OVERVIEW AND SCRUTINY COMMITTEE

DATE OF MEETING:	**18 January 2021**
TITLE OF REPORT:	**TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY**
Report of:	**Head of Corporate Services**
Cabinet member:	**Councillor James Radley, Deputy Leader and Finance**

1 PURPOSE OF REPORT

1.1 To present the draft Treasury Management Strategy Statement for 2022/23 which incorporates the Annual Investment Strategy and Prudential and Treasury Indicators.

2 OFFICER RECOMMENDATION

2.1 That the Committee consider any recommendations it wishes to make to Cabinet in respect of the Treasury Management Strategy Statement and Annual Investment Strategy.

3 BACKGROUND

3.1 The Local Government Act 2003 ("the Act") and supporting regulations require 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.

3.2 The Act therefore requires the Council to set out the Treasury Strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued after the Act); these set out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

3.3 The Treasury Management Strategy Statement and Annual Investment Strategy are attached as Annex A.

4 EQUALITIES

All activity will comply with the authority's statutory duties.

5 CLIMATE CHANGE

These strategies will work alongside the council's ambition to become a carbon neutral authority by 2035. No direct carbon/environmental impacts arising from the recommendations. We are however, starting to move to a more sensitive and sustainable investment strategy.

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APPENDICES

Appendix 1 – Treasury Management Strategy Statement and Annual Investment Strategy

Appendix 2 – Capital Strategy

Hart District Council

TREASURY MANAGEMENT STRATEGY STATEMENT 2022-23

1.0 Introduction and the revised code

1.1 CIPFA published the revised codes on 20th December 2021 and has stated that formal adoption is not required until 2023/24. This Council has to have regard to the existing codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy and monitoring reports during the year.

1.2 The revised codes will have the following implications:

- a requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;

- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment;

- a requirement to address Environmental Social and Governance issues within the Capital Strategy and the Treasury Management Risk Framework

- it will require implementation of a policy to review commercial property, with a view to divest where appropriate;

- it requires the creation of new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices);

- the council must ensure that any long term treasury investment is supported by a business model;

- there is a requirement to effectively manage liquidity and longer term cash flow requirements;

- the code has required an amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council;

- There is a a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

1.3 In addition, all investments and investment income must be attributed to one of the following three purposes:

Treasury management
Arising 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. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery
Investments held primarily and directly for the delivery of public services including housing, regeneration, and local infrastructure. 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".

Commercial return
Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

1.4 As this Treasury Management Strategy Statement and Annual Investment Strategy deals soley with treasury management investments, the categories of service delivery and commercial investments will be dealt with as part of the Capital Strategy report. However, as investments in commercial property have implications for cash balances managed by the treasury team, it will be for each authority to determine whether they feel it is relevant to add a high level summary of the impact that commercial investments have, or may have, if it is planned to liquidate such investments within the three year time horizon of this report, (or a longer time horizon if that is felt appropriate).

1.5 Members will be updated on how all these changes will impact our current approach and any changes required will be formally adopted within the 2023/24 Treasury Management Strategy Statement report.

2.0 Background to the Strategy

2.1 The Council is required to operate a balanced budget meaning 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.

2.2 The second 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.

2.3 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.

2.4 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."

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

3.0 Treasury Management Reporting requirements

3.1 The Capital Strategy

The CIPFA 2017 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

The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

This Strategy is provided in Appendix 2 to the Treasury Management Strategy Statement report.

3.2 Treasury Management Reporting

The Council 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 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.

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.

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

4.0 Treasury Management Strategy for 2022/23

4.1 The strategy for 2022/23 covers two main areas:

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
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, DLUHC MRP Guidance, the CIPFA Treasury Management Code and DLUHC Investment Guidance.

4.2 Training

The CIPFA 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. Members received training in November 2020 and further training will take place in April 2022. The training needs of treasury management officers are periodically reviewed with officers carrying out Treasury management updates attending annual training provided by Link Group.

4.3 Treasury Management Consultants

The Council uses Link Group, Treasury solutions as its external treasury management advisors.

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.

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.

