard to opportunities to re-negotiate existing leases or dispose of individual properties with a view to acquiring replacements to ensure that income generated is sustained by having a strong and balanced portfolio into the long-term.

The Council acknowledges that local authorities are no longer permitted to make new investments in commercial property primarily for yield although investment in an existing portfolio is permitted. The existing strategy acknowledges the need for specific and periodic investment in these assets to retain tenants. The sale of individual properties would generate one-off capital receipts that postpone the need to borrow externally to fund the Council’s overall capital programme. However, disinvestment of this nature may inhibit the achievement of the Council’s long-term vision and associated priorities.

Within this clear framework, the Executive Director: Resources and Borough Solicitor will ensure that the Council has the appropriate legal powers to maintain such investments and will continue to ensure the proportionality of all investments so that the Council does not undertake a level of investing which exposes it to an excessive level of risk compared to its financial resources.

2.3 Treasury Management Investments

Treasury Management investment activity covers those investments which arise from the organisation’s cash flows and debt management activity, and ultimately represent funds which need to be invested until the cash is required for use in the course of business.

For Treasury Management investments the security and liquidity of funds are placed ahead of the investment return. The management of associated risk is set out in detail in the Council's Treasury Management Policy and the Annual Investment Strategy.

The Council has both external borrowing is managed alongside the investment of cash balances as part of the council's treasury management function. The Council has a cautious approach to the management of cash balances. Link Asset Services is the Council's appointed treasury management advisor. The arrangement with Link ensures that the creditworthiness of potential counterparties is closely monitored using a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies – Fitch, Moody's and Standard & Poor's and relevant market data including Credit Default Swaps (CDS) and Credit Watches. More details can be found in the Council's Treasury Management Strategy Statement (TMSS) which is reviewed and approved annually.

Decisions regarding external borrowing are undertaken with reference to the Prudential Code published by CIPFA which requires that capital expenditure be 'affordable, prudent and sustainable'.

3 Due Diligence

For all capital investments, the appropriate level of due diligence will be undertaken with the extent and depth reflecting the level of additional risk being considered.

Due diligence process and procedures will include:

- effective scrutiny of proposed investments by the relevant decision makers;
- identification of the risk to both the capital sums invested and the returns;
- understanding the extent and nature of any external underwriting of those risks;
- the potential impact on the financial sustainability of the Council if those risks come to fruition;
- identification of the assets being held for security against debt and any prior charges on those assets;
- where necessary independent and expert advice will be sought.

The Executive Director: Resources will ensure that Members are adequately informed and understand the level of risk exposure.

4 Council Objectives

The Council has agreed a number of corporate aims, priorities and objectives which guide its work. These are set out in the Council Plan. Capital investment projects must be in line with these overall objectives as well as individual service aims and objectives. The following processes are designed to ensure this happens.

5 The Capital Budget Setting Process

5.1 Identifying the need for Capital Expenditure/Investment

The need for a capital scheme may be identified by a Department through one or more of the following processes.

- Services prepare Project Approval Decision Sheets (PADS) identifying any capital investment needed to meet future service demands;
- The Corporate Asset Management Strategy (completed by Property Services alongside Service Departments) and the Education and Schools Asset Management Plans highlight deficiencies in the condition, suitability and sufficiency of the Council's existing building stock and identify future areas of need;
- The Local Transport Plan is a comprehensive and rolling plan of local transport strategies for achieving an integrated transport system to tackle the problems of congestion and pollution, looking at the roads and infrastructure needs of the Council;
- Reviews and external Inspections may also identify areas that need capital investment;
- The need to respond to Government initiatives and new laws and regulations;
- The desire to generate a revenue income to contribute to the funding of services.

These plans and review outcomes must be considered by Departmental Management Teams who must identify their key capital priorities for the relevant service planning period by the end of August each year.

Property schemes are initially considered by specific officer groups with schemes ranked using a matrix of priorities and needs. Following the review process by these Officer groups final schemes are submitted to Corporate Management Team as part of the overall Capital Programme Budget process in September each year, as part of the work to provide Members with choices around future year budget proposals.

5.2 Deciding which Schemes are to be included within the Council's Budget Consultation Proposals

Once the list of key capital priorities has been identified, consideration is given to the following by both Members and Officers

Prudence:

- Recognition of the capacity in the organisation to deliver such a programme;
- Recognition of the knowledge and skills available and whether these are commensurate with the appetite for risk;
- Recognition of the future vision of the authority;

- The approach to commercial activities including ensuring effective due diligence, expert advice and scrutiny, defining the risk appetite and considerations of proportionality in respect of overall resources;
- The approach to treasury management and the management of risk as set out in the Treasury Management Strategy.

