Date: 3 January 2024
Our ref: Cabinet/Agenda
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CABINET

11 JANUARY 2024

A meeting of the Cabinet will be held at **7.00 pm on Thursday, 11 January 2024** in the Council Chamber, Council Offices, Cecil Street, Margate, Kent.

Membership:

Councillor Everitt (Chair); Councillors: Whitehead, Albon, Duckworth, Keen and Yates

AGENDA

Item No	Subject

1. **APOLOGIES FOR ABSENCE**

2. **DECLARATIONS OF INTEREST** (Pages 3 - 4)

   To receive any declarations of interest. Members are advised to consider the advice contained within the Declaration of Interest advice attached to this Agenda. If a Member declares an interest, they should complete the Declaration of Interest Form

3. **MINUTES OF PREVIOUS MEETING** (Pages 5 - 14)

   To approve the summary of recommendations and decisions of the Cabinet meeting held on 14 December 2023, copy attached.

4. **TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2024/25** (Pages 15 - 64)

5. **2024-28 MEDIUM TERM FINANCIAL STRATEGY**

   Report to follow

6. **HRA BUDGET 2024/25**

   Report to follow

7. **COUNCIL TAX BASE CALCULATION REPORT 2024/25**

   Report to follow

Item No	Subject

8. **2024/25 FEES AND CHARGES**

   Report to follow

9. **DRAFT 2024/25 BUDGET**

   Report to follow

Do I have a Disclosable Pecuniary Interest and if so what action should I take?

Your Disclosable Pecuniary Interests (DPI) are those interests that are, or should be, listed on your Register of Interest Form.

If you are at a meeting and the subject relating to one of your DPIs is to be discussed, in so far as you are aware of the DPI, you **must** declare the existence **and** explain the nature of the DPI during the declarations of interest agenda item, at the commencement of the item under discussion, or when the interest has become apparent

Once you have declared that you have a DPI (unless you have been granted a dispensation by the Standards Committee or the Monitoring Officer, for which you will have applied to the Monitoring Officer prior to the meeting) you **must:-**

1. Not speak or vote on the matter;
2. Withdraw from the meeting room during the consideration of the matter;
3. Not seek to improperly influence the decision on the matter.

Do I have a significant interest and if so what action should I take?

A significant interest is an interest (other than a DPI or an interest in an Authority Function) which:

1. Affects the financial position of yourself and/or an associated person; or
   Relates to the determination of your application for any approval, consent, licence, permission or registration made by, or on your behalf of, you and/or an associated person;
2. And which, in either case, a member of the public with knowledge of the relevant facts would reasonably regard as being so significant that it is likely to prejudice your judgment of the public interest.

An associated person is defined as:

- A family member or any other person with whom you have a close association, including your spouse, civil partner, or somebody with whom you are living as a husband or wife, or as if you are civil partners; or
- Any person or body who employs or has appointed such persons, any firm in which they are a partner, or any company of which they are directors; or
- Any person or body in whom such persons have a beneficial interest in a class of securities exceeding the nominal value of £25,000;
- Any body of which you are in a position of general control or management and to which you are appointed or nominated by the Authority; or
- any body in respect of which you are in a position of general control or management and which:
  - exercises functions of a public nature; or
  - is directed to charitable purposes; or
  - has as its principal purpose or one of its principal purposes the influence of public opinion or policy (including any political party or trade union)

An Authority Function is defined as: -

- Housing - where you are a tenant of the Council provided that those functions do not relate particularly to your tenancy or lease; or
- Any allowance, payment or indemnity given to members of the Council;
- Any ceremonial honour given to members of the Council
- Setting the Council Tax or a precept under the Local Government Finance Act 1992

If you are at a meeting and you think that you have a significant interest then you **must** declare the existence **and** nature of the significant interest at the commencement of the matter, or when the interest has become apparent, or the declarations of interest agenda item.

Once you have declared that you have a significant interest (unless you have been granted a dispensation by the Standards Committee or the Monitoring Officer, for which you will have applied to the Monitoring Officer prior to the meeting) you **must:-**

1. Not speak or vote (unless the public have speaking rights, or you are present to make representations, answer questions or to give evidence relating to the business being discussed in which case you can speak only)
2. Withdraw from the meeting during consideration of the matter or immediately after speaking.
3. Not seek to improperly influence the decision.

Gifts, Benefits and Hospitality

Councillors must declare at meetings any gift, benefit or hospitality with an estimated value (or cumulative value if a series of gifts etc.) of £25 or more. You **must,** at the commencement of the meeting or when the interest becomes apparent, disclose the existence and nature of the gift, benefit or hospitality, the identity of the donor and how the business under consideration relates to that person or body. However you can stay in the meeting unless it constitutes a significant interest, in which case it should be declared as outlined above.

What if I am unsure?

If you are in any doubt, Members are strongly advised to seek advice from the Monitoring Officer or the Committee Services Manager well in advance of the meeting.

If you need to declare an interest then please complete the declaration of interest form.

CABINET

Minutes of the meeting held on 14 December 2023 at 7.00 pm in Council Chamber, Council Offices, Cecil Street, Margate, Kent.

Present:	Councillor Rick Everitt (Chair); Councillors Whitehead, Albon, Duckworth, Keen and Yates
In Attendance:	Councillors Bambridge, J Bayford, Pugh, Rattigan, Rogers, Austin and W Scobie

63. APOLOGIES FOR ABSENCE

There were no apologies for absence made at the meeting.

64. DECLARATIONS OF INTEREST

There were no declarations of interest.

65. MINUTES OF PREVIOUS MEETING

Councillor Everitt proposed, Councillor Yates seconded and Members agreed the minutes as a correct record of the meeting held on 16 November 2023.

66. COMBINED SURVEILLANCE/CCTV/IMAGE RECORDING TECHNOLOGIES POLICY

Cabinet considered proposals regarding the CCTV and Image Recording Policy. CCTV and the use of image recording was now commonplace. From town centre CCTV cameras to building security to dash cams, ring doorbells and mobile phones. The Council's use of CCTV was governed by a profusion of legislation, codes of practice and central government guidance. New and Emerging technologies and capabilities such as Artificial Intelligence, biometrics, or advances in IT system integration had to consider the increased risk to individual privacy and ensure that the Council continued to be compliant.

In response the Council had developed this policy which was intended to regulate the its operation and use of image recording systems across all areas of the Council including when and where CCTV was used. Members were asked to agree to the adoption of this policy which was intended to regulate the Council’s operation of image recording systems across all areas of the Council and to allow the delegation of future operational revisions of the policy to the Head of Neighbourhoods.

Councillor Keen proposed, Councillor Yates seconded and Cabinet agree the following:

1. The adoption of Combined Surveillance/CCTV/Image recording technologies Policy;

2. To delegate any operational revisions of the policy to the Head of Neighbourhoods.

67. PURCHASE OF 24 HOMES AT TOTHILL STREET, MINSTER FOR AFFORDABLE RENT

Cabinet discussed proposals for the purchase of 24 homes in Tothill Street, Minster to be used for affordable rent lettings. In July this year Council approved an accelerated affordable rented housing development programme of at least 400 new homes, constructed or acquired, by 2027. Officers were contacted by BDW (Barretts) Homes who were required to deliver 24 new affordable homes, as part of their development at Tothill Street, Minster. This requirement was set out in the section 106 obligations for the development. They had been unable to secure an affordable housing provider to deliver these homes. The capital cost for the 24 homes was £3.2 million and £50k for associated costs.

As the homes had been designated as affordable homes in the planning consent and section 106 agreement, they had been designed specifically for that purpose and accordingly were considered appropriate for the HRA, in line with the needs of households on the council's register or those living in temporary accommodation. There was a significant level of need for one bedroom homes, as well as for larger family homes. The unit sizes and the mix of dwellings were as follows:

- 8 x 1 bed units
- 16 x 2 bed units

It was proposed that the new homes be let in accordance with the council's adopted allocations policy.

The following Members spoke under Council Procedure Rule 20.1:

Councillor Pugh;
Councillor Bayford.

Councillor Whitehead proposed, Councillor Albon seconded and Cabinet agreed the following:

1. The purchase of 24 new affordable homes, using the additional capital budget, approved by Council at its meeting on 12 October 2023;

2. The letting of these homes in accordance with the Council's Allocations Policy, at an affordable rent as set out in the Council's Tenancy Strategy.

68. JACKEY BAKERS RECREATION GROUND

Cabinet considered proposals for the Jackey Baker Recreational Grounds. The proposals were for Cabinet's approval for improvements at Jackey Bakers Recreation Ground. The report that was discussed referred to a petition that was received by the Council in June 2023 about the management of Jackey Bakers Recreation Ground and describes the actions taken since then. The recommendations proposed in the Cabinet report included the demolition of the existing pavilion subject to planning prior approval being granted at the Planning Committee held on the 13th December 2023.

Following demolition, it was proposed that temporary facilities be provided with team changing rooms, showers, officials changing, storage and toilets. The report also proposed the adoption of a master plan (attached as Annex 1 to the report) for the future development of the site. The master plan proposals were not currently funded but the adoption of the plan will inform direction and represent a first step towards securing the required funding for the long-term future of Jackey Bakers. The report further proposed that authority be delegated to investigate the options for a future development on the site based on the master plan, including car parking, a new pavilion and other sporting/recreational facilities that might enhance the offer at the site.

Members were advised that a further report will be presented to the Overview and Scrutiny Panel and the Cabinet once these options have been further explored.

The following Members spoke under Council Procedure Rule 201:

Councillor Rogers;
Councillor Rattigan;
Councillor Will Scobie;
Councillor Austin.

