

Public Document Pack

NORTH HERTFORDSHIRE DISTRICT COUNCIL

FINANCE, AUDIT AND RISK COMMITTEE

MONDAY, 29TH JULY, 2019

SUPPLEMENTARY AGENDA

Please find attached supplementary papers relating to the above meeting, as follows:

Agenda No	Item
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- | | |
|-----|---|
| 13. | <u>FIRST QUARTER INVESTMENT STRATEGY (Integrated and Treasury Monitoring) 2019/2020 (Pages 3 - 28)</u> |
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REPORT OF THE SERVICE DIRECTOR – RESOURCES

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FINANCE, AUDIT AND RISK COMMITTEE
29 JULY 2019

PUBLIC DOCUMENT

TITLE OF REPORT: FIRST QUARTER INVESTMENT STRATEGY (CAPITAL AND TREASURY) REVIEW 2019/20

REPORT OF THE SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER FOR FINANCE AND I.T.

COUNCIL PRIORITY : RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

- 1.1 To update Cabinet on progress with delivering the capital and treasury strategy for 2019/20, as at the end of May 2019 and updated for significant events during June.
- 1.2 To update Cabinet on the impact upon the approved capital programme for 2020/21 – 2023/24. The current estimate is a decrease in spend in 2019/20 of £1.398million and an increase in spend in future years of £1.408million. The most significant individual change relates to the reprofiling of the John Barker Place budget into 2020/21.
- 1.3 To inform Cabinet of the Treasury Management activities in the first two months of 2019/20. The current forecast is that the amount of investment interest expected to be generated during the year is £0.372million. This is an increase of £0.072million on the working budget.

2. Recommendations

- 2.1 That Cabinet notes the forecast expenditure of **£7.822million** in 2019/20 on the capital programme, paragraph 8.2 refers.
- 2.2 That Cabinet approves the adjustments to the capital programme for 2019/20 onwards as a result of the revised timetable of schemes detailed in table 2, increasing the estimated spend in 2020/21 by **£1.408million**.
- 2.3 That Cabinet notes the position of the availability of capital resources, as detailed in table 3 paragraph 8.6 and the requirement to keep the capital programme under review for affordability.
- 2.4 Cabinet is asked to note the position of Treasury Management activity as at the end of May 2019.

3. REASONS FOR RECOMMENDATIONS

- 3.1 Cabinet is required to approve adjustments to the capital programme and ensure the capital programme is fully funded.
- 3.2 To ensure the Council's continued compliance with CIPFA's code of practice on Treasury Management and the Local Government Act 2003 and that the Council manages its exposure to interest and capital risk.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 Options for capital investment are considered as part of the Corporate Business Planning process.
- 4.2 The primary principles governing the Council's investment criteria are the security of its investments (ensuring that it gets the capital invested back) and liquidity of investments (being able to get the funds back when needed). After this the return (or yield) is then considered, which provides an income source for the Council. In relation to this the Council could take a different view on its appetite for risk, which would be reflected in the Investment Strategy. In general, greater returns can be achieved by taking on greater risk. Once the Strategy has been set for the year, there is limited scope for alternative options as Officers will seek the best return that is in accordance with the Investment Strategy.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1 Consultation on the capital expenditure report is not required. Members will be aware that consultation is incorporated into project plans of individual capital schemes as they are progressed.
- 5.2 There are quarterly updates with the Authority's Cash Manager, Tradition and regular meetings with Treasury advisors (Link).

6. FORWARD PLAN

- 6.1 This report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 7th June 2019.

7. BACKGROUND

- 7.1 In February 2019, Council approved the Integrated Capital and Treasury Strategy for 2019/20 to 2022/23. This was a change from having a separate Capital Programme and Treasury Strategy. The change was in response to guidance from the Ministry for Housing, Communities and Local Government (MHCLG) and the Chartered Institute of Public Finance and Accountancy (CIPFA). To be consistent with the strategy (and the guidance), the monitoring reports for Capital and Treasury are also integrated.
- 7.2 The Medium Term Financial Strategy for 2019 to 2024 confirmed that the Council will seek opportunities to utilise capital funding (including set aside receipts) for invest to save schemes and proposals that generate higher rates of return than standard treasury investments. This is one way the Council will allocate resources to support organisational transformation that will reduce revenue expenditure.

7.3 Link Asset Services Ltd were first contracted to provide Treasury advice for the financial year 2012/13 and this arrangement has been extended until 2019/20. The service includes:

- Regular updates on economic and political changes which may impact on the Council's borrowing and investment strategies
- Information on investment counterparty creditworthiness
- Technical updates
- Access to a Technical Advisory Group.

8. RELEVANT CONSIDERATIONS

8.1 The Council has £114.5 million of capital assets that it currently owns. This value of these assets has increased since the Investment Strategy was set to reflect the property valuations that are required for the Statement of Accounts and the capital spend at the end of the financial year. The most significant addition is the capitalisation of the vehicles used in the waste contract. A summary of the assets owned and the changes in valuation are shown in Appendix A. The Investment Strategy set out the reasons for owning assets that are not for service delivery, including an assessment of Security, Liquidity, Yield and Fair Value. There have been no changes in relation to these since the Strategy was set.

Capital Programme 2019/20

8.2 The full capital programme is detailed in Appendix B and shows the revised costs to date, together with the expected spend from 2019/20 to 2022/23 and the funding source for each capital scheme.