5.0 The Capital Prudential Indicators 2022/23 – 2024/25

5.1 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.

5.2 Capital Expenditure and financing prudential indicator

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts through approval of the Capital Budget each year.

Capital Expenditure by Service	2020/21 Actual £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Community Services	649	500	2,367	867	868
Corporate Services	247	34	90	0	0
Env and Technical	438	1,706	1,861	500	0
Place	-	0	0	0	0
Total	**1,334**	**2,240**	**4,318**	**1,367**	**868**
Commercial activities/ non-financial investments *	0	19,032	0	0	0
Total capital expenditure	**1,334**	**21,272**	**4,318**	**1,367**	**868**

* Commercial activities / non-financial investments relate to areas such as capital expenditure on investment properties, loans to third parties etc.

Other long-term liabilities - The above financing need excludes other long-term liabilities.

The table overleaf summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure	2020/21 Actual £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Total capital expenditure	**1,334**	**21,272**	**4,318**	**1,367**	**868**
Financed by:					
Capital receipts	213	34	90	0	0
Capital grants	1,067	2,206	2,728	1,367	868
Revenue	55	0	1,500	0	0
Total financing	**1,334**	**2,240**	**4,318**	**1,367**	**868**
Borrowing requirement	**0**	****19,032**	**0**	**0**	**0**

- *Capital expenditure on projects for yield schemes will mean that there will be no access to PWLB borrowing. If an authority goes ahead with such schemes, then it should provide figures to explain what proportion of financing is taken by such schemes out of total financing in each year.*

** *The borrowing requirement for 2021/22 is derived from PWLB borrowing to fund Edenbrook Apartments and internal borrowing funding the purchase of Centenary House.*

5.3 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 historic 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 indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

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 CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes.

As part of the approval of the Capital budget, Members are asked to approve the CFR projections overleaf; this will be set out as an appendix to the budget papers to February Council.

Capital Financing Requirement (CFR)	2020/21 Actual £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Brought Forward	23,405	22,889	41,405	40,509	39,612
Borrowing requirement	0	19,032	0	0	0
Less MRP and other financing movements	516	516	897	897	897
Net movement in CFR	**(516)**	**18,516**	**(897)**	**(897)**	**(897)**
CFR Carried Forward	**22,889**	**41,405**	**40,509**	**39,612**	**38,716**

5.4 Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

DLUHC regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be*:*

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction).

This option provides for a reduction in the borrowing need over approximately the asset's life.

Repayments included in annual PFI, or finance leases are applied as MRP.

MRP Overpayments - A change introduced by the revised DLUHC MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision (VRP) or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. For these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

5.5 Borrowing

The capital expenditure plans set out in Section 5.2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions, and the annual investment strategy.

5.6 Current Portfolio Position

The overall Treasury Management Portfolio as of March 2021 is shown below for investments.

Investments / Lending Summary as at: March 2021	Amount Invested (£)	Length of Deposit	Limit (£)	Within Limit Y/N	Terms	Rate (%)
Spelthorne Borough Council	5,000,000	182 days	5,000,000.00	Y	Fixed Term	0.04%
Fareham Borough Council	5,000,000	365 days	5,000,000.00	Y	Fixed Term	0.18%
Qatar National Bank	2,000,000	165 days	5,000,000.00	Y	Fixed Term	0.30%
Barclays Ltd - Green Account	5,000,000	220 days	5,000,000.00	Y	95 Day Notice	0.30%
Lloyds Bank	4,995,858	175 days	5,000,000.00	Y	32 Day Notice	0.03%
Aberdeen Liquidity-Standard Life	4,975,000	Call Account	5,000,000.00	Y	Instant Access	0.01%
Barclays	1,232,488	Call Account	5,000,000.00	Y	Instant Access	0.01%
Santander	4,679,201	Call Account	5,000,000.00	Y	Instant Access	0.08%
TOTAL	**32,882,547**					

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Borrowing	2020/21 Actual £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Borrowing	11,534	17,091	15,336	14,444	14,083
Other long-term liabilities	0	0	0	0	0
Total debt	**11,534**	**17,091**	**15,336**	**14,444**	**14,083**
CFR	22,889	41,405	40,509	39,612	38,716
Under / (over) borrowing	**11,355**	**24,315**	**25,173**	**25,169**	**24,632**

Within the range of prudential indicators there are several key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt 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 2022/23 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 or speculative purposes.