Councillor Albon proposed, Councillor Duckworth seconded and Cabinet agreed the following, to:

1. Approve the demolition of the existing pavilion on the basis of health and safety (subject to the Local Planning Authority giving prior approval*);

2. Approve the purchase of a temporary portacabin style changing facility once demolition has occurred;

3. Approve a public engagement exercise to inform the master planning for Jackey Bakers, based on Section 1 the draft master plan attached at annex 1;
4. Explore facilities that will be installed that will encourage safe enjoyment of Jackey Bakers by girls and young women;

5. Ensure the temporary changing facilities are properly insured and secured;

6. Delegate authority to the Chief Executive Officer to investigate the options for a future development on the site based on the master plan, to include a new car park, new pavilion (to include changing facilities) and other sporting/recreational facilities that might enhance the offer at the site. A report will be represented to the Overview and Scrutiny Panel and the Cabinet once these options have been further explored;

   and

That Cabinet Recommends to Council that:

1. A one-off 2023/24 supplementary General Fund Revenue budget of £370,000 be approved, for the demolition of the existing pavilion and the provision of a temporary portacabin facility, to be funded from the Risk Reserve.

*Local Planning Authority approval was granted on 13 December 2023.

69. PUBLIC TOILETS REFURBISHMENT AND RENEWAL PROJECT

Members discussed proposals for the refurbishment of public toilets that were detailed in the Cabinet report. This report proposes a schedule of investment in public toilets around the district. Budgets totalling £1.25 million with a mixture of revenue and capital funding have been identified. A further sum of £250k is anticipated although not yet approved via an external grant from Southern Water. The report proposes maintenance works at 7 sites. This will focus on addressing existing defects and is not a full refurbishment of the toilets. But it will return them to a much higher standard of repair. Examples of the work content can be found at Annex 1 (to the report) with the estimated cost.

The total spend on revenue repair work is £279k and subject to approval at Cabinet. It was proposed to undertake these works in the new year so that they were complete before the start of the 2024 season. The report also proposed capital works at three sites, Margate Clock Tower, Stone Bay and Botany Bay. These capital works would provide significantly improved and accessible facilities at all three sites. There were currently 27 public toilets in Thanet and this report proposes works in 10 of those 27 locations. This investment was proposed to be the start of an anticipated wider and longer term programme of public toilet improvements subject to further funding being identified.

The report also proposes that a further report be taken to Cabinet before the end of October 2024 to provide an update on toilet refurbishment and improvement works. The report would update on the capital works programme and will propose next steps to address refurbishment or improvements at the public toilets not included in this initial phase. £400k of revenue funding is coming from earmarked reserves. In option 1 £279k would be allocated for revenue repairs and £121k revenue contribution to capital. However, if the Council was required to undertake option 2 then the whole £400k would be allocated to revenue repairs.

The Cabinet recommended to Council that a one-off supplementary General Fund revenue budget of £279k be approved for the repairs to existing facilities; to be funded from the underspend identified at the end of 2022/23 and allocated to earmarked reserves for investment in toilet facilities. Of the £749k budget for the Public Toilets refurbishment and renewal project within the 2023/24 Capital Programme the report suggested that £450k be from borrowing and a £121k contribution from earmarked reserves. Financing of the remaining £179k was going to be identified at a later date.

£400k of funding would be sourced from the Margate Town Deal funding, which was an external grant. Cabinet noted that £400k of approved capital budget was allocated for toilet facilities within the Margate Town Deal scheme in the 2023/24 Capital Programme. It was estimated that Southern Water would allocate funding to the value of £250k.

The following embers spoke under Council Procedure Rule 20.1:

Councillor Pugh;
Councillor Austin.

Councillor Albon proposed, Councillor Duckworth seconded and Cabinet agreed the following:

1. To approve the schedule of works this report suggests in 3.1/3.2 (either option 1 or option 2, dependent on the outcome of discussions with Southern Water) which will be undertaken using:

    i. £400k of funding from earmarked reserves. Under option 1 £279k will be allocated for revenue repairs and £121k revenue contribution to capital. Under option 2 the whole £400k will be allocated to revenue repairs;
    ii. £450k of capital funding (via borrowing);

iii. £400k from the Margate Town Deal funding (external grant);

2. To endorse the proposed financing of the existing £749k budget for the Public Toilets refurbishment and renewal project within the 2023/24 Capital Programme, to be a mix of £450k of borrowing, a £121k contribution from earmarked reserves, with financing of the remaining £179k to be identified at a later date; with the actual financing of the capital programme being determined by the s151 officer as per officer delegations;

3. To approve a budget virement (adjustment) to be made if the discussions with Southern Water are not successful, as per option 2, with a virement of £121k from the budget for the revenue contribution to capital to be transferred to the revenue budget for repairs to existing facilities;

4. To note that £400k of approved capital budget is allocated for toilet facilities within the Margate Town Deal scheme in the 2023/24 Capital Programme;

5. That a further report be taken to Cabinet before the end of October 2024 which provides an update on toilet refurbishment and improvement works, including the outcome of the Southern Water financial contribution. The report shall also propose next steps to address refurbishment or improvements at the public toilets not included in this initial phase;

6. That the Western Undercliff public toilets be added to the list of toilets for consideration when further funding becomes available.

70. <u>TLS PROCUREMENT - RESPONSIVE REPAIRS, VOIDS, COMPLIANCE AND PLANNED AND CYCLICAL WORKS CONTRACT</u>

Cabinet considered proposals for the Tenant and Leaseholder Services procurement of a responsive repairs, voids, compliance and planned maintenance and cyclical works contract. And was asked to “the letting of a 10 year contract, with provision to extend for a further 5 year period to enable a true alliance between contractors and client. This contract is for the provision of responsive repairs, voids, compliance, cyclical and planned works. It will also include an element of works for corporate properties.”

This contract would cover the following:

- Responsive repairs, voids, compliance, cyclical and planned works;
- Provide an element of service for the council's corporate properties;
- Provide an out of hours service for emergency repairs;
- Maintain a customer contact centre for tenants and leaseholders of the council to call to report repairs.

In developing this contract, the Council placed a strong focus on local delivery, directly employed local operatives and the use of local material suppliers. This was in order to add social value to the area through job creation and material supplies. This would also provide the most efficient and responsive delivery through local supply, ensuring that Thanet’s service is given priority, through area buy-in and local knowledge. This approach would also minimise carbon emissions by reducing travel time for operatives and material delivery. The level of work that went into procurement and organisation of a housing service of this scale was extraordinary; as was the progress that had been made within Housing since we brought it back in house.

This contract was last extended in 2020; it cannot be extended further, which means that coming in this May as an administration gives little to no lead time to produce an extended in house service across all areas; much as, as evidenced by my determination to bring Housing back and produce in house temporary housing, and our first in house rough sleeping accommodation, my general inclination is to create and promote in house services wherever possible.

Ideals have to be considered in relation to realities in order to deliver results, and the security of service, especially when what is at stake is the quality of delivered service to a very large number of our residents; and as such focusing on areas that we can deliver in house, such as minor works, and ensuring that our complex and specialist areas function and deliver without interruption is essential. As referenced in the report, we are now choosing to focus heavily on the local economy in housing procurement; our contracts prioritise local jobs, local call centres, and include the requirement for local apprenticeships, to build not only the local economy, but also build skills and employment opportunities.

This combined with our proposed in house expansion of minor works, to explore our delivery of direct services, allows us to deliver not only many highly complex workstreams, but also build our own resilience; and the sheer scale of the number of new strategies being implemented, and the considerable growth of our portfolio means that ensuring reliability of provision at a time when we are still a Council with disproportionately low staffing for the scale of what we deliver means that considering the long term future of all projects is essential and testing the water in terms of in house provision is a vital part of this. The service that now requires procurement is currently being delivered by Mears through a 9 year Partnering Term Contract. This contract is due to expire on 31/3/2025, and due to the complexity of this contract officers have started this exercise now to ensure the right partnering contractor is found, ensuring that we source a contractor that fits the council's ethos and culture.

Since the tenant and leaseholder service was brought in house, officers have ensured strong contractor management and have worked in true partnership with Mears. This has reaped rewards of improved customer satisfaction and performance that can be seen in the number of responsive repairs that are completed on time and the driving down of the void turnaround times. With only five years left on the Mears contract at the point of transition, the stability of the service and the issue of noncompliance with regulatory and legislative factors took logical priority over the exploration of potential options to replace the services of a partnering contractor.

In preparing for this procurement guidance had been sought from a consultant that has a wealth of experience in this area. They conducted a series of stakeholder workshops to assess what was needed and valued within the service; their report recommends continuing with the same model of service delivery. In moving forward officers would apply lessons learnt from the current contract, keep a strong focus on local delivery and the employment and training of local operatives. It was proposed to continue the service in this way because this approach supports:

- The management of the peaks and troughs of workload through seasonal demand;
- Management of the risk of subcontractors going into liquidation;
- Management of TUPE obligations and in addition
- This is a model that is supported by residents;

- We can use this contract to tap into specialist areas without carrying out lengthy procurement exercises;
- A partnering contractor can on board smaller local contractors that local authority procurement regulations make difficult for smaller companies to compete for.

This model worked well with the right contract management and willingness to nurture the partnership to the benefit of both parties. This could be evidenced through the increases in the levels of customer satisfaction. When asked in 2021 and then again in 2023 for residents satisfaction with the way TDC dealt with repairs and maintenance residents gave us the following statistics:

In 2021, residents expressed 63.4% satisfaction with the service.
In 2023, residents expressed 77.75% satisfaction with the service.

This was nearly a 15% increase in satisfaction in two years and were currently heading toward upper quartile performance when comparing with other social housing landlords, which was something that officer should be hugely proud of as a department, and as a Council. In relation to the second lot included in this procurement, Officers had calculated the work required to decarbonise the council's housing stock would cost in the region of £40 million. Members therefore proposed to include procurement for a bid and delivery partner for grant funded works.

The rationale behind this proposal was due to experience gained from our tower block retrofit and refurbishment programme. When grant funding becomes available to the sector, we have to be ready to bid and deliver the works within very tight timeframes. There was £4m per year included for this element; but this would not be spent unless grant funding was available and a winning application was made. This level of spending has been included because our ambitions are to decarbonise the housing stock, provide warm and comfortable homes for residents and achieve this at the best possible value.