8.3 Capital expenditure for 2019/20 is estimated to be **£7.822million**. This is a reduction of **£1.398million** on the forecast in the 2018/19 Capital Programme Outturn report (reported to Cabinet on 11th June 2019). The decrease in spend in 2019/20 is largely due to the reprofiling the John Barker Place. Table 1 below details changes to capital programme.

Table 1- Current Capital Estimates

	2019/20 £M	2020/21 £M	2021/22 to 2023/24 £M
Original Estimates approved by Full Council February 2019	8.213	0.962	2.128
Changes approved by Cabinet in 2018/19 Capital Outturn report	1.007	0	0
Revised Capital estimates at start of 2019/20	9.220	0.962	2.128
Changes at Q1 detailed in this report	-1.398	1.408	0
Current Capital Estimates	7.822	2.370	2.128

- 8.4 Table 2 lists the schemes in the 2019/20 Capital Programme that will start or continue in 2020/21:

Table 2: Scheme Timetable Revision:

(Key: - = reduction in capital expenditure, + = increase in capital expenditure)

Scheme	2019/20 Working Budget £'000	2019/20 Forecast Spend £'000	Difference £'000	Reason for Difference	Estimated impact on 2020/21 onwards £'000
John Barker Place, Hitchin	1,096	0	-1,096	Settle have submitted revised plans for pre-application advice and are waiting for confirmation from their Board to proceed with the revised application.	1,096
Property Improvements	278	100	-178	A review of the Condition Survey will be undertaken during the year.	178
Letchworth Multistorey Parapet / Soffit / Decoration	134	0	-134	On hold until the Parking review is complete.	134
Total Revision to Budget Profile			-1,408		1,408

- 8.5 There is just one minor change to the overall costs of schemes in 2019/20 being an increase of £0.01million.

Capital Programme 2019/20 Funding onwards

- 8.6 Table 3 below shows how the Council will fund the 2019/20 capital programme.

Table 3: Funding the Capital Programme:

	2019/20 Balance at start of year £M	2019/20 Estimated Additions £M	2019/20 Funding Used £M	2019/20 Balance at end of year £M
Useable Capital Receipts and Set-aside Receipts	8.490	4.950	(6.667)	6.773
S106 receipts			(0.219)	
Other third party grants and contributions			(0.936)	
Total	8.490		(7.822)	

- 8.7 The availability of third party contributions and grants to fund capital investment is continuously sought in order to reduce pressure on the Council's available capital receipts and allow for further investment. Additional capital receipts are dependent on selling surplus land and buildings. Ensuring that the Council gets best value from the disposal of land and buildings can take a long time and therefore the amounts that might be received could be subject to change. This will be kept under review throughout the year.
- 8.8 The Council's Capital Financing Requirement at 31st March 2019 was negative £5.9 million. Based on current forecasts it is expected to remain negative during 2019/20, which means that the Council does not have a need to borrow to fund capital spend.

Treasury Management 2019/20

- 8.9 Whilst the Council does not have a need to borrow for capital spend, it still holds historic borrowing that is uneconomical to repay early. Borrowing can also be used for short-term cashflow purposes. During April and May no borrowing was taken out and no historic borrowing became due for repayment.
- 8.10 The Council invests its surplus cash in accordance with the Investment Strategy (see paragraph 4.2). This surplus cash is made up of capital funding balances, revenue general fund balance, revenue reserve balances and variations in cash due to the timing of receipts and payments. During April and May the Council had an average investment balance of £34.4 million and invested this in accordance with the treasury and prudential indicators as set out in the Integrated Capital and Treasury Management Strategy and in compliance with the Treasury Management Practices.
- 8.11 The Council generated £0.062 million of interest during the first two months of 2019/20. The average interest rate on all outstanding investments at the 31 May was 1.17%. Based on current investments and forecasts of interest rates and cash balances for the remainder of the year, it is forecast that the Council will generate £0.372 million of interest over whole of 2019/20.
- 8.12 As at 31 May the split of investments was as shown in the table below. Due to the time it takes to open investment accounts with non-UK banks, the Council currently still has all of its investments with UK institutions:

Banks	33%
Building Societies	42%
Local Authorities	22%
Money Market Funds	3%

- 8.13 The level of risk of any investment will be affected by the riskiness of the institution where it is invested and the period that it is invested for. Where an institution has a credit rating this can be used to measure its riskiness. This can be combined with the period remaining on the investment to give a historic risk of default percentage measure. The table below shows the Historic Risk of Default for outstanding investments at 31st May. The most risky investment still has a historic risk of default of below 1%. It should also be noted that in general the interest rate received is correlated to the risk, so the interest income received would be less if it took on less risk. As stated in paragraph 8.10, all investments have been made in accordance with the Investment Strategy.