The Head of Corporate Services reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view considers current commitments, existing plans, and the proposals in this budget report.

5.7 Treasury Indicators: limits to borrowing activity

The operational boundary
This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational Boundary for external debt	2020/21 Actual £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Borrowing	25,000	25,000	25,000	25,000	25,000
Other long-term liabilities	0	0	0	0	0
Total debt	**25,000**	**25,000**	**25,000**	**25,000**	**25,000**

The authorised limit for external debt:
A further key prudential indicator represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:

Authorised Limit for External Debt	2020/21 Actual £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Borrowing	30,000	30,000	30,000	30,000	30,000
Other long-term liabilities	0	0	0	0	0
Total	**30,000**	**30,000**	**30,000**	**30,000**	**30,000**

Capital Financing Requirement	2020/21 Actual £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Authorised Limit	30,000	30,000	30,000	30,000	30,000
Operational Boundary	25,000	25,000	25,000	25,000	25,000
Capital Financing Requirement	22,889	41,405	40,509	39,612	38,716
External Debt	11,534	17,091	15,336	14,444	14,083
Under / (over) borrowing	11,355	24,315	25,173	25,169	24,632
Change in External Debt	(851)	5,557	(1,755)	(892)	(360)

6.0 Prospects for Interest Rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 20th December 2021. These are forecasts for certainty rates, gilt yields plus 80bps:

Link Group Interest Rate View 20.12.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

Link has provided additional narrative to support the above table which is available on request.

7.0 Borrowing Strategy

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 is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2022/23 treasury operations. The Head of Corporate Services 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 borrowing rates, then borrowing will be postponed.

- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be taken in line with the Council's constitution and approval processes.

7.1 Policy on borrowing in advance of need

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.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

7.2 Debt rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates, even though the general margin of PWLB rates over gilt yields was reduced by 100 bps in November 2020.

7.3 New financial institutions as a source of borrowing and / or types of borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years)
- Municipal Bonds Agency

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

7.4 Approved Sources of Long and Short term Borrowing

	Variable	**Fixed**
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●

Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance leases	●	●

8 Annual Investment Strategy

8.1 Investment policy – management of risk

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

The Council'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 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities are security first, portfolio liquidity second and then yield, (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to and more than 12 months with high credit rated financial institutions, as well as wider range fund options.

The above guidance from the DLUHC and CIPFA place 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 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 financial sector 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 5.4 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 originally 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 more than one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified and loan investment limits.** The Council has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments of 50%.

6. **Lending limits, (**amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 8.2.

7. **Transaction limits** are set for each type of investment in 8.2

8. **This authority will set a limit** for its investments which are invested for longer than 365 days, (see paragraph 8.2).

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 8.3).

10. This authority has engaged **external consultants**, 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.

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

12. As a result of the change in accounting standards for 2022/23 under IFRS 9, this authority 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. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23.

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, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

8.2 Changes in risk management policy from last year.

The above criteria are unchanged from last year.

8.3 Creditworthiness policy

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

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

This modelling approach combines credit ratings, and any assigned Watches and Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The product of this 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. This information can be provided to Members on request.

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

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 weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Link 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 European Financials benchmark and other market data daily via its passport website, provided exclusively to it by Link. 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, as well as information on any external support for banks to help support its decision-making process.