There was a desire to explore bringing this service in house. Over the next couple of years, further work would be carried out to see if a Direct Labour Organisation (DLO) was the right model for the Council, for the long-term future. It included extension of provision of some of the in-house services and this would include minor works, fencing and arborist works. The intention was to keep these services available to call off through this contract as well, to provide resilience to the service and to explore the potential for delivery in a safe and managed way.

The implementation of a DLO was a massive undertaking that would provide a very important front line service, therefore must not be rushed. The issue was not the creation of a DLO or otherwise; the issue was the management of whichever model was chosen, and the time and consideration put into its development. Exploring in-house work incrementally, and providing safety to explore options within a secure framework, provides the best of both worlds, informed by the knowledge of the housing stock and our needs as an area.

It was important to be sure that the chosen model fits the Council’s ethos, culture and was right for the tenants and leaseholders; tenants and leaseholders have expressed support for the chosen model. The Council had strong belief that it can implement a local focus linking to the Council’s priorities and strategy through this form of delivery.

The budget for this service comes from the Housing Revenue Account. The HRA was separate from the General Fund and was self-financing through rental and other income generated by HRA owned land and property, and therefore is not supported by tax income. It was important that VfM was obtained for the HRA. The value of this contract was £156 Million if it were to be spent in full and let for the full 15 year duration. This equated to £11m per year. £4m of this per year was set aside for grant funded opportunities and would only be spent if such opportunities arise and if bids are successful.

Once the corporate aspect of the contract had been removed and the £4M per year for grant funded capital works the contract value was nearer £6.7 Million per year. This was £2,200 per property per year (including void works, responsive repairs and allowances for planned and cyclical works). This value was based on the previous year's spend and the consultant has provided a cost model that shows that this value was within the industry norm.

There was a lengthy discussion of this procurement at the Overview and Scrutiny Panel (OSP), and a recommendation was made to:

"Explore performance related pay, and explore the ability to lock in a performance related element."

Officers have carried out the recommendation to explore performance related pay and linked to research undertaken are proposing to not implement this within this contract. The reasons for not including this element in this contract were as follows:

- Financial incentives can skewer the contractor's performance toward certain areas of the contract at the expense of others;
- A contractor will focus on the areas they need to ensure they perform in to maximise income, and could neglect other areas;
- Contractors can spin KPI's to support good performance to gain the incentive;
- The focus for the contractor becomes achieving the KPI to receive the incentive rather than consistent quality over the entire service;
- Disagreements can arise if both parties do not agree on if a payment should be awarded;
- It often does not lead to true partnership working; by taking the performance related incentive out of the discussion we can improve the quality of the service.

The success of the partnership relies on clear objectives, robust key performance indicators (KPIs), and a commitment to continuous improvement. Cabinet would be ensuring that the contract allowed robust performance management via the following:

- Producing a well defined scope and objectives of the contract, ensuring both parties have a mutual understanding of their responsibilities;
- Measurable KPIs that align with TDC's strategic objectives;
- Regular performance reviews will be conducted that create a collaborative environment for feedback and improvement.

Where performance was poor and did not improve with these measures, there was the allowance through the contract to:

- Apply a service improvement plan;
- If performance does not improve, this can lead to a break clause for that service element. Meaning we can remove that element of work and procure our own contractor.

This in itself was a financial incentive because if the partnering contractor loses elements from the scope of work their income would be reduced. A huge amount of work has gone into the preparation of this procurement exercise, and The TLS team have worked incredibly commitment and expertise at Overview and Scrutiny meeting was exceptionally clear, and was recognised by all in Housing.

Councillor Whitehead proposed, Councillor Yates seconded and Cabinet agreed the following:

1. The letting of a 10 year contract, with provision to extend for a further 5 year period to enable a true alliance between contractors and client. This is for the provision of responsive repairs, voids, compliance, cyclical and planned works. This contract will also include an element of works for corporate properties.

71. TLS KPI Q1 & Q2 - HOUSING PERFORMANCE REPORT

Members considered the performance report provided Cabinet with a view of the performance of the Council's Tenant and Leaseholder Service (TLS) for Quarter 1 & Quarter 2 for 2023/24. This included performance information relating to two areas of the TLS and these were:

- Operational performance against key indicators for the period from 1 April 2023 - 31 June 2023 and 1 July 2023 - 31 September 2023;

- The management of tenant and leaseholder health and safety as of 31 June 2023 and 31 September 2023.

As evidenced by the thorough nature of these reports, a huge amount of work went into both collecting and analysing data within Housing and the comprehensive coverage of service performance was something that officers involved in producing this information deserve significant credit for. The new dashboard style reporting, which made information more accessible and very clear to understand was welcome worth special mention. The inclusion of in-depth reporting on the Council's tower block retrofit and refurbishment programme, which was a huge piece of work, was exceptionally positive.

Cabinet was encouraged that gas compliance only had one outstanding case, and that this was linked solely to very complex access issues, as this indicated the level of effort officers had made and were making to ensure that residents were protected. Cabinet acknowledged that the drop in tenant arrears was extremely positive considering the level of financial stress that many residents were currently facing. This was evidence to the huge amount of support that the TLS team were giving to residents to help them access support that they may be entitled to and to support them when times were challenging.

Work in relation to voids was also very pleasing with faster turnaround times which meant more families accommodated more quickly. This was essential to reduce disruption to families and provide secure accommodation as quickly as possible. Cabinet commended reports from the Head of Tenant and Leaseholder Services as being always very thorough. Members also recognised the work that went into collating and presenting performance information and extended their appreciation to the Tenants and Leaseholder Services team.

Councillor Whitehead proposed, Councillor Keens seconded and Cabinet agreed to note the report.

Meeting concluded: 8.10 pm

Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2024/25

Cabinet	11 January 2024
Report Author	Chris Blundell, Director of Corporate Services and Section 151 Officer
Portfolio Holder	Councillor Rob Yates, Cabinet Member for Corporate Services
Status	For Decision
Classification	Unrestricted
Previously Considered by	Governance & Audit Committee-29 November 2023
Ward	Thanet Wide

Executive Summary:

This report and annexes includes the proposed Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement, Annual Investment Strategy, Capital Strategy and Non-Treasury Investments Report (TMSS) for 2024/25.

The Chartered Institute of Public Finance and Accountancy (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."

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides:

- 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).

Key reporting items to consider include:

- capital expenditure of £140.526m forecast over the next three years (2024/25 to 2026/27 inclusive), requiring borrowing of £34.566m.

- No change to the Minimum Revenue Provision policy (policy for paying off the accumulated borrowing requirement).

Recommendation(s):

That the Cabinet:

1. Notes, and makes comments on as appropriate, this report and annexes, including each of the key elements listed below.

   a. The Capital Plans, Prudential Indicators and Limits for 2024/25 to 2026/27, including the Authorised Limit Prudential Indicator;
   b. The Minimum Revenue Provision (MRP) Policy;
   c. The Treasury Management Strategy for 2024/25 to 2026/27 and the Treasury Indicators;
   d. The Investment Strategy for 2024/25 contained in the Treasury Management Strategy, including the detailed criteria;
   e. The Capital Strategy for 2024/25;
   f. The Non-Treasury Investments Report for 2024/25.

2. Recommends this report and annexes, including each of the key elements listed above, to council for approval.

Corporate Implications

Financial and Value for Money

The financial implications are highlighted in this report.

Legal

The Council is required to operate a balanced budget. This report ensures that the Council complies with the requirements of the CIPFA 2021 Prudential and Treasury Management Codes. The provisions of the same are set out in the body of this report.

Risk Management

Risk management is as per the provisions of this annual Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy.

Corporate

Failure to undertake this process will impact on the council’s compliance with the Treasury Management Code of Practice.

Equalities Act 2010 & Public Sector Equality Duty

There are no equity and equalities implications arising directly from this report, but the council needs to retain a strong focus and understanding on issues of diversity amongst the local community and ensure service delivery matches these.

It is important to be aware of the council's responsibility under the Public Sector Equality Duty (PSED) and show evidence that due consideration had been given to the equalities impact that may be brought upon communities by the decisions made by council.

CORPORATE PRIORITIES

This report relates to the following corporate priorities: -

- Growth
- Environment
- Communities.

1 INTRODUCTION

1.1 Background

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.

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.

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.

Whilst any commercial activities 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.

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."

1.2 Reporting requirements

1.2.1 Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare reports 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 is to ensure:

- that all elected members of the council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.
- the separation of treasury management and policy investments. The CIPFA definition of treasury management is given in section 1.1 and the key priorities are firstly security, secondly portfolio liquidity, and thirdly yield/return (in that order). Policy investments are typically projects relating to expenditure on fixed assets (such as land and buildings) for service purposes, and would be included on the capital programme.

For this council, these additional reports are the Capital Strategy (see Annex 4) and the Non-Treasury Investments Report (see Annex 5).

1.2.2 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. In addition, this council 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.

Scrutiny
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.

Quarterly reports
In addition to the three major reports detailed above, quarterly reporting (end of June/end of December) is also required. These additional reports do not have to be reported to council but do require adequate scrutiny, which is undertaken by the Governance and Audit Committee.

1.2.3 The council's 2021/22 and 2022/23 accounts have not yet been audited and hence the figures in this report are subject to change.

1.3 Treasury Management Strategy for 2024/25

The strategy for 2024/25 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, DLUHC Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

1.4 Training

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.

Furthermore, the Code states that it expects “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 scale and nature of this will depend on the size and complexity of the organisation’s treasury management needs. Organisations should consider how to assess whether treasury management staff and council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and council members.
- Require treasury management officers and council members to undertake self-assessment against the required competencies.
- Have regular communication with officers and council members, encouraging them to highlight training needs on an ongoing basis.

In further support of the revised training requirements, CIPFA’s Better Governance Forum and Treasury Management Network have produced a ‘self-assessment by members responsible for the scrutiny of treasury management’, which is available from the CIPFA website to download.

Training was last undertaken by members on 27 September 2023 and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

A record will be maintained of the treasury management/capital finance training received by officers central to the Treasury function and by members.

1.5 External service providers

The council uses Link Group, Link Treasury Services Limited 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 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 subjected to regular review.