Borrower	Principal Invested £M	Interest Rate %	Credit Rating	Days to Maturity at 31 st May	Historic Risk of Default %
Public Sector Deposit Fund	1.0	0.77	AAA	1	0.000
Lloyds Bank	1.0	1.00	A+	3	0.001
National Counties Bldg Soc	1.0	1.00	*	3	0.001
Dumfries & Galloway Council	1.0	0.85	AA	19	0.001
Santander UK Bank	1.5	0.85	A+	30	0.004
Barclays Bank	0.5	0.90	A	44	0.006
Lloyds Bank	0.5	1.00	A+	44	0.006
Yorkshire Bldg Soc	2.0	0.94	A-	46	0.007
Lloyds Bank	0.5	0.90	A+	51	0.008
Slough Borough Council	3.0	0.98	AA	58	0.004
Principality Bldg Soc	1.0	1.00	BBB+	58	0.025
Nottingham Bldg Soc	0.5	1.05	*	74	0.032
Barclay Bank	0.5	0.64	A	75	0.011
Lancashire County Council	2.0	1.10	AA	89	0.006
Santander UK Bank	1.0	0.97	A+	104	0.015
Principality Bldg Soc	1.0	0.99	BBB+	109	0.046
Lloyds Bank	1.0	1.15	A+	157	0.023
North Lanarkshire Council	1.0	0.80	AA	167	0.019
Barclays Bank	2.0	1.00	A	177	0.026
Cambridge Bldg Soc	1.0	1.25	*	181	0.079
Darlington Bldg Soc	1.0	1.30	*	223	0.098
Coventry Bldg Soc	1.0	0.99	A-	261	0.038
Yorkshire Bldg Soc	1.0	0.96	A-	261	0.038
Lancashire County Council	1.0	1.1	AA	292	0.019
Hinckley & Rugby Bldg Soc	2.0	1.35	*	328	0.144
Dudley Bldg Soc	1.0	1.3	*	341	0.561
Marsden Bldg Soc	1.5	1.6	*	601	0.724
Monmouthshire Bld Soc	1.0	1.5	*	727	0.876
	32.5	1.17			

* Unrated Building Societies Historic Risk of Default is based on a Fitch (a credit rating agency) rating of BBB.

9. LEGAL IMPLICATIONS

- 9.1 Cabinet's terms of reference under 5.6.7 specifically includes "to monitor expenditure on the capital programme and agree adjustments within the overall budgetary framework". The Cabinet also has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council. By considering monitoring reports throughout the financial year Cabinet is able to make informed recommendations on the budget to Council. The Council is under a duty to maintain a balanced budget.

- 9.2 Section 151 of the Local Government Act 1972 states that:
“every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.”
- 9.3 Asset disposals must be handled in accordance with the Council’s Contract Procurement Rules.

10. FINANCIAL IMPLICATIONS

- 10.1 The main financial implications are covered in section 8 of the report.
- 10.2 The Authority operates a tolerance limit on capital projects that depends on the value of the scheme and on this basis over the duration of the programme it should be anticipated that the total spend over the period could be around £1.731million higher than the estimated budget of £12.320million.
- 10.3 The capital programme will need to remain under close review due to the limited availability of capital resources and the affordability in the general fund of the cost of using the Council’s capital receipts. When capital receipts are used and not replaced the availability of cash for investment reduces. Consequently interest income from investments reduces. £1.0million currently earns the Authority approximately £12k a year in interest. The general fund estimates are routinely updated to reflect the reduced income from investments. When the Capital Financing Requirement (CFR) reaches zero the Council will need to start charging a minimum revenue provision to the general fund for the cost of capital and will need to consider external borrowing for further capital spend. The CFR at the 31 March 2019 was negative £6million.
- 10.4 The Council also aims to ensure that the level of planned capital spending in any one-year matches the capacity of the organisation to deliver the schemes to ensure that the impact on the revenue budget of loss of cash-flow investment income is minimised.

11. RISK IMPLICATIONS

- 11.1 The inherent risks in undertaking a capital project are managed by the project manager of each individual scheme. These are recorded on a project risk log which will be considered by the Project Board (if applicable). The key risks arising from the project may be recorded on Pentana (the Council’s Performance & Risk management software). Some of the major capital projects have been included in the Council’s Corporate Risks (such as the new North Hertfordshire Museum). The Corporate Risks are monitored by the Finance, Audit and Risk Committee and Cabinet.
- 11.2 Risks associated with treasury management and procedures to minimise risk are outlined in the Treasury Management Practices document, TMP1, which was adopted by Cabinet in July 2003 and is revisited annually as part of the Treasury Strategy review. The risk on the General Fund of a fall of investment interest below the budgeted level is dependant on banks and building societies need for borrowing.

12. EQUALITIES IMPLICATIONS

- 12.1 In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.2 There are no direct equalities implications directly arising from the adoption of the Capital Programme for 2018/19 onwards. For any individual new capital investment proposal of £50k or more, or affecting more than two wards, an equality analysis is required to be carried out. This will take place following agreement of the investment proposal.

13. SOCIAL VALUE IMPLICATIONS

- 13.1 The Social Value Act and “go local” policy do not apply to this report.

14. HUMAN RESOURCE IMPLICATIONS

- 14.1 There are no direct human resource implications.

15. APPENDICES

- 15.1 Appendix A - Capital Assets as at 31 March 2019.
- 15.2 Appendix B - Capital Programme Detail including Funding 2018/19 onwards.
- 15.3 Appendix C - Treasury Management Update

16. CONTACT OFFICERS

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17. BACKGROUND PAPERS

- 17.1 Investment Strategy (Integrated Capital and Treasury Strategy)
<https://democracy.north-herts.gov.uk/documents/s4263/Appendix%20A-%20Investment%20Strategy.pdf>