Affordability:

- Revenue impact of the proposals on the Medium Term Financial Plan;
- The borrowing position of the Council, projections of external debt and the use of internal borrowing to support capital expenditure;
- The authorised limit and operational boundary for the following year.
- Whether schemes are profiled to the appropriate financial year.

Sustainability:

- A long-term view of capital expenditure plans, where long term is defined by the financing strategy of and risks faced with reference to the life of the project/assets;
- Provision for the repayment of debt over the life of the underlying debt as set out in the Minimum Revenue Provision policy;
- An overview of asset management planning including maintenance requirements and planned disposals.

Possible sources of funding can then be considered for each of the proposed capital schemes and the overall programme in total. Each project will also be considered in terms of revenue funding needed to cover the operational running costs of the asset in addition to the total borrowing repayment costs, and also how the asset will be funded in terms of capital expenditure.

5.3 Prioritisation of Schemes put forward

A formalised corporate system for prioritising capital projects has been adopted by the Council and used for many years. This has resulted in:

- Identifying essential capital investment for the next three financial years only;
- Utilising feasibility studies where needed;
- The ability to enter items into the capital programme in a managed way through the annual budget round;
- Being mindful of the current level of the programme in relation to capacity to deliver, the relevant financing of schemes and any other running costs.

This results in a list of capital project proposals to be considered as part of that year's budget approval process.

5.4 Member Approval Process

In autumn, managers will present the agreed list of key capital projects for their Service to the Corporate Management Team. These proposals are considered by Members in various forums before a final capital programme is published as part of the Budget Consultation in December.

A final Revenue and Capital Budget is then proposed by the Cabinet in February, reflecting any changes following the consultation process. Members also approve the overall borrowing levels at the budget meeting in February each year as part of the Treasury Management Strategy Report. The taking of loans then becomes an operational decision for the Executive Director; Resources who will decide on the basis of the level of reserves and money market position whether borrowing should be met internally from the Capital Reserve/Capital Receipts or whether to enter into external borrowing.

Once the Council has approved the capital programme, expenditure can be committed against these approved schemes subject to the normal contract procedure rules and the terms and conditions of funding.

Whether capital projects are funded from grant, contributions, capital allocations or borrowing, the revenue costs must be able to be met from existing revenue budgets or identified (and underwritten) savings or income streams.

Following approval by Council the capital programme expenditure is then monitored monthly and corporately reported on each quarter.

5.5 Monitoring of the Capital Programme Expenditure

Once the Capital Programme has been approved by members, the financial spend is monitored on a monthly basis. Monthly reports are prepared by Business Partners in conjunction with budget holders and sent to the Capital and Treasury Team, where they are collated and checked. Quarterly reports are reviewed by the Corporate Management Team and any decisions needed to ensure the programme stays within budget are taken.

A provisional and final Out-Turn report is provided to the Cabinet at the end of each financial year.

5.6 Multi-Year Schemes

Payments for capital schemes often occur over many years, depending on the size and complexity of the project. Therefore, estimated payment patterns are calculated for each project so that the expected capital expenditure per year is known. This is called a cash flow projection.

The approval of a rolling multi-year capital programme assists the Council in a number of ways. It assists service managers, allowing them to develop longer term capital plans for service delivery. It allows greater flexibility in planning workloads and more certainty for preparation work for future schemes. It will also allow greater integration of the revenue budget and capital programme. It also matches the time requirement for scheme planning and implementation since capital schemes have a considerable initial development phase.

6 Funding Strategy and Capital Policies

This section sets out the policies of the Council in relation to funding capital expenditure and investment. Historically the strength of the Council's Balance Sheet meant that the Council was able to fund capital expenditure from existing balances without needing to undertake external borrowing except for its Commercial Investment strategy. The consequence of this was that compared to many comparable authorities the Council has a low capital financing requirement. However, since 2023/24 these internal funds were depleted and the Council's Medium Term Financial Strategy acknowledged that future capital investment will need to be financed through borrowing, including external debt, and that the cost of financing will have a progressively more significant impact each year.