8.4 Ratings matrix table

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 Limit*	Time Limit
Banks	Yellow	£5m	5yrs
Banks	purple	£5m	2 yrs
Banks	orange	£5m	1 yr
Banks – part nationalised	blue	£5m	1 yr
Banks	red	£5m	6 months
Banks	green	£5m	100 days
Limit 3 category-Council's banker	No colour		1day
Other institutions limit	-	£5m	1yr
DMADF	UK sovereign rating	unlimited	6 months
Local authorities	n/a	£5m	1yr
Housing Associations	Colour bands	£5m	As per colour band

	Fund rating	Money Limit*	Time Limit
Money Market Funds CNAV	AAA	£5m	liquid
Money Market Funds LVNAV	AAA	£5m	liquid
Money Market Funds VNAV	AAA	£5m	liquid
Ultra-Short Dated Bond Funds with a credit score of	Dark pink / AAA	£5m	liquid
Ultra-Short Dated Bond Funds with a credit score of	Light pink / AAA	£5m	liquid

*This Money Limit relates to principal amounts invested and could be exceeded with interest received but consideration will be given to keep this to a minimum and allowable under this Strategy.

8.5 Creditworthiness.

Significant levels of downgrades to Short- and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, as economies are beginning to reopen, there have been some instances of previous lowering of outlooks being reversed.

8.6 CDS prices

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its Link-provided Passport portal.

8.7 Other limits

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups, and sectors.

a) **Non-specified investment limit.**

b) **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of AA-** from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.5. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

c) **Other limits.** In addition:

- limits in place above will apply to a group of companies.
- sector limits will be monitored regularly for appropriateness.
- Barclays Bank (Hart's main banking institution) will have an increased counterparty limit to £10m. This increase is due to increased working capital requirements.

8.8 Investment Strategy

In-house funds. 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). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time, consideration will be given to locking in higher rates currently obtainable, for longer periods.

8.9 Investment returns expectations

The current forecast shown includes a forecast for a first increase in Bank Rate in May 2022 though it could come in February.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year, (based on a first increase in Bank Rate in quarter 2 of 2022), are as follows:

Average earnings in each year	Now	Previously
2022/23	0.50%	0.50%
2023/24	0.75%	0.75%
2024/25	1.00%	1.00%
2025/26	1.25%	1.25%
Long term later years	2.00%	2.00%

8.10 **Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit:

Upper limit for principal sums invested for longer than 365 days			
£m	**2022/23**	**2023/24**	**2024/25**
Principal sums invested > 364 & 365 days	£5m	£5m	£5m
Current Investments as at 31.12.21 in excess of 1 year maturing each year	£0	£0	£0

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access, money market funds and short-dated deposits (overnight to 100 days), in order to benefit from the compounding of interest.

8.11 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

9 The Capital Prudential and Treasury Indicators 2022/23 – 2024/25

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.

9.1 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. Council is asked to approve the following indicators:

a. Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.

	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Ratio of financing costs to revenue stream (%)	6.69	5.52	8.37	11.04	10.55

The estimates of financing costs include current commitments and the proposals in this budget report.

9.2 Maturity structure of borrowing

Maturity structure 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.

The Council is asked to approve the following treasury indicators and limits:

Maturity structure of fixed interest rate borrowing 2022/23		
	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 to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%
Maturity structure of variable interest rate borrowing 2022/23		
	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 to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%

Link Group Interest Rate View 20.12.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30
Bank Rate														
Link	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
Capital Economics	0.25	0.25	0.50	0.75	0.75	0.75	0.75	1.00	1.00	-	-	-	-	-
5yr PWLB Rate														
Link	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
Capital Economics	1.40	1.40	1.50	1.50	1.60	1.70	1.70	1.80	1.90	-	-	-	-	-
10yr PWLB Rate														
Link	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
Capital Economics	1.60	1.60	1.70	1.70	1.80	1.80	1.90	2.00	2.00	-	-	-	-	-
25yr PWLB Rate														
Link	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
Capital Economics	1.80	1.80	1.90	1.90	2.00	2.10	2.10	2.20	2.30	-	-	-	-	-
50yr PWLB Rate														
Link	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30
Capital Economics	1.40	1.50	1.60	1.70	1.80	1.90	2.00	2.20	2.30	-	-	-	-	-

9.3 Treasury Management Practice 1 (TMP1) – Credit and Counterparty Risk Management

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	**Max % of total investments / £ limit per institution**	**Max. maturity period**
DMADF – UK Government	yellow	100%	6 months (max. is set by the DMO*)
UK Government gilts	yellow	100%	5 years