Appendix A

Capital Assets

Asset Type	Asset	Reason for ownership	31 st March 2018 Value (£000)	31 st March 2019 Value (£000)
Investment Properties	Various	Retained to generate income	17,710	18,899
Surplus Land and buildings	Various	Held for future sale or development	6,738	10,446
Offices and Storage	DCO	Staff offices, customer service centre and democratic facilities	5,547	4,912
Offices and Storage	Various	Off-site storage, back-up IT and emergency planning	438	451
Leisure Facilities	Hitchin Swim Centre / Archers	Service use	7,711	7,483
Leisure Facilities	Letchworth Outdoor Pool	Service use	2,617	2,695
Leisure Facilities	North Herts Leisure Centre	Service use	12,942	12,612
Leisure Facilities	Royston Leisure Centre	Service use	7,847	7,474
Leisure Facilities	Pavilions	Service use	2,001	1,759
Leisure Facilities	Recreation Grounds / Play Areas / Gardens / Allotments	Service use	6,117	5,829
Community Centres and Halls	Various	Community facilities, generally operated by third parties	11,775	11,545
Markets	Hitchin Market	To provide a market	137	136
Museums and Arts	Hitchin Town Hall and District Museum	District-wide museum and community facility	11,136	12,491
Museums and Arts	Letchworth and Hitchin museums, Burymead store	Museum storage	1,465	1,425
Cemeteries	Various	Service use	1,479	1,465
Community Safety	Various CCTV cameras	Service use	62	41
IT	Various computer equipment and software	To enable the delivery of other services	376	323
Parking	Various car parks	Service use	9,448	9,478
Waste Collection	Vehicles / Bins	Service use	696	3,390
Public Conveniences	Various	Subject to leases/ management arrangements	610	558
Residential Property	Provide Housing at Market Rents	Generate income	0	18
Assets Held for Sale	Ivel Court		0	627
Other	Various	Various	365	457
Total			107,217	114,514

		Spend For	
Project	Service Directorate	2019/20 Funding £	2020/21 Funding £
40 KVA UPS Device or Battery Replacement	Customers	7,000	0
Additional PC's - Support Home Working/OAP	Customers	13,000	0
Additional Storage	Customers	25,000	0
Alternative to safeword tokens for staff/members working remotely	Customers	8,000	0
Back-up Diesel 40 KVA Generator (DCO)	Customers	20,000	0
Baldock Town Hall project	Legal and Community	48,700	0
Bancroft Recreation Ground, Hitchin, Multi Use Games Area (MUGA)	Place	164,200	0
Cabinet Switches - 4 Floors	Customers	0	0
Cadcorp Local Knowledge & Notice Board Software	Customers	5,200	0
Channel shift - processing of housing register applications	Regulatory	40,000	0
Core Backbone Switch	Customers	20,000	0
Council property improvements following condition surveys	Resources	100,000	432,800
Customer Self Serve Module	Customers	3,000	0
Cyber Attacks - Events Monitoring Software Solution	Customers	30,000	0
Cycle Strategy implementation (GAF)	Regulatory	278,000	0
Decommissioning of Play Areas	Place	103,800	0
Dell Servers	Customers	65,000	0
DR Set-up	Customers	49,800	0
EA Agreement (MS EA) TN agreed funded within 4571 Account	Customers	0	0
Email / Web Gateway with SPAM Filtering Software Solution - Licence 3 Year Contract	Customers	0	39,000
Email Encryption Software Solution	Customers	0	45,000
Energy efficiency measures	Resources	8,500	0
Green Infrastructure implementation (GAF)	Regulatory	185,000	0
Hitchin & Letchworth Outdoor Pool Automatic Chemical Dosing Pumps	Place	20,000	0
Hitchin Multi Storey Safety and Equalities Act improvements	Resources	39,300	0
Hitchin Outdoor Pool Showers and Toilets	Place	9,200	0
Hitchin Swimming Pool Car Park extension	Place	497,700	0
Hitchin Town Hall Acoustic Panelling	Commercial	30,000	0
Hitchin Town Hall Additional Bar Facility	Commercial	15,000	0
Hitchin Town Hall Sprung Floor Replacement	Commercial	75,000	0
Installation of trial on-street charging (GAF)	Regulatory	50,000	0
John Barker Place, Hitchin	Regulatory	0	1,096,000

Lairage Multi-Storey Car Par - Structural wall repairs	Resources	120,700	0
Laptops - Refresh Programme	Customers	0	6,000
Leisure Condition Survey Enhancements	Place	64,000	23,000
Letchworth Multi_storey Car Park - parapet walls, soffit & decoration	Resources	0	133,800
Letchworth multi-storey car park - lighting	Resources	19,700	0
Letchworth Outdoor Pool safety surface	Place	10,000	0
Microsoft Enterprise Software Assurance	Customers	358,000	0
New Blade Enclosure	Customers	32,000	0
NH Museum & Community Facility	Commercial	29,800	0
Norton Common Wheeled Sports improvements	Place	26,500	0
Off Street Car Parks resurfacing and enhancement	Resources	77,100	0
PC's - Refresh Programme	Customers	19,800	17,000
Private Sector Grants	Regulatory	60,000	60,000
Provide housing at market rents.	Commercial	2,981,500	0
Refurbishment and improvement of community facilities	Legal and Community	612,900	120,000
Refurbishment of lifts at Lairage Car Park	Resources	360,000	0
Renovate play area Howard Park, Letchworth	Place	0	75,000
Renovate play area King George V Recreation Ground, Hitchin	Place	75,000	0
Renovate play area, District Park, Gt. Ashby	Place	75,000	0
Replace and enhance lighting at St Mary's Car Park	Resources	60,000	0
Replace items of play equipment Holroyd Cres, Baldock	Place	0	10,000
Replace items of play equipment Wilbury Recreation Ground, Letchworth	Place	10,000	0
Replace items of play equipment, Chiltern Road, Baldock	Place	10,000	0
Replacement SAN	Customers	110,000	0
S106 Projects	Various	128,800	0
Security - Firewalls	Customers	14,000	0
Software for personalised bills and annual billing.	Customers	6,000	0
Storage Facilities	Commercial	48,700	0
Tablets - Android Devices	Customers	14,000	12,000
Telephony system	Customers	10,600	0
Town Centre pay & display machines for on-street charging	Regulatory	235,000	0
Transport Plans implementation (GAF)	Regulatory	250,000	0
Walsworth Common Pavilion - contribution to scheme	Place	0	300,000
Walsworth Common Pitch Improvements	Place	92,500	0