6.1 External Funding

Services must seek to maximise external funding wherever possible to support capital schemes. This can be in the form of grants and contributions from outside bodies including central government.

6.2 Capital Receipts

A capital receipt is an amount of money which is received from the sale of an asset. Capital receipts cannot be spent on revenue items. The Council will review its property portfolio regularly against the aims and objectives of the Corporate Asset Management Strategy. The general policy is that any capital receipts are then pooled and used to finance future capital expenditure and investment according to priorities, although they may be used to repay outstanding debt on assets financed from loans, as permitted by the regulations.

6.3 Capital Receipt Flexibilities

Under a direction issued by central government authorities can choose to use capital receipts received from 1 April 2016 to fund the revenue costs of transformation projects. Qualifying expenditure must 'generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that will reduce costs or demand for services in future years. The Council has a policy in place to use this direction as part of its Business Change strategy.

6.4 Revenue Funding

Services may use their revenue budgets to fund capital expenditure. The Executive Director:Resources will take an overview and decide where this is appropriate, having regard to the Council's overall financial resources.

6.5 Prudential/Unsupported Borrowing

Local Authorities can set their own borrowing levels based on their capital need and their ability to pay for the borrowing. The levels will be set by using the indicators and factors set out in the Prudential Code. The borrowing costs are not supported by the Government so services need to ensure they can fund the repayment costs. This borrowing may also be referred to as Prudential Borrowing.

Capital projects that cannot be funded from any other source can be funded from Prudential Borrowing. The Council must be able to afford the borrowing repayment and interest charges on the loan and for this to be factored into the medium term financial strategy accordingly.

The Executive Director:Resources will make an assessment of the overall prudence, affordability and sustainability of the total borrowing requested. The impact of this borrowing will be reported in the Treasury Management Strategy alongside the Prudential Indicators required by CIPFA's Prudential Code for Capital Finance.

The view of the Executive Director:Resources will be fed into the corporate bidding process so that, should the borrowing levels be unaffordable or not prudent, then the schemes will be prioritised against the available funding from borrowing using the corporate prioritisation system.

6.6 Invest to Save Schemes

Each year the Council is asked to agree a £1m budget for Invest-to-save schemes. These are defined as schemes that can pay for the cost of borrowing and principal repayment within the life of the asset. These are approved by Corporate Management Team throughout the year based on a business case and the savings required to fund the investment are added to the Commitment Budget for the relevant service. If the additional savings/income does not cover the additional costs incurred, then the service will be required to fund the gap from their existing budgets (i.e. they will underwrite the savings/income).

6.7 Leasing

The Executive Director:Resources may enter into finance leasing agreements to fund capital expenditure. However, a full option appraisal and comparison of other funding sources must be made and the Executive Director:Resources must be certain that leasing provides the best value for money method of funding the scheme. Under the Prudential Code finance leasing agreements are counted against the overall borrowing levels when looking at the prudence of the authority's borrowing.

7 Procurement and Value for Money

Procurement is the purchase of goods and services, with a strategy being developed to assist with the definition of quality standards and securing provision of the best possible services for local people for a given price. The Council has a Procurement team that considers value for money and to see where efficiency savings can be achieved. This also covers capital procurement.

Procurement must also comply with the Councils policies and regulations such as Contract Procedural Rules and Financial Regulations. The main aim is to hold 'value for money' as a key goal in all procurement activity to optimise the combination of cost and quality.

8 Partnerships and Relationships with other Organisations

Wherever possible and subject to the usual risk assessments services should look to expand the number of capital schemes which are completed on a partnership basis and continually look for areas where joint projects can be implemented.

9 Management Framework

The governance structure of the Council has the Corporate Management Team that takes a corporate and group view on the capital programme and investment.

The Corporate Management Team will also ensure a corporate and group portfolio perspective to the use and allocation of the Council's capital assets and those within its control, and in planning capital investment. The team receives reports on proposed capital projects and recommends to the Cabinet proposals for the development of the capital programme.

The Neighbourhood Regeneration and Assets Group has been setup to simplify governance to bring together oversight of property and regeneration programmes, with a particular focus on neighbourhood regeneration. It will focus on a plan of rationalisation to generate revenue savings, income and capital receipts and to form a better understanding of priorities for our partners to help neighbourhood improvement and regeneration feasibility studies and service planning at a borough-wide and locality-based level, including increased opportunities for partnership working and sharing space in buildings.