UK Government Treasury bills	yellow	100%	364 days (max. is set by the DMO*)
Bonds issued by multilateral development banks	yellow	£5m	5 years
Money Market Funds CNAV	AAA	100%	Liquid
Money Market Funds LNVAV	AAA	£5m	Liquid
Money Market Funds VNAV	AAA	£5m	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	100%	Liquid
Local authorities	yellow	100%	5 years
Term deposits with housing associations	Blue Orange Red Green No Colour	£5m	12 months 12 months 6 months 100 days Not for use
Term deposits with banks and building societies	Blue Orange Red Green No Colour	£5m	12 months 12 months 6 months 100 days Not for use
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	£5m	12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating	£5m	

* DMO – is the Debt Management Office of H.M. Treasury

Accounting treatment of investments

The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

9.4 Approved countries for investments (as at 22.12.2021)

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's, and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service.

Based on lowest available rating

AAA
- Australia
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+
- Canada
- Finland
- U.S.A.

AA
- Abu Dhabi (UAE)
- France

AA-
- Belgium
- Hong Kong
- Qatar
- **U.K.**

9.5 Treasury Management Scheme of Delegation

The bodies responsible for various functions are as follows:

Council
- receiving and reviewing reports on treasury management policies, practices, and activities
- approval of annual strategy.

Cabinet

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- 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.

Overview & Scrutiny Committee

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

9.6 The Treasury Management Role of the section 151 officer

The S151 (responsible) officer is responsible for:

- 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 authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority 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 an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following

    - *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 investments will be arranged.*

Hart District Council   Draft Capital Strategy

1. Purpose and Aims

1.1. The Prudential Code for Capital Finance in Local Authorities was updated by the Chartered Institute of Public Finance and Accountancy in December 2021. The framework established by the Prudential Code supports local strategic planning, local asset management planning and proper option appraisal.

1.2. Formal adoption of the new framework is not expected until 2023/24. Until adoption the 2017 code will be followed.

1.3. The objectives of the Prudential Code are to ensure that the capital expenditure plans of local authorities are affordable, prudent, and sustainable and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved.

1.4. The Prudential Code requires authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are made with sufficient regard to the long run financing implications and potential risks to the authority.

1.5. The Prudential Code sets out that to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, authorities should have in place a capital strategy. The capital strategy should set out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

1.6. This capital strategy sets out a framework for the self-management of capital finance and examines the following areas:

- Capital expenditure and investment plans
- Prudential Indicators
- External debt
- Treasury Management

2. National Context

2.1. It is important to set out the external environment in which Hart District Council is currently operating. Some of the key factors that impact directly on the capital programme are outlined below:

- Central Government is focused on recovery following a period of unparalleled global uncertainty due to Covid-19.

- Discretionary fiscal support to support the economy during the pandemic and increased the pressure on central finances.

- Financial stability and tackling public debt continue to be key drivers for

Central Government over this parliamentary term. This is resulting in reduced direct funding for local government, particularly related to revenue support. This has a direct impact on the Council's ability to self-fund capital investment.

- The Government has chosen to prioritise high-value investment, specifically in infrastructure and innovation that will directly contribute to raising Britain's productivity.

- Mechanisms for distributing government funding continue to evolve through the Government's devolution agenda specifically through the Local Growth Fund (LGF) and the increased role of Local Enterprise Partnerships (LEPs) in the strategic oversight of regional areas.

- Central government has invested £12 billion through the local growth fund. This presents both opportunities and risks to existing levels of government service delivery and investment, as LEPs with the strongest Strategic Plans will gain the greatest share.