7,822,000	2,369,600
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Appendix B

precasts		Funding			
2021/22 Funding £	2022/23 Funding £	Funded from capital contributions	Funded from Government Grant	Funded from s106 contributions	Balance funded from Capital Receipts/ Set- aside receipts
0	0	0	0	0	7,000
0	0	0	0	0	13,000
0	0	0	0	0	25,000
0	0	0	0	0	8,000
0	0	0	0	0	20,000
0	0	0	0	800	47,900
0	0	60,000	0	60,100	44,100
18,000	0	0	0	0	18,000
0	0	0	0	0	5,200
0	0	0	0	0	40,000
0	0	0	0	0	20,000
255,000	0	0	0	0	787,800
0	0	0	0	0	3,000
0	0	0	0	0	30,000
0	0	0	278,000	0	0
0	0	0	0	0	103,800
0	0	0	0	0	65,000
0	0	0	0	0	49,800
0	450,000	0	0	0	450,000
0	0	0	0	0	39,000
0	0	0	0	0	45,000
0	0	0	0	0	8,500
0	0	0	185,000	0	0
0	0	0	0	0	20,000
0	0	0	0	0	39,300
0	0	0	0	0	9,200
0	0	0	0	0	497,700
0	0	0	0	0	30,000
0	0	0	0	0	15,000
0	0	0	0	0	75,000
0	0	0	50,000	0	0
0	0	0	0	270,400	825,600

0	0	0	0	0	120,700
0	0	0	0	0	6,000
0	39,000	0	0	0	126,000
0	0	0	0	0	133,800
0	0	0	0	0	19,700
0	0	0	0	0	10,000
0	0	0	0	0	358,000
0	0	0	0	0	32,000
0	0	29,800	0	0	0
0	0	0	0	26,500	0
0	0	0	0	0	77,100
17,000	0	0	0	0	53,800
60,000	60,000	0	0	0	240,000
0	0	0	0	0	2,981,500
0	0	0	0	0	732,900
0	0	0	0	0	360,000
0	0	0	0	0	75,000
0	0	0	0	0	75,000
0	0	0	0	0	75,000
0	0	0	0	0	60,000
0	0	0	0	0	10,000
0	0	0	0	0	10,000
0	0	0	0	0	10,000
0	0	0	0	0	110,000
0	0	0	0	128,800	0
14,000	0	0	0	0	28,000
0	0	0	0	0	6,000
0	0	0	0	0	48,700
15,000	0	0	0	0	41,000
0	0	0	0	0	10,600
0	0	0	0	0	235,000
0	0	0	250,000	0	0
0	0	250,000	0	37,000	13,000
0	0	83,000	0	2,300	7,200

379,000	549,000	422,800	763,000	525,900	9,407,900
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Treasury Management Update

Period Ended 31 May 2019

This report is intended for the use and assistance of customers of Link Asset Services. It should not be regarded as a substitute for the exercise by the recipient of its own judgement. Link Asset Services exists to provide its clients with advice primarily on borrowing and investment. We are not legal experts and we have not obtained legal advice in giving our opinions and interpretations in this paper. Clients are advised to seek expert legal advice before taking action as a result of any advice given in this paper. Whilst Link Asset Services makes every effort to ensure that all information provided by it is accurate and complete, it does not guarantee the correctness or the due receipt of such information and will not be held responsible for any errors therein or omissions arising there from. Furthermore, Link Asset Services shall not be held liable in contract, tort or otherwise for any loss or damage (whether direct, or indirect or consequential) resulting from negligence, delay or failure on the part of Link Asset Services or its officers, employees or agents in procuring, presenting, communicating or otherwise providing information or advice whether sustained by Link Asset Services customer or any third party directly or indirectly making use of such information or advice, including but not limited to any loss or damage resulting as a consequence of inaccuracy or errors in such information or advice. All information supplied by Link Asset Services should only be used as a factor to assist in the making of a business decision and should not be used as a sole basis for any decision.

Link Asset Services is a trading name of Link Treasury Services Limited (registered in England and Wales No. 2652033). Link Treasury Services Limited is authorised and regulated by the Financial Conduct Authority only for conducting advisory and arranging activities in the UK as part of its Treasury Management Service, FCA register number 150403. Registered office: 6th Floor, 65 Gresham Street, London, EC2V 7NQ.

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Treasury Management Update

Period Ended 31 May 2019

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (annual, mid-year or quarterly reports). This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

1. Annual Investment Strategy

The Investment Strategy (integrated Capital and Treasury) for 2019/20, which includes the Annual Investment Strategy, was approved by the Council on 7th February 2019. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in higher rates in periods up to 24 months.

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the first two months of 2019/20.

The average level of funds available for investment purposes during April and May was **£34.4m**. The Council holds **£20.5m** core cash balances for investment purposes (i.e. funds available for more than one year). The investment portfolio yield for the first two months of the year is 1.03%.