The council uses the Institutional Cash Distributors (ICD) Portal to invest or redeem trades in its Money Market and Bond Funds (MMBFs). The portal provides advanced reporting tools so that the authority can assess its exposure to certain banks or countries.

Most investments via the ICD portal are made via JP Morgan, who act as a clearing house for eleven of the fourteen MMBFs the council currently uses. The clearing house allows the authority to make several investments in different MMBFs but only requires one payment to the clearing house, therefore saving the authority costs in CHAPS fees.

2 THE CAPITAL PRUDENTIAL INDICATORS 2024/25 – 2026/27

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

2.1 Capital expenditure and financing

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:

Capital expenditure £m	2022/23 Provisional Actual	2023/24 Budget	2024/25 Budget	2025/26 Budget	2026/27 Budget
General Fund	12.054	26.640	52.625	20.250	6.493
HRA	4.123	34.095	25.746	19.991	15.421
Total	**16.177**	**60.735**	**78.371**	**40.241**	**21.914**

The table below summarises 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 £m	2022/23 Provisional Actual	2023/24 Budget	2024/25 Budget	2025/26 Budget	2026/27 Budget
Capital receipts - GF	0.654	4.653	0.776	0.350	0.350
Capital receipts - HRA	0.553	1.517	2.748	0.140	0.147
Grants and other contributions- GF	7.104	14.336	45.417	7.929	3.000
Grants and other contributions - HRA	0.000	1.583	10.038	7.797	3.240
Reserves - GF	2.430	1.034	0.120	1.370	0.070
Reserves - HRA	3.169	9.023	7.800	6.894	6.874
Revenue - GF	0.000	0.112	0.000	0.000	0.000
Revenue - HRA	0.316	0.370	0.300	0.300	0.300
Net financing need for the year	**1.951**	**28.107**	**11.172**	**15.461**	**7.933**

Other long term liabilities: The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

2.2 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 (on buildings, vehicles etc) 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. It can also be helpful to compare it to the outstanding balance that is still payable on a loan or a mortgage, in this case we are considering how much of the council's debt still needs to be paid for. Any capital expenditure above, which has not immediately been paid for, 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 asset's 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 from the provider and so the council is not required to separately borrow for these schemes. The council had a provisional £0.767m of long term liabilities (excluding pensions) as at 31 March 2023.

The council is asked to approve the CFR projections below:

£m	2022/23	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate

	Provisional Actual				
Capital Financing Requirement					
CFR – General Fund	23.922	28.687	44.227	52.560	52.750
CFR – HRA	28.312	49.631	54.995	59.305	63.572
Total CFR	**52.234**	**78.318**	**99.222**	**111.865**	**116.322**
Movement in CFR	**0.555**	**26.084**	**20.904**	**12.643**	**4.457**

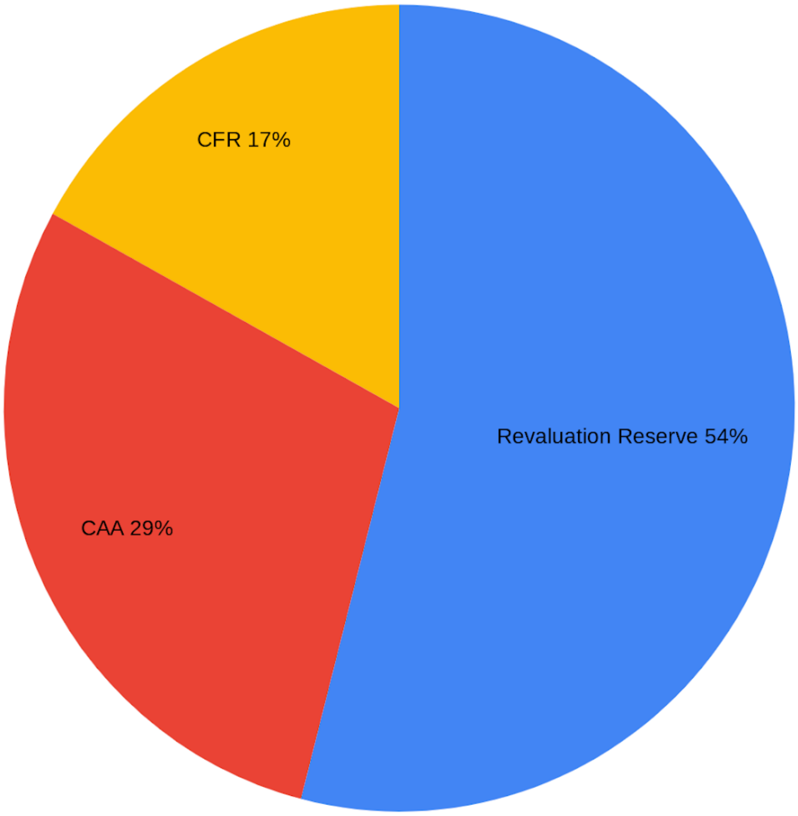
Net financing need for the year (above)	1.951	28.107	11.172	15.461	7.933
Less MRP/VRP and other financing movements*	(1.396)	(2.023)	9.732	(2.818)	(3.476)
Movement in CFR	**0.555**	**26.084**	**20.904**	**12.643**	**4.457**

**2024-25 includes an estimate for the recognition of leases under International Financial Reporting Standard 16 (IFRS 16).*

The Fixed Asset Analysis chart below shows that, using the council's draft accounts as at 31 March 2023, 17% of the council's capital / long-term assets had yet to be funded (CFR) and 29% had effectively been paid off or funded (Capital Adjustment Account). The remaining 54% represented the aggregate increase in value of these assets since acquisition by the council.

Fixed Asset Analysis	**£m**	**%**
Capital Financing Requirement (CFR)	52	17
Capital Adjustment Account (CAA)	91	29
Revaluation Reserve	168	54
Fixed Assets (total of above)	**311**	**100**

Fixed Asset Analysis



2.3 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources £m	2022/23 Provisional Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Fund balances / reserves	22.975	20.451	15.673	14.575	15.485
Capital receipts	8.175	5.212	1.149	1.834	1.834
Earmarked reserves	16.256	14.770	14.744	15.244	15.744
Total core funds	**47.406**	**40.433**	**31.566**	**31.653**	**33.063**
Balances incl working capital*	44.778	10.000	3.815	4.037	2.583
(Under)/over borrowing	(31.585)	(0.433)	(0.381)	(0.690)	(0.646)
Expected investments	**60.599**	**50.000**	**35.000**	**35.000**	**35.000**

**Working capital balances shown are estimated year end; these may be different mid-year and can vary significantly depending on operational timing factors.*

2.4 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:

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

- **Existing practice** - MRP will follow the existing practice outlined in former DLUHC regulations (option 1).

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) 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) (option 3);

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

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

The principal element of repayments included in annual PFI or finance leases are applied as MRP.

For capital expenditure on loans to third parties (funded from borrowing) where the principal element of the loan is being repaid in instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP. MRP will be charged at a rate in line with the life of the assets funded by the loan.

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

3 BORROWING

The capital expenditure plans set out in Section 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.

3.1 Current portfolio position

The overall treasury management portfolio as at 31 March 2023, and the position as at 30 September 2023, are shown below for both borrowing and investments.

TREASURY PORTFOLIO (provisional)				
	Actual 31 March 2023	Actual 31 March 2023	Actual 30 Sept 2023	Actual 30 Sept 2023
Treasury Investments	**£m**	**%**	**£m**	**%**
Banks	6.085	10.04	6.285	11.34%
Money Market Funds	53.512	88.31	48.156	86.86%
Bond Funds	1.002	1.65	1.000	1.80%
Total (all managed in-house)	**60.599**	**100.00**	**55.441**	**100.00**
Treasury External Borrowing				
PWLB	15.382	77.37	15.218	77.18
LOBOs	4.500	22.63	4.500	22.82
Total	**19.882**	**100.00**	**19.718**	**100.00**
Net treasury investments / (borrowing)	**40.717**		**35.723**	

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.

£m	2022/23 Provisional Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
External Debt					
Debt at 1 April	20.216	19.882	77.317	86.273	98.952
Expected change in Debt	(0.334)	57.435	8.956	12.679	4.501
Other long-term liabilities (OLTL) at 1 April	1.136	0.767	0.568	12.568	12.223
Expected change in OLTL*	(0.369)	(0.199)	12.000	(0.345)	0.000
Gross debt at 31 March	**20.649**	**77.885**	**98.841**	**111.175**	**115.676**
The Capital Financing Requirement*	52.234	78.318	99.222	111.865	116.322
Under / (over) borrowing	**31.585**	**0.433**	**0.381**	**0.690**	**0.646**

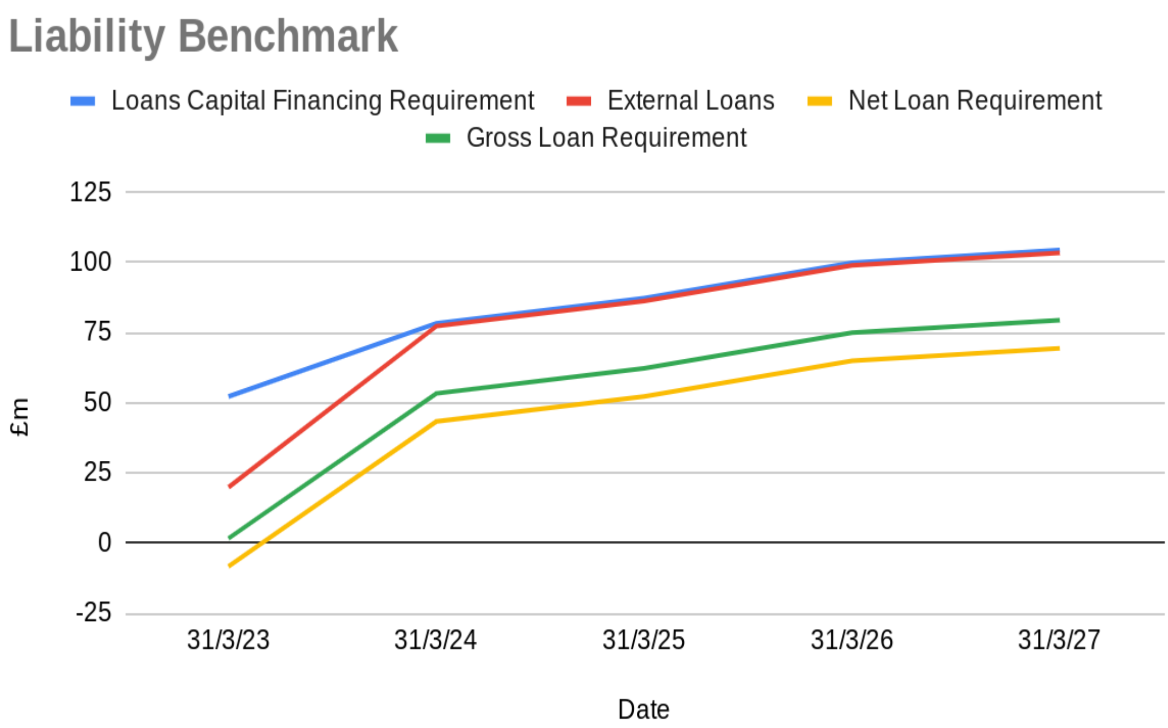
**2024/25 includes an estimate for the recognition of leases under International Financial Reporting Standard 16 (IFRS 16).*

Within the range of prudential indicators there are a number of 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 2024/25 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 Section 151 Officer reports that the council 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.