3. "Vision 2040" – Hart District Council's Strategic Response

3.1. The Council approved its "Vision 2040" in September 2019, which sets out a clear direction for the district.

3.2. "Vision 2040" is structured around three vision statements:

Become THE place to live – creating a connected space that:

- Gives local people a real sense of community, providing a strong narrative on the strengths of the district including our heritage, environment and culture
- Improves affordability of homes, so families can stay close together and so key workers can afford to live in Hart and help our communities flourish
- Ensures work, education, health and other facilities are easily reachable through effective road and rail transport links

Become THE place to work – helping our local economy to thrive through:

- Developing the skills we need for the future by delivering a higher/further education campus within the district, working with local educational providers, with a technological focus
- Helping our micro/small businesses grow and our residents to work flexibly, with casual office space providing high speed internet
- Reducing the impact of climate change by building in sustainability and using new technologies to mitigate the impact of climate change

Become THE place to enjoy – enhancing our environment and health through:

- Creation of green corridors between all settlements to encourage sustainable healthy transport and provide cycles for hire to enable movement
- Enhancing our leisure provision e.g. new country parks delivering improved facilities, and through promotion of culture and heritage in the district e.g. through events
- Working with existing public sector sports facilities providers in the district to create an improved/co-ordinated health offer for our residents

3.3 The vision will be delivered by changing the way the Council is run. A new operating model will include:

- Developing a new business model for the Council
- Creating welcoming services that are inclusive and engaging
- Developing our staff, training and empowering them to innovate
- Creating efficient services available 24/7
- Building in financial resilience from commercialization
- Developing partnerships to enable delivery

4. Corporate Plan 2017-22

4.1 The adopted Corporate Plan 2017 – 2022 is the medium-term strategic policy document which sets out the general direction, key priorities and activities for the Council and informs the use of its resources.

4.2 The four priorities set out in the Corporate Plan are:

A Thriving Local Economy
- Support our town and village centres
- Support the local economy
- Support residents in becoming economically active
- Ensuring an appropriate supply of employment land and premises

Clean, Green and Safe Environment
- Enhance access to open space and recreation facilities
- Protect and enhance biodiversity
- Improve energy efficiency
- Reduce the likelihood of crime and the perception of crime
- Promote a clean environment
- Promoting high quality design and a good standard of amenity

Healthy Communities and People
- Support residents in shaping their local communities
- Work with partners to keep Hart healthy and active
- Ensure access to housing
- Ensure access to education

An Efficient and Effective Council

- Explore options to increase financial self-sustainability

4.3 To help the Council deliver "Vision 2040" and the Corporate Plan it is essential that necessary long term fixed assets continue to be made available. The provision of long term assets is further defined as being capital expenditure.

5.0. What is Capital Expenditure?

5.1 An understanding of what constitutes capital expenditure is fundamental to realising the benefits that an authority can obtain under the Prudential framework. Unless expenditure qualifies as capital it will normally fall outside the scope of the framework and be charged to revenue in the period that the expenditure is incurred. If expenditure meets the definition of capital, there may be opportunities to finance the outlay from capital receipts or by spreading the cost over future years‟ revenues.

5.2 There are three ways in which expenditure can qualify as capital under the framework:-

- The expenditure results in the acquisition, construction or enhancement of fixed assets (tangible and intangible) in accordance with "proper practices".
- The expenditure meets one of the definitions specified in regulations made under the 2003 Local Government Act.
- The Secretary of State makes a direction that the expenditure can be treated as capital expenditure.

6.0 Approach to Capital Investment

6.1 Hart District Council's Capital Strategy defines and outlines the Council's approach to capital investment and is fundamental to the Council's financial planning processes. It aims to ensure that:

- Capital expenditure contributes to the achievement of the strategic plan.
- An affordable and sustainable capital programme is delivered.
- Use of resources and value for money is maximised.
- A clear framework for making capital expenditure decisions is provided.
- A corporate approach to generating capital resources is established.
- Sufficient long-term assets to provide services are acquired and retained.
- Invest to save initiatives to make efficiencies within the Council's revenue budget are encouraged.
- An appraisal and prioritisation process for new schemes is robust.