Investments at 31st May 2019

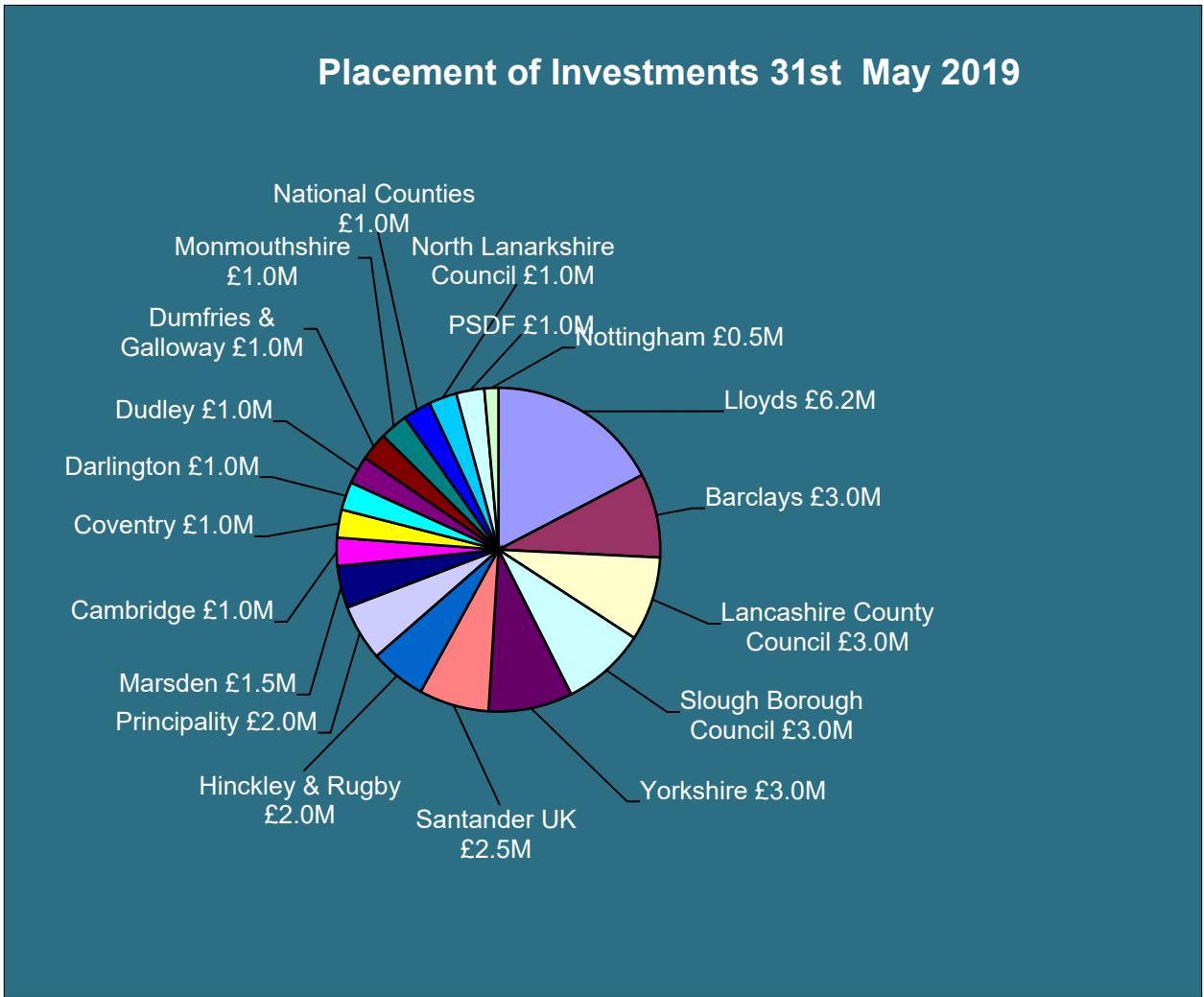
	Amount	Average
	£	Interest Rate %
Managed By NHDC		
Banks	11,700,000	0.99
Building Societies	6,500,000	0.98
Local Authorities	8,000,000	1.02
Money Market Fund	1,000,000	0.87
NHDC To Total	27,200,000	1.00
Managed by Tradition		
Building Societies	8,500,000	1.40
Tradition Total	8,500,000	1.40
TOTAL	35,700,000	1.17

In percentage terms, this equates to:

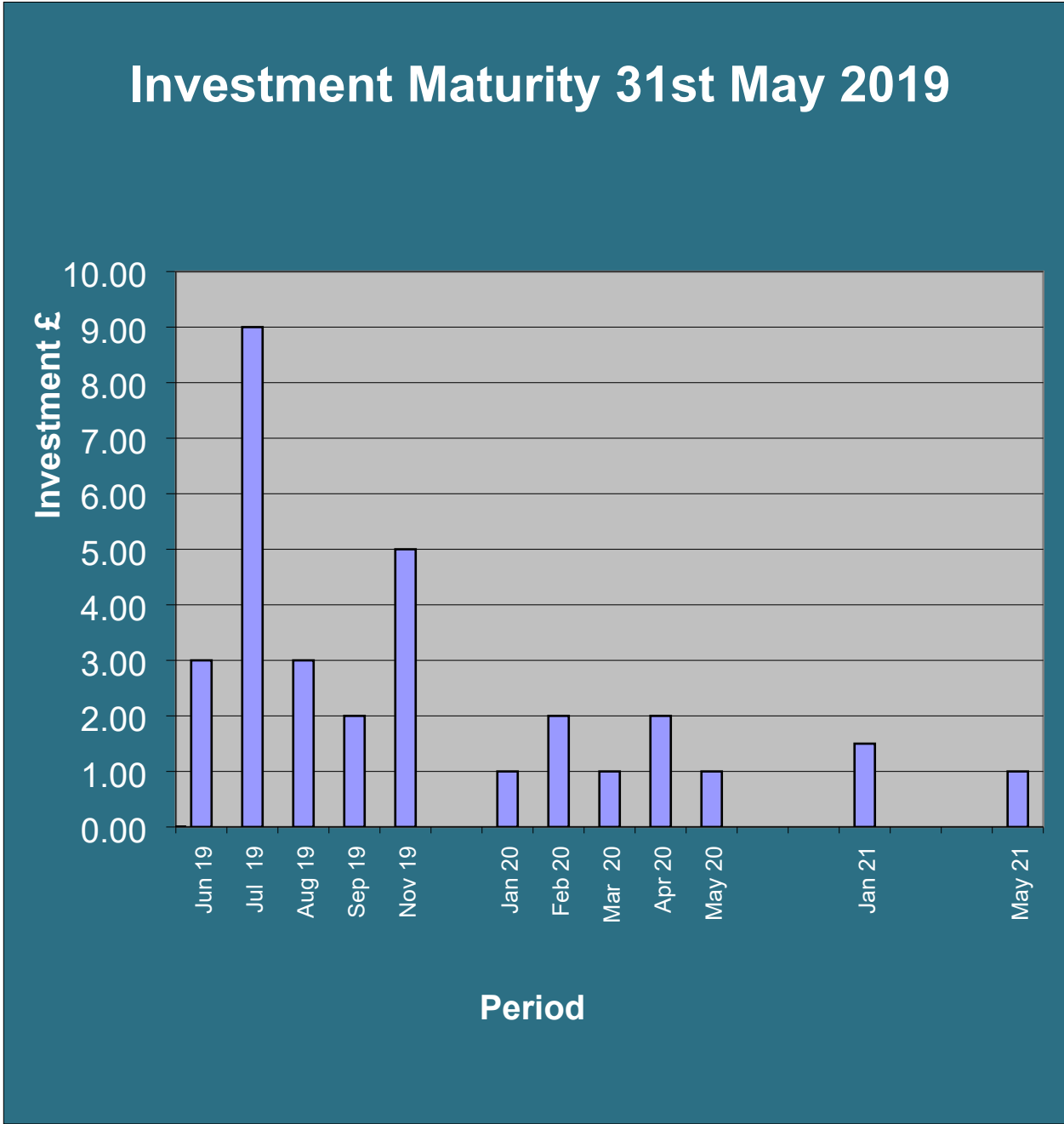
	Percentage
Money Market Funds	3
Local Authorities	22
Banks	33
Building Societies	42

The approved 19/20 strategy is that no more than 60% of investments should be placed with Building Societies with a maximum value of £18M. The value at 31st May was £15M

The pie chart below shows the spread of investment balances as at 31 May 2019. This is a snapshot in time that demonstrates the diversification of investments.

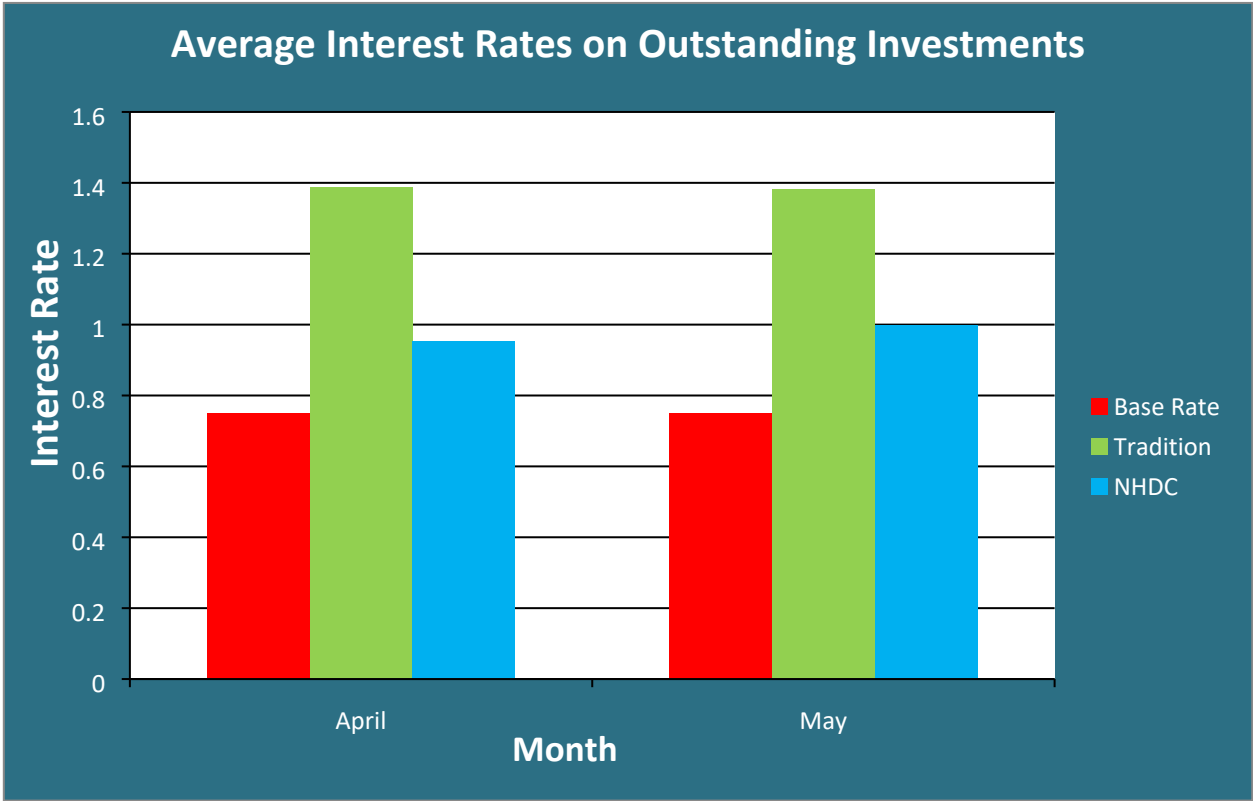


The chart below shows the Council’s investment maturity profile. (This does not include the £1.0M held in the Public Sector Deposit Fund Money Market account or £3.2M held in the Lloyds current account which can be called back on any day).