3.1.1 Liability Benchmark

The chart below shows the council's maximum loan position (Loans Capital Financing Requirement), the council's budgeted loan position (External Loans), the council's projected loan position if all treasury balances were used in place of external borrowing (Net Loan Requirement) and the Net Loan Requirement with the addition of a £10m treasury balance buffer to reflect that the council seeks to maintain liquid short term deposits of at least £10m available with a week's notice as per this report (Gross Loan Requirement).



As can be seen, External Loans are projected to approach the Loans CFR in future years, ensuring that external loan balances and interest are factored into budgets.

However, the council will continue to explore and utilise internal borrowing opportunities as appropriate to reduce its net interest cost.

3.2 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 £m	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Debt	96.000	101.500	113.500	118.500
Other long term liabilities (incl leases)	10.000	35.000	35.000	35.000
Total	106.000	136.500	148.500	153.500

The authorised limit for external debt. This is a key prudential indicator and 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 £m	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Debt	101.000	106.500	118.500	123.500
Other long term liabilities (incl leases)	15.000	45.000	45.000	45.000
Total	116.000	151.500	163.500	168.500

Composition of Operational Boundary and Authorised Limit

Debt (in both the Operational Boundary and Authorised Limit above) for 2023/24 onwards includes:

a) an uplift for capital expenditure being incurred in advance of generating capital receipts to fund this expenditure (£4m uplift in 2023/24 and £3.5m uplift in later years) although, for clarity, any such expenditure is not limited to £4m/£3.5m. As this is anticipated to be a relatively short-term timing difference it has not been reflected elsewhere in this report. Potential examples of such projects include Office Accommodation and Public Toilet Refurbishment.

b) a £5m uplift to provide additional capacity for any non-treasury investments that the council may pursue. For clarity, any such investments are not limited to £5m and are in addition to any such amounts already included within the capital and treasury estimates. This has not been reflected elsewhere in this report, pending the formulation and approval of any such items.

Other long term liabilities (in both the Operational Boundary and Authorised Limit above) includes an estimate for the recognition of leases under International Financial Reporting Standard 16 (IFRS 16) from April 2024. Once full details are known, the Operational Boundary and/or Authorised Limit may need to be revised for approval.

3.3 Link's economic and interest rate forecast (issued by Link on 13 Nov 2023)

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 7 November 2023. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 basis points.

Link Group Interest Rate View	07.11.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

Further details are provided in annex 6.

3.4 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 medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate remains elevated through to the second half of 2024.

Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Section 151 Officer 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 those currently forecast* then the portfolio position will be re-appraised. For example, fixed rate funding could be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.5 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.

Borrowing in advance will be made within the constraints that:

- The authority would not look to borrow more than 18 months in advance of need.

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.

3.6 Debt rescheduling

Rescheduling of current borrowing in the council's debt portfolio may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate.

If rescheduling were done, it will be reported to Cabinet at the earliest meeting following its action.

3.7 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 be given to sourcing funding from the following sources:

- Local authorities
- Financial institutions (primarily insurance companies and pension funds but also some banks, including forward dates)
- Municipal Bonds Agency
- Other sources of government funding (such as the UK Infrastructure Bank and Salix Finance for example).

3.8 Approved Sources of Long and Short term Borrowing

The council may make use of borrowing from internal sources, PWLB, local authorities, financial institutions, the Municipal Bonds Agency, and/or other sources of government funding as and when appropriate.

4 ANNUAL INVESTMENT STRATEGY

4.1 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 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 are covered in the Capital Strategy and Non-Treasury Investments Report (separate annexed reports).

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 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 DLUHC 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 financial 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 annex 2 under the categories of 'specified' and 'non-specified' investments.

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

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

5. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified treasury management investments at £5m (see paragraphs 4.2, 4.3 and 4.4).

6. **Lending limits** (amounts and maturity) for each counterparty will be set through applying the matrix table in paragraph 4.2.

7. This authority will set a limit for the amount of its investments which are invested for maturities **longer than 365 days** (see paragraphs 4.2 and 4.4).

8. This authority will set a limit for the amount of its investments which are invested in **longer-term instruments with no fixed maturity date** (see paragraphs 4.2 and 4.4).

9. Investments will only be placed with counterparties from foreign countries which have a specified minimum **sovereign rating**, (see paragraph 4.3). This does not apply to pooled investment vehicles.

10. 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.

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

12. As a result of the change in accounting standards 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 Ministry of Housing, Communities and Local Government (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 March 2023. A further extension to the override to 31 March 2025 has since been agreed by the Government.

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.

Changes in risk management policy from last year.

The above criteria are unchanged from last year.

4.2 Creditworthiness policy

The primary principle governing the council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the council's prudential indicators covering the maximum principal sums invested.

The Section 151 Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the council may use, rather than defining what types of investment instruments are to be used.

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

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

- Banks 1 - good credit quality – the council will only use banks which:
  i. are UK banks; and/or
  ii. are non-UK and domiciled in a country which has a minimum sovereign long term rating of AA-

  and have, as a minimum, the following credit rating from at least one of Fitch, Moody's and Standard and Poors (where rated):

  i. Short term – F1 (or equivalent)
  ii. Long term – A- (or equivalent)

- Banks 2 – Part nationalised UK bank – Royal Bank of Scotland Group ring-fenced operations. This bank can be included provided it continues to be part nationalised or it meets the above criteria.
- Banks 3 – The council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.
- Bank subsidiary and treasury operations: If separately rated, the council will use those that meet the ratings/criteria for banks outlined above. If not separately rated, the council will use these where the parent bank has the necessary ratings/criteria outlined above.
- Building societies: The council will use all societies which meet the ratings/criteria for banks outlined above.
- Money market funds, enhanced money market funds, bond funds – AAA
- UK Government (including gilts, treasury bills and the DMADF)
- Local authorities, parish councils, community councils, companies controlled by the council (either alone or with other public sector organisations) etc
- Housing associations
- Supranational institutions
- Multi-asset funds

A limit of £5m will be applied to the use of non-specified investments.

Use of additional information other than credit ratings. Additional requirements under the Code require the council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments. The time and monetary limits for institutions on the council's counterparty list are as follows (these will cover both specified and non-specified investments):

	Fitch Long Term Rating (or equivalent)*	Money Limit	Time Limit (settlement period)
Level 1	**AA-**	**£6m per institution**	**370 days**
Level 2	**A**	**£5m per institution**	**370 days**
Level 3	**A-**	**£4m per institution**	**185 days**
Part nationalised	**N/A**	**£7m per institution**	**370 days**
UK Government (including gilts, treasury bills and the Debt Management Account Deposit Facility)	**UK sovereign rating**	**unlimited**	**2 years**
Money market funds, enhanced money market funds, bond funds	**AAA**	**£6m per fund**	**370 days**
Local authorities, parish councils, community councils, companies controlled by the council (either alone or with other public sector organisations), housing associations, supranational institutions etc	**N/A**	**£4m per institution**	**5 years**
Multi-asset funds	**N/A**	**£5m per fund**	**370 days**

**The institution must have this minimum credit rating from at least one of Fitch, Moody's, and Standard and Poors (where rated).*

The proposed criteria for specified and non-specified investments are shown in Annex 2 for approval.

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. Nonetheless, when setting minimum sovereign debt ratings, this council will not set a minimum rating for the UK.

CDS prices
Although bank CDS prices (these are market indicators of credit risk) spiked upwards during the autumn of 2022, 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 monitors CDS prices as part of its creditworthiness service to local authorities and the council has access to this information via its Link-provided Passport portal.

4.3 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 treasury management investment limit.** The council has determined that it will limit the maximum total exposure to non-specified treasury management investments at £5m.

b) **Country limit.** The council has determined that it will only use approved counterparties from the UK (irrespective of the UK sovereign credit rating) or other countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

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

- no more than £5m will be placed with any non-UK country at any time (this limit applies to each non-UK country individually and not to non-UK countries in total);
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

The above restrictions do not apply to pooled investment vehicles (including multi-asset funds (apart from the non-specified investment limit), money market funds, enhanced money market funds and bond funds). The council only invests in sterling denominated pooled investment vehicles.

4.4 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. However, there is the prospect of Bank Rate having peaked in the second half of 2023 and possibly reducing as early as the second half of 2024 so an agile investment strategy would be appropriate to optimise returns.

While most cash balances are required in order 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.

Link's investment returns expectations (issued by Link on 17 November 2023):

Link's current forecast, shown in section 3.3, includes a forecast for Bank Rate to have peaked at 5.25% in Q4 2023.