10 Performance Management

Clear measurable outcomes should be developed for each capital scheme. After the scheme has been completed, services should check if outcomes have been achieved.

11 Risk Management

Risk is the threat that an event or action will adversely affect the Council's ability to achieve its objectives and to execute its strategies successfully.

Risk management is the process of identifying risks, evaluating their potential consequences and determining the most effective methods of managing them and/or responding to them. It is both a means of minimising the costs and disruption to the organisation caused by undesired events and of ensuring that staff understand and appreciate the element of risk in all their activities.

The aim is to reduce the frequency of adverse risk events occurring (where possible), minimise the severity of their consequences if they do occur, or to consider whether risk can be transferred to other parties. To manage risk effectively, the risks associated with each capital project need to be systematically identified, analysed, influenced and monitored.

11.1 Credit Risk

This is the risk that the organisation with which we have invested capital monies becomes insolvent and cannot pay us our investment returns or complete the agreed contract. Accordingly, the Council will ensure that robust due diligence procedures cover all external capital investment. Where possible contingency plans will be identified at the outset and enacted when appropriate.

11.2 Liquidity Risk

This is the risk that the timing of any cash inflows from a project will be delayed, for example if other organisations do not make their contributions when agreed. This is also the risk that the cash inflows will be less than expected, for example due to the effects of inflation, interest rates or exchange rates. Our exposure to this risk will be monitored via the revenue and capital budget monitoring processes. Where possible appropriate interventions will occur as early as possible.

11.3 Interest Rate Risk

This is the risk that interest rates will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Interest rates will be reviewed as part of the on-going monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

11.4 Exchange Rate Risk

This is the risk that exchange rates will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Where relevant, exchange rates will be reviewed as part of the on-going monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary, contract re-negotiations.

11.5 Inflation Risk

This is the risk that rates of inflation will move in a way that has an adverse effect on the value of capital expenditure or the expected financial returns from a project. Rates of inflation will be reviewed as part of the on-going monitoring arrangements to identify such adverse effects. As far as possible our exposure to this risk will be mitigated via robust contract terms and when necessary contract re-negotiations.

11.6 Legal and Regulatory Risk

This is the risk that changes in laws or regulation make a capital project more expensive or time consuming to complete, make it no longer cost effective or make it illegal or not advisable to complete. Before entering into capital expenditure or making capital investments, the Council will understand the powers under which the investment is made. Forthcoming changes to relevant laws and regulations will be kept under review and factored into any capital bidding and programme monitoring processes.

11.7 Fraud, Error and Corruption

This is the risk that financial losses will occur due to errors or fraudulent or corrupt activities. Officers involved in any of the processes around capital expenditure or funding are required to follow the Council's policies and procedures.

12 Knowledge and Skills

The council's S151 officer is required to report explicitly on the affordability and risk associated with the capital strategy. The S151 officer is an experienced CCAB qualified accountant with statutory responsibilities for the proper administration of the council's financial affairs and for advising the council on budgetary matters. As such the S151 officer oversees the council's capital expenditure and investment activities and ensures that professional advice is obtained where the council does not have the necessary skills in house.

Treasury management activity is managed by a CCAB qualified accountant. The team has many years of treasury management experience. The CIPFA Code requires the responsible officer to ensure that members and officers are adequately trained in treasury management. Training is arranged as required and is regularly reviewed.

The council's investment property is managed by its property services team with extensive experience including dealing with a mix of property types and professional work including professional services, landlord and tenant, statutory valuations, acquisitions and disposals, commercial and residential property management. Property services also works with external agents where specialist expertise is required to deal with particular properties or resource is not available to deal with matters in a timely way. The council's asset valuations for its financial statements are prepared by external agents with an agreed rolling programme of valuations for the whole council property portfolio

The council makes use of other external advice as necessary for capital and treasury activity. This includes getting appropriate legal and other professional advice on more complex projects and capital transactions and the appointment of treasury management advisors.

13 Other Considerations

Capital schemes must comply with legislation and also Council policies. Reference should also be made to other strategies and plans of the Council.

Important Linking Documents for reference are:

- The Council Plan.
- Corporate Asset Management Strategy.
- Education Asset Management Plan.
- JV Business Plan.
- Local Transport Plan.
- Individual Service Plans.
- Procurement Strategy.
- Financial Regulations.
- Contract Standing Orders
- Treasury Management Strategy.
- Minimum Revenue Provision Policy.