7.0 Governance Arrangements Capital Programme Approvals

7.1 The Authority's constitution and financial regulations govern the capital programme as set out below:

a All capital expenditure must be carried out in accordance with the financial regulations and the Council's Constitution.

b The expenditure must comply with the statutory definition of capital purposes as defined within this document and wider financial standards.

c The Capital Programme approved by Full Council as part of the Council's annual budget report sets the capital funding availability for the Council, the prioritisation of funding and the schemes receiving entry into the Capital Programme.

d All schemes are formally approved into the capital programme by following a process as set out in the financial regulations.

e Officers are not authorised to commit expenditure without prior formal approval as set out in the financial regulations.

f Each scheme must be under the control of a responsible person/project manager.

g Any agreements (such as section 106) which contractually commit to procure capital schemes will need to follow the same approval process as other capital expenditure before it can be formally incorporated into the capital programme.

h Capital expenditure on Commercial projects may be approved in accordance with the processes laid out in the approved Commercialisation strategy.

8.0 Capital Programme Bodies

8.1 The main internal bodies that are responsible for the governance and management of the capital programme are the Full Council and Cabinet.

9.0 Funding Streams

9.1 Hart District Council's Capital Programme is funded from a mix of sources including:-

a **Prudential Borrowing** – The introduction of the Prudential Code in 2004 allowed the Council to undertake unsupported borrowing itself. This borrowing is subject to the requirements of the Prudential Code for Capital Expenditure for Local Authorities. The Council must ensure that unsupported borrowing is affordable, prudent and cost effective. This funding can also be used as an option to front fund development to stimulate growth. This has provided the Council with the flexibility to raise capital funding as demand and business need have dictated. This type of borrowing has revenue implications for the Council in the form of financing costs.

b **External Grants** – Disabled Facilities Grants are funded by external grant allocations from central government.

c **Section 106, SANGs and External Contributions** – Elements of the capital programme are funded by contributions from private sector developers and partners. Growth in Hampshire has resulted in Section 106 and SANGs contributions from developers accounting for significant elements of funding of the capital programme in recent years.

d **Revenue Funding** – The Council can use revenue resources to fund capital projects on a direct basis. However, the impact of austerity on the Council's revenue budget has reduced options in this area and therefore the preference is for Invest to Save options to be adopted where feasible.

e **Capital Receipts** – The Council is able to generate capital receipts through the sale of surplus assets such as land and buildings. However, Hart now owns very few assets, besides the Civic Centre.

9.2 The size of the Capital Programme will be influenced by funding sources and financing costs. The main limiting factor on the Council's ability to undertake capital investment is whether the revenue resource is available to support in full the implications of capital expenditure, both borrowing costs and running costs, after allowing for any support provided by central government, now mainly through capital grants.

10.0 Overview of the Capital Programme

10.1 The Capital Programme is elsewhere on this agenda as Appendix 2 of the Budget Report.

11.0 2022/23 PRUDENTIAL INDICATORS FOR CAPITAL FINANCE

11.1 Appendix 1 of this report sets out the prudential indicators and outlines how expenditure will be financed by borrowing in an affordable, prudent and sustainable way.

12.0 COMMERCIALISATION STRATEGY

12.1 Cabinet agreed a refreshed Commercialisation Strategy in July 2021.

12.2 As central government funding is reduced, it is intended that the gap in funding is filled by commercial income. In 2022/23 commercial income is expected to be £1.2 million. The target commercial income is at least £2 million.

12.3 The target investment is to build a balanced portfolio with a capital value of up to £50 million which will be financed where possible by prudential borrowing in accordance with the Council's Medium Term Financial Strategy (MTFS).

12.4 The priority will be to invest within Hart district (all residential acquisitions must be with the area of Hart) but the Strategy supports the need for flexibility in acquisition of commercial investment properties outside the district boundary as there are insufficient commercial property opportunities available within the Hart district that:

- Will enable the investment of £50m within the parameters identified within the strategy
- Will enable the mix of investment property types stipulated (to mitigate risk)
- Will enable the Council to achieve the liquidity required from the investment portfolio
- Will provide the substantial covenant strengths required for long term secure property investment.

12.5 In making any decision to invest in property, the Council will consider the statutory investment guidance issued in 2021 from the Ministry of Housing, Communities and Local Government (MHCLG), and CIPFA's Prudential Code, which sets the governing framework for borrowing for commercial return.

12.6 Where possible, internal borrowing will be utilised, as this is more cost effective than external borrowing.

12.7 There are no plans to raise the limits for external borrowing in 2022/23.