Link's suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows: -

Average earnings in each year	
2023/24 (remainder)	5.30%
2024/25	4.70%
2025/26	3.20%
2026/27	3.00%
2027/28	3.25%
Years 6 to 10	3.25%
Years 10+	3.25%

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

Investment treasury indicator and limit - total principal funds invested for maturities 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 following treasury indicator and limit: -

Upper limit for principal sums invested for maturities longer than 365 days			
£m	**2023/24**	**2024/25**	**2025/26**
Principal sums invested for maturities longer than 365 days	£5m	£5m	£5m

Investments as at 31 September 2023 invested for maturities longer than 365 days were £nil.

For its cash flow generated balances, the council will seek to utilise its instant access and notice accounts, pooled investment vehicles and term deposits in order to benefit from the compounding of interest.

Investment treasury indicator and limit - longer term treasury management investments. Longer term instruments with no fixed maturity date include pooled bond, equity and property funds (but not money market funds), as well as directly held equities.

The council has determined that it will limit the maximum total exposure to longer term treasury management investments at £5m.

Investments made in longer term treasury management investments as at 31 September 2023 were £1m (in a bond fund). Despite this categorization for TMSS purposes, this bond fund is still held for cash flow purposes given that it seeks to maintain liquidity with a low level of capital volatility and has a settlement period of two days.

4.5 Investment performance / risk benchmarking

These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmarks is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

Security - The council's maximum security risk benchmark for the current portfolio, when compared to historic default tables, is:

- 0.05% historic risk of default when compared to the whole portfolio (excluding unrated investments).

Liquidity – in respect of this area the council seeks to maintain:

- Liquid short term deposits of at least £10m available with a week's notice.
- Weighted average life benchmark is expected to be in the range of 0 to 1 years, with a maximum of 5 years.

Yield - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day SONIA compounded rate.

And in addition that the security benchmark for each individual year is (excluding unrated investments):

	1 year	2 years	3 years	4 years	5 years
Maximum	**0.05%**	**0.05%**	**0.05%**	**0.05%**	**0.05%**

Note: This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

4.6 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.

4.7 Use of external fund managers

Except for pooled funds, it is the council's policy not to use external fund managers for any part of its investment portfolio.

The council may use pooled investment vehicles and fully appreciates the importance of monitoring the activity and resultant performance of such investments. In order to aid this assessment, the council is provided with a suite of regular reporting from its providers.

4.8 Ethical treasury and capital investing

Although investment guidance, both statutory and from CIPFA, makes clear that all investing must adopt the principles of security, liquidity and yield (in that order) the council is committed to ethical high standards and declared a climate emergency on 1 July 2019; doing what is within its power to become carbon neutral by 2030 within its estates and activities. This includes establishing a Climate Emergency Cabinet Advisory Group to drive the production of an Energy and Low Emissions Strategy and action plan (linked with the Kent Energy and Low Emission Strategy) and a Council Tree and Biodiversity Strategy (to address both climate change and the ecological emergency).

Environmental, Social and Governance (ESG) metrics are incorporated into the credit rating agency assessments which the council uses in its investment strategy.

Typical ESG considerations are shown below.

Environmental: Emissions and air quality, energy and waste management, waste and hazardous material, exposure to environmental impact.

Social: Human rights, community relations, customer welfare, labour relations, employee wellbeing, exposure to social impacts.

Governance: Management structure, governance structure, group structure, financial transparency.

Through its treasury agency service provider, the council has access to Sustainable Deposits (with investments referenced against the United Nations Sustainable Development Goals) and utilises these deposits from time to time subject to its requirements for security, liquidity and yield.

The council's capital plans include the estimated cost of replacing its diesel powered vehicles and equipment with electric equivalents, where practical to do so, on a phased basis. These capital plans also include the estimated cost of associated infrastructure requirements (such as charging points).

5 COMMERCIAL INVESTMENTS

The council's Non-Treasury Investments Report 2024/25 (Annex 5) stipulates that, for a new non-treasury investment in a new asset, the council may only purchase property, make investments and/or make loans for service purposes (i.e. not for purely/primarily commercial purposes, though it may still generate revenue).

If a local authority is planning to acquire investment assets bought primarily for yield then it is now unable to borrow from the PWLB to finance any expenditure in its capital plan.

6 OPTIONS

6.1 That the Cabinet:

a) Notes, and makes comments on as appropriate, this report and annexes, including each of the key elements listed below.

- The Capital Plans, Prudential Indicators and Limits for 2024/25 to 2026/27, including the Authorised Limit Prudential Indicator.
- The Minimum Revenue Provision (MRP) Policy.
- The Treasury Management Strategy for 2024/25 to 2026/27 and the Treasury Indicators.
- The Investment Strategy for 2024/25 contained in the Treasury Management Strategy, including the detailed criteria.
- The Capital Strategy for 2024/25.
- The Non-Treasury Investments Report for 2024/25.

b) Recommends this report and annexes, including each of the key elements listed above, to council for approval.

6.2 Does not approve this report and annexes (advising the reason(s) why); thereby not complying with the Treasury Management Code of Practice.

7 Next Steps

7.1 This report is to go to the 8 February 2024 council meeting for approval.

8 DISCLAIMER

This report (including its annexes) is a technical document focussing on public sector investments and borrowings and, as such, readers should not use the information contained within the report to inform personal investment or borrowing decisions. Neither Thanet District Council nor any of its officers or employees makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein (such information being subject to change without notice) and shall not be in any way responsible or liable for the contents hereof and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. Any opinions, forecasts or estimates herein constitute a judgement and there can be no assurance that they will be consistent with future results or events. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise in connection therewith.

Contact Officer: Chris Blundell, Director of Corporate Services & Section 151 Officer
Reporting to: Colin Carmichael, Interim Chief Executive

Annex List

Annex 1: The Capital Prudential and Treasury Indicators 2022/23 – 2026/27
Annex 2: Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management
Annex 3: Guidance on Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy (TMSS)
Annex 4: Capital Strategy 2024/25
Annex 5: Non-Treasury Investments Report 2024/25

Annex 6: Link's Economic and Interest Rate Forecast (issued by Link on 17 November 2023)

Corporate Consultation Undertaken

Finance: N/A
Legal: Ingrid Brown, Head of Legal and Democracy & Monitoring Officer

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ANNEX 1 - THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2022/23 – 2026/27

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.

1. Capital expenditure

Capital expenditure £m	2022/23 Provisional Actual	2023/24 Budget	2024/25 Budget	2025/26 Budget	2026/27 Budget
General Fund	12.054	26.640	52.625	20.250	6.493
HRA	4.123	34.095	25.746	19.991	15.421
Total	**16.177**	**60.735**	**78.371**	**40.241**	**21.914**

2. Affordability prudential indicators

The previous section covers 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. The 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.

%	2022/23 Provisional Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
General Fund	4.9	5.6	15.6	19.4	22.6
HRA	2.2	3.5	14.4	17.1	17.8

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

b. **HRA ratios**

	2022/23 Provisional Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
HRA debt £m	12.587	49.631	54.995	59.305	63.572
HRA rents £m	13.019	15.143	17.566	17.863	18.591
Ratio of debt to rents %	96.7	327.8	313.1	332.0	342.0

£	2022/23 Provisional Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
HRA debt £m	12.587	49.631	54.995	59.305	63.572
Number of HRA dwellings	3,053	3,100	3,212	3,324	3,437
Debt per dwelling £	4,123	16,010	17,122	17,841	18,496

3. 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 2024/25		
	Lower	**Upper**
Under 12 months	0%	50%
12 months to under 2 years	0%	50%
2 years to under 5 years	0%	50%
5 years to under 10 years	0%	50%
10 years to under 20 years	0%	50%
20 years to under 30 years	0%	50%
30 years to under 40 years	0%	50%
40 years to under 50 years	0%	50%
50 years and above	0%	50%

Maturity structure of variable interest rate borrowing 2024/25		
	Lower	**Upper**
Under 12 months	0%	50%
12 months to under 2 years	0%	50%
2 years to under 5 years	0%	50%
5 years to under 10 years	0%	50%
10 years to under 20 years	0%	50%
20 years to under 30 years	0%	50%
30 years to under 40 years	0%	50%
40 years to under 50 years	0%	50%
50 years and above	0%	50%

4. Control of interest rate exposure

Please see paragraphs 3.3, 3.4 and 4.4 of the main report.

5. **Ratio of investment property net income to net revenue stream** This indicator identifies the trend in the relative significance of investment property income.

%	2022/23 Provisional Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
General Fund	5.7	5.7	5.5	5.5	5.5

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ANNEX 2 - TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

The DLUHC issued Investment Guidance in 2018, and this forms the structure of the council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This council adopts the Code and will apply its principles to all investment activity. In accordance with the Code, the Section 151 Officer has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Annual investment strategy

The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of the annual treasury strategy for the following year, covering the identification and approval of the following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the council will use. These are high security and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the council is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified investments - These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the council has the right to be repaid within 12 months if it wishes. They also include investments which were originally classed as being non-specified investments, but which would have been classified as specified investments apart from originally being for a period longer than 12 months, once the remaining period to maturity falls to under 12 months.These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. Local authorities, housing associations, parish councils, community councils, companies controlled by the council (either alone or with other public sector organisations) etc.
4. Money market funds, enhanced money market funds and bond funds that have been awarded a high credit rating by a credit rating agency. This covers pooled investment vehicles rated AAA by Standard and Poor's, Moody's and/or Fitch rating agencies (where rated).

5. A body that is considered of a high credit quality (such as a bank or building society). This covers bodies with a minimum short term rating of F1 (or the equivalent) and minimum long term rating of A- (or the equivalent) as rated by at least one of Standard and Poor's, Moody's and/or Fitch rating agencies (where rated).
6. Any part nationalised UK bank or building society.
7. Any subsidiary and treasury operations that meet the above criteria or, if not separately rated, where the parent bank or building society has the necessary ratings outlined above.
8. The council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.

In accordance with the Code, the council has set additional criteria to set the time and amount of monies which will be invested in these bodies, as set out in the council's annual investment strategy.

Non-specified investments

Non-specified investments are any other type of investment (i.e. not defined as specified above). The council may only use the following non-specified investments:

1. Those with a maturity of no more than 5 years and which otherwise meet the above criteria for specified investments.

2. Multi-asset funds.

The council has applied a limit of £5m for non-specified investments.

The monitoring of investment counterparties

The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Section 151 Officer, and if required new counterparties which meet the criteria will be added to the list.

Use of external fund managers: Except for pooled funds, it is the council's policy not to use external fund managers for any part of its investment portfolio. The council may use pooled investment vehicles and fully appreciates the importance of monitoring the activity and resultant performance of such investments. In order to aid this assessment, the council is provided with a suite of regular reporting from its providers.

ANNEX 3 - GUIDANCE ON TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY (TMSS)

Prudential Code

The Prudential Code was developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) as a professional code of practice for capital finance, to which local authorities must have regard.

Capital Expenditure

The Capital Expenditure table (section 2.1 of report) is split between the Council's Housing Revenue Account (HRA) and General Fund (GF or non-HRA).

The table also shows the resources used to fund the capital expenditure (being capital receipts from the sale of assets, capital grants, capital reserves and revenue) and any shortfall in resources. This shortfall is described as the 'net financing need' and represents the Council's borrowing need.

Borrowing Need (Capital Financing Requirement)

The Capital Financing Requirement (CFR) represents the Council's aggregate borrowing need. i.e. the element of the capital programme that cannot be funded.

The table (section 2.2 of report) shows how the net financing need (borrowing requirement) increases the CFR.

So that the CFR does not increase indefinitely, an annual resource contribution from revenue must be set against it (called the Minimum Revenue Provision or MRP), which is shown in the table.

Core Funds and Expected Investment Balances

This table (section 2.3 of report) shows that the Council may satisfy its net financing need by borrowing from its own reserves or cashflow (internal borrowing) rather than from an external provider (external borrowing).

Either form of borrowing may only be undertaken for capital expenditure purposes.

MRP Policy Statement

This describes the method for calculating the annual MRP contribution described above (section 2.4 of report).

Borrowing

Current portfolio position – this table (section 3.1 of report) shows that the Council's debt is not more than the CFR because, as above, the CFR represents the Council's aggregate borrowing need.

Borrowing limits (section 3.2 and annex 1 of report) – there are various general controls on the Council's borrowing activity (operational boundary, authorised limit and maturity profiles).

PWLB is the Public Works Loan Board, which is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

Basis Points

The report may refer to basis points, which is a unit of measure for interest rates. 1 basis point is equal to 0.01%, so 100 basis points is 1%.

Annual Investment Strategy

This section (section 4 of report) sets out general controls on the Council's investment activity to safeguard the security and liquidity of its investments, including:

- Creditworthiness of investment counterparties.
- Counterparty money limits.
- Counterparty time limits.
- Counterparty country limits.

Ratio of Financing Costs to Net Revenue Stream

This table (annex 1 of report) shows (separately for HRA and GF) the percentage of the Council's revenue stream that is used to finance the CFR (net interest payable and MRP).

Ratio of Investment Property Net Income to Net Revenue Stream

This table (annex 1 of report) shows the relative size of the Council's income from investment property.

ANNEX 4: THANET DISTRICT COUNCIL - CAPITAL STRATEGY 2024/25

1. Background

It is a requirement of the CIPFA Prudential Code for Capital Finance in Local Authorities that local authorities produce a Capital Strategy for consideration and approval by Members.

The Capital Strategy forms part of this council's integrated revenue, capital and balance sheet planning. Capital expenditure and associated investment decisions are taken in-line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability. Due consideration is given to both risk and reward, and impact on the achievement of priority outcomes.

2. Priorities and Objectives

Like most councils, this council has capital expenditure needs that far exceed its potential capital resources, particularly given public sector funding cuts and resource pressures.

Accordingly, this council's Capital Protocol is that financial resources and assets are used to their maximum effect, and that Financial Procedure Rules and Contract Standing Orders are adhered to, with the following objectives:

a) Corporate Plan/council priorities, including any environmental impact, are considered when prioritising limited resources (see section 3 below).

b) All financial implications arising from the project are identified (e.g. match funding requirements and ongoing unsupported revenue costs etc.).

c) The correct authorisation is obtained to enter into an agreement for capital expenditure.

d) The project progresses as approved and within budget. Any further budget approvals will be sought at the earliest opportunity if it becomes apparent that further funding is needed.

e) Monitoring takes place in a timely manner, with frequency and detail determined by the risks associated with the capital scheme.

f) All expenditure is properly procured, incurred and recorded.

g) The achievement of all project outcomes, outputs and results are assessed as part of post project completion evaluation.

h) There is a documented audit trail for all expenditure and income relating to the project.

i) Issues that may affect project delivery are identified and considered appropriately (e.g. legal, VAT and capacity issues).

j) Any significant changes to the project are considered in the overall prioritisation of the capital programme and the correct authorisation is obtained.

3. Corporate Priorities and Values

The council will use its corporate priorities to help prioritise its investment in, and disposal of, assets. The current corporate priorities are:

Growth: We will continue to ensure we work to consider new ways to generate income and invest our current resources. Delivering a Council that is financially strong to discharge its services and invest in the growth of the District.

Environment: Having a clean and well-maintained environment remains important to us. We will be clear with our residents on what we will do and what our asks of residents are - cultivating a shared responsibility approach. Delivering a clean and accessible living environment, maintaining an emphasis on prevention but where necessary we will use an enforcement approach.

Communities: Through effective partnership working with both the public sector agencies and the community, we will provide leadership and direction across the district and the region to ensure everyone is working to the same goal. Delivering high-quality housing, safer communities and enhancing the health and wellbeing of our residents.

4. Revenue Implications

As per section 2b, council rules require that all financial implications arising from a capital project are identified, including revenue implications which can include:

a) The cost of borrowing (the revenue provisions for the repayment of debt and interest charges).

b) Loss of investment income from capital receipts and/or reserve balances.

c) Running costs associated with the project.

d) The positive impact of investment and economic growth on the council's tax base and business rates income.

e) The generation of additional revenue streams for the council.

f) The utilisation and attribution of staff time and resources to capital projects including, but not limited to, the need to back-fill officer time attributed to capital schemes.

5. Focussing the capital programme on delivering the council's priorities

The capital programme demands significant resources which, if not managed effectively, can actually impede what the council is looking to deliver. The Capital Strategy is to pay particular attention to better aligning the capital programme to the council's corporate values and priorities.

In particular:

<u>Slippage</u>
Slippage will not be an acceptable norm. Capital schemes will be at risk of having their council funding re-directed should there be delays that cannot be substantiated (schemes that are externally funded may require more flexibility however). As such, schemes will be

profiled accurately so that annual capital budgets reflect the reality of capital scheme delivery. Accordingly, the funding allocated to schemes that are significantly underspent at year-end will be considered for redistribution or returned for savings.

Best use of our Assets
Assumptions that a council owned asset should be invested in or disposed of will be challenged - consideration of whether that asset could be better utilised will need to be evaluated and demonstrated.

Revenue Generation
Opportunities for revenue generation should be explored. Subject to (a) being able to stabilise its financial position, and (b) risk considerations, the council should consider investing in a wider choice of assets that can generate better returns/outcomes. More information is given in the council's Non-Treasury Investments Report.

The Corporate Management Team (CMT) will be taking the lead on achieving the focus the capital programme requires and may, at its discretion, delegate some or all of this work to a sub-team whose membership includes at least one CMT member (the Capital Team).

6. Assessing and Monitoring Schemes

Officer arrangements for assessing and monitoring capital schemes is overseen by CMT (which includes the council's Section 151 Officer) and its Capital Team sub-group. The role of CMT in this regard is:

a) To coordinate all aspects of the council's Capital Programme including the assessment of bids, preparation of the programme, monitoring and post audit reviews.

b) To review annually the capital assessment and prioritisation methodology (see section 3 above).

c) To evaluate and prioritise all projects submitted according to the council's prioritisation methodology.

d) To produce a capital programme based upon the prioritised scoring methodology .

e) To monitor capital schemes and to summarise all variation reports received by client officers.

f) To consider requests for capital bids during the year and, where the request is considered urgent, to score and prioritise within the whole programme, together with making funding arrangements.

g) To review the scheme evaluation reviews and ensure lessons learnt and where necessary to amend the Capital Protocol.

h) To review all capital slippage and underspends at financial year end and re-evaluate with regards to the council's priorities and resources.

As per section 5, CMT may, at its discretion, delegate some or all of this work to a sub-team whose membership includes at least one CMT member (the Capital Team).

The criteria for capital bids include:

a) Meeting Corporate Priorities or requiring Health and Safety action.

b) Not having a revenue impact that cannot be funded.

c) Being clear as to the benefits the project provides.

d) Identifying how the project will be managed.

e) Having robust estimates for future costs and revenues.

f) The sensitivity of costs and revenues to both external and internal risks.

On the basis of recommendations drawn up by CMT and/or the Capital Team, Cabinet considers and approves the proposed draft capital programme for inclusion within the budget. This budget is then recommended to full council for approval of the final capital budgets for the year ahead. Cabinet is to receive regular capital budget monitoring reports and a final outturn report at year end showing scheme performance; specifically underspends, overspends and slippage supported by explanations.

7. Additional Resources and Links with External Bodies

Project appraisals consider additional and alternative funding sources, match funding requirements, bidding time frames and the likely success in being awarded grants.

Grants are allocated in relation to specific programmes or projects and this council aims to maximise such funding; developing appropriate partnership, joint working and cross agency initiatives to address council priority needs. Partners include central and local government, government agencies, representative bodies of the local community, voluntary groups, housing associations, health bodies, the police, and the private sector business community.

8. Asset Management

An Asset Management Plan is the report on the systematic preparation of information to optimise the deployment and utilisation of land, buildings and other assets. Accordingly the council's Asset Management Plan informs the links to both the council's capital strategy and capital programme.

9. The council's capital spending

Details of the Council's capital programme, capitalisation policies, capital financing, borrowing/funding restrictions, knowledge and skills, long-term liabilities and treasury management are shown in the following documents (which are all available on the Council's website www.thanet.gov.uk):

a) Medium Term Financial Strategy

b) Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy

c) Statement of Accounts

d) Non-Treasury Investments Report

e) Budget monitoring reports

The council's Section 151 Officer is satisfied with the affordability and risk associated with this Capital Strategy, that the knowledge and skills available to the authority are commensurate with its risk appetite and activities and, where appropriate, it has access to specialised advice to enable him to reach this conclusion.

ANNEX 5: THANET DISTRICT COUNCIL - NON-TREASURY INVESTMENTS REPORT 2024/25

1. Background

This Non-Treasury Investments Report is produced in connection with the CIPFA Treasury Management in the Public Services Code of Practice and CIPFA Prudential Code for Capital Finance in Local Authorities.

‘Treasury management investments’ activity covers those investments which arise from the council’s cash flows and debt management activity, and ultimately represents balances which need to be invested until the cash is required for use in the course of business. The council’s permitted treasury investments are set out in the Annual Investment Strategy.

‘Non-treasury investments’ are investments in financial assets and property primarily for service purposes and/or financial return that are not part of treasury management activity.

2. Permissible non-treasury investments

As per Non-Treasury Investments Reports to 30 March 2022, this council could:

a) purchase property for service and/or commercial purposes.

b) make investments for service and/or commercial purposes.

c) make loans for service and/or commercial purposes.

This was amended from 1 April 2022 so that, for a new non-treasury investment in a new asset, the council may only purchase property, make investments and/or make loans for service purposes (i.e. not for purely/primarily commercial purposes, though it may still generate revenue).

Service investments are held in relation to council services (including service delivery, housing, regeneration and preventative action) whereas commercial investments are held for mainly financial reasons.

If a local authority is planning to acquire investment assets bought primarily for yield then it is now unable to borrow from the Public Works Loan Board (PWLB) to finance any expenditure in its capital plan. PWLB guidance is that investment assets bought primarily for yield would usually have one or more of the following characteristics:

i) buying land or existing buildings to let out at market rate.

ii) buying land or buildings which were previously operated on a commercial basis which is then continued by the local authority without any additional investment or modification.

iii) buying land or existing buildings other than housing which generate income and are intended to be held indefinitely, rather than until the achievement of some meaningful trigger such as the completion of land assembly.

iv) buying a speculative investment asset (including both financial and non-financial assets) that generates yield without a direct policy purpose.

3. Existing non-treasury investments

This council's existing non-treasury investments include:

a) Investment Property

The council's 2022/23 draft accounts show a 31 March 2023 balance sheet value of £25.288m for investment property. These accounts give a net yield of £1.182m from investment property (rental income less direct operating expenses), which represents an annual percentage yield of 4.7%. It is considered that any plausible losses from the council's investment property could be absorbed in budgets or reserves without unmanageable detriment to local services.

As at 31 March 2023 the council had approximately 200 investment properties of various types with an average balance sheet value of £126,000 per unit; including retail premises, leisure and sporting facilities, maritime related assets, land and industrial units.

The council undertakes periodic reviews of its property, including evaluation of whether to meet expected borrowing needs by taking new borrowing or by property disposal.

b) Investments and Loans

Your Leisure Kent Limited (YL): This council engages YL, which is an Industrial and Provident Society with charitable status, to run its leisure facilities. YL was registered on the Mutuals Public Register on 16 April 1999 and was called Thanet Leisure Force Limited until 26 March 2013. The principal activity of YL is the management of leisure, hospitality and entertainment facilities and associated service provision for the local communities in the Dover and Thanet districts.

East Kent Opportunities LLP (EKO): To aid economic development and regeneration in Thanet, this council in partnership with Kent County Council set up EKO as a limited liability partnership. EKO was incorporated on 4 March 2008 with this Council and Kent County Council having 50:50 ownership, control and economic participation in EKO.

The council acts as guarantor for YL in respect of certain loans taken out by YL. These arrangements are described in the 'Critical Judgements in applying Accounting Policies' note to the council's Statement of Accounts.

In addition, the council makes loans from time to time to one or both of YL and EKO for service purposes.

4. Investment Management Practices

Non-treasury investments are subject to the council's normal approval processes for revenue and capital expenditure and need not comply with the specific requirements of the council's annual Treasury Management Strategy Statement and Investment Strategy. These processes ensure effective due diligence and consideration of the council's risk appetite (including proportionality in respect of overall resources), that independent and expert advice is taken where appropriate, that scrutiny arrangements are properly made, and that ongoing risk management is properly undertaken and acted upon.

Details of risk management, performance measurement and management, decision making, governance, due diligence, reporting and knowledge and skills are shown below and in the following documents (which are all available on the council's website www.thanet.gov.uk):

a) Medium Term Financial Strategy
b) Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy
c) Statement of Accounts
d) Capital Strategy

The key principle of control of risk, and optimising returns consistent with the council's risk appetite, is applied across all investment activities.

5. Risk Management

The council's risk appetite for any non-treasury investment should be clearly determined, both individually and collectively, including the potential impact on the overall sustainability of the council if the investment does not perform as intended. Key considerations also include:

a) The significance of the amount and variability of both the investment income and capital value to balancing the council's budget.
b) How the investment is financed and its liquidity, given the council's cash flow requirements.
c) Maximum periods for which funds may prudently be committed.
d) The setting of quantitative indicators to better assess risk exposure (including how investments are funded and the rate of return over both the payback period of the investment and the length of any associated borrowing).

6. Performance Measurement and Management

Performance measurement and management of any non-treasury investment should include both the ongoing capital value/security and yield. Key considerations include:

a) Regular fair value assessments (at least annually), including the limitations and assumptions inherent in such assessments.
b) Procedures to highlight key ongoing risks and changes in market conditions that may adversely impact the security, liquidity and/or yield of any investment.
c) Ongoing repairs and other costs to maintain the income and value of any property investment.
d) Any mitigating action required and undertaken to protect the income and value of any investment.

7. Decision Making, Governance and Due Diligence

Decision making will be as open and transparent as possible. Key considerations include:

a) The formulation and developments of business cases for approval.
b) Enhanced decision making and scrutiny, according to risk.
c) Arrangements for professional due diligence, including obtaining professional advice where appropriate.
d) The identification and quantification of any implied material subsidies in investments for service/regeneration purposes.

8. Reporting, Knowledge and Skills

Robust arrangements will be made for the assessment, implementation and monitoring of any non-treasury investments; including:

a) Reporting any material increase in risk to capital and/or yield.
b) Regularly reviewing performance and risk reporting arrangements.
c) Ensuring that the range of skills required (including finance, property and economic regeneration) are available, either in-house or externally sourced.
d) Arranging any specific staff training or qualifications that may be needed to meet future requirements (capacity, skills, knowledge and culture).

ANNEX 6 - LINK'S ECONOMIC AND INTEREST RATE FORECAST (ISSUED BY LINK ON 17 NOVEMBER 2023)

1. 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 7 November 2023. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 basis points (bps).

Link Group Interest Rate View	07.11.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

2. *Additional notes by Link on this forecast table: -*

   Link's central forecast for interest rates was previously updated on 25 September and reflected a view that the Monetary Policy Committee (MPC) would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. Link expects rate cuts to start when both the Consumer Price Index (CPI) inflation and wage/employment data are supportive of such a move, and that there is a likelihood of the overall economy enduring at least a mild recession over the coming months, although most recent Gross Domestic Product (GDP) releases have surprised with their on-going robustness.

   Naturally, timing on this matter will remain one of fine judgement: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

   In the upcoming months, Link's forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

   On the positive side, consumers are still anticipated to be sitting on some excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, most of those excess savings are held by more affluent households whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

3. **PWLB RATES**

   Gilt yield curve movements have broadened since Link's last Newsflash. The short part of the curve has not moved far but the longer-end continues to reflect inflation concerns. At the time of writing there is 60 basis points difference between the 5 and 50 year parts of the curve.

4. **The balance of risks to the UK economy: -**

   - The overall balance of risks to economic growth in the UK is to the downside.

5. **Downside risks to current forecasts for UK gilt yields and PWLB rates include: -**

   - **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).

   - **The Bank of England** has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than Link currently anticipates.

   - **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

   - **Geopolitical risks,** for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

6. **Upside risks to current forecasts for UK gilt yields and PWLB rates: -**

   - Despite the recent tightening to 5.25%, the **Bank of England proves too timid** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than Link currently projects.

   - **The pound weakens** because of a lack of confidence in the UK Government's pre-election fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

   - Longer-term **US treasury yields** rise strongly if inflation remains more stubborn there than the market currently anticipates, consequently pulling gilt yields up higher. (We saw some movements of this type through October although generally reversed in the last week or so).

   - Projected **gilt issuance, inclusive of natural maturities and quantitative tightening (QT),** could be too much for the markets to comfortably digest without higher yields compensating.

7. **Borrowing advice:** Link's long-term (beyond 10 years) forecast for Bank Rate has increased from 2.75% to 3% and reflects Capital Economics' research that suggests artificial intelligence (AI) and general improvements in productivity will be supportive of a higher neutral interest rate. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can generally be obtained at the shorter end of the curve and short-dated fixed Local Authority (LA) to LA monies should be considered. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to wait for inflation, and therein gilt yields, to drop back later in 2024.

8. Link's suggested budgeted earnings rates for investments up to about three months' duration in each financial year are rounded to the nearest 10bps and set out below. Investment

earnings have been revised somewhat higher for all years from 2025/26 as Bank Rate is forecast to remain higher for longer.

Average earnings in each year	Now	Previously
2023/24 (residual)	5.30%	5.30%
2024/25	4.70%	4.70%
2025/26	3.20%	3.00%
2026/27	3.00%	2.80%
2027/28	3.25%	3.05%
Years 6 to 10	3.25%	3.05%
Years 10+	3.25%	3.05%

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

10. Link's interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, Link continues to monitor events and will update its forecasts as and when appropriate.