The Council’s Original budgeted investment return for 2019/20 was £0.300M. The projection at end of May was £0.372M. The increase is mainly due to a higher level of balances which means investments can be made for longer periods and achieve a higher interest rate.

The graph below shows the average rate of interest on outstanding investments at 31st May.



The higher rates achieved through Tradition reflect that these are longer-term investments. In general, the Council can currently achieve similar rates for the same length of investment. The Council only undertakes new investments through Tradition where the rate achieved (after fees) are greater than what the Council could achieve for a similar investment.

The Service Director - Resources confirms that the approved limits within the Annual Investment Strategy were not breached during April and May.

Treasury indicator below shows the capital value and expected income from Capital Investment assets, alongside any borrowing that is attached to those assets and the expected cost of that borrowing.

Year	Capital value of investment assets £m	Expected annual income from investment assets £m	Loans linked to investment assets £m	Expected annual borrowing costs for loans linked to investment assets £m
2019/20	18.899	1.089	0	0
2020/21	18.899	1.139	0	0
2021/22	18.899	1.189	0	0
2022/23	18.899	1.189	0	0
2023/24	18.899	1.189	0	0

2. New Borrowing

No borrowing was undertaken during April and May.

The Council's capital financing requirement (CFR) for 2019/20 is expected to be -£1.596M - £5.91M at the end of 18/19). The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances (internal borrowing). The CFR is negative as the Council has more cash investments than borrowing. The balance of external and internal borrowing is generally driven by market conditions.

It is anticipated that long term borrowing will not be undertaken during this financial year.

Loans Outstanding at 31 May 2019

	Amount	Average Interest Rate
	£	%
Public Works Loans Board	£440k	9.70

Estimated outstanding debt:

Year	Forecast Borrowing £m	Forecast other long-term liabilities £m *	Forecast External £m	Total Debt	Operational Boundary £m	Authorised Limit £m
31 st March 2019 (Actual)	0.440	2.724	3.164		4.1	10
31 st March 2020 (Forecast)	0.423	2.270	2.693		3.6	9
31 st March 2021 (Forecast)	0.405	1.816	2.221		3.1	9
31 st March 2022 (Forecast)	0.387	1.362	1.749		2.6	8
31 st March 2023 (Forecast)	0.367	0.908	1.275		2.0	7
31 st March 2024 (Forecast)	0.347	0.454	0.801		1.5	7

* Comprises the finance lease relating to Letchworth Multi-storey car park and the forecast impact of the finance lease for waste vehicles.

The external borrowing forecast can be used to give an indication of the borrowing that may be required, which is combined with outstanding existing borrowing. The Council will also borrow for short-term cash-flow needs if required. The actual borrowing that is taken out will depend on the latest forecasts and the offers that are available at the time that it is required. There will also be a consideration of when any other borrowing becomes due, with the aim of achieving a spread of these dates. This is to try and avoid refinancing risk. The Council is required to set indicators for the maturity structure of its borrowing. Given the low level of borrowing that the Council currently has and is forecast to have, it is considered appropriate to maintain full flexibility as to the exact duration of any borrowing undertaken.

To manage refinancing risk, the Council sets limits on the maturity structure of its borrowing. However these indicators are set relatively high to provide sufficient flexibility to respond to opportunities to repay or take out new debt (if it was required), while remaining within the parameters set by the indicators. Due to the low level of existing borrowing, the under 12 months limits have a broad range to allow for cash-flow borrowing (if it was required).

Maturity Period	Lower %	Upper %
Under 12 months	0	100
12 months to 2 years	0	50
2 years to 5 years	0	60
5 years to 10 years	0	70
10 years to 20 years	0	80
20 years and above	0	100

The Council does not have a need to borrow, so therefore does not currently need to apply a Minimum Revenue Provision (MRP).

There is a prudential indicator that compares the net cost of financing (i.e. borrowing costs less income generated from investments) with the net revenue budget of the Council. This will be looked at later in this document after considering investments and their forecast returns. However the indicator below considers the cost of borrowing as a % of the net revenue budget of the Council.

Year	Estimated cost of borrowing £m	Forecast net revenue budget	Estimated cost of borrowing as a % of net revenue budget
2019/20	0.042	15.558	0.27
2020/21	0.041	14.808	0.28
2021/22	0.040	14.911	0.27
2022/23	0.039	15.021	0.26
2023/24	0.037	15.021	0.25

The Council is required to set a prudential indicator that estimates financing costs (cost of borrowing less income from investments) as a percentage of its net revenue budget.

Year	Estimated cost of borrowing £m	Less: Forecast of interest earned £m	Net Financing Costs £m	Forecast net revenue budget	Estimated cost of borrowing as a % of net revenue budget
2019/20	0.042	0.372	-0.330	15.558	-2.121
2020/21	0.041	0.417	-0.376	14.808	-2.539
2021/22	0.040	0.516	-0.476	14.911	-3.192
2022/23	0.039	0.526	-0.487	15.021	-3.242
2023/24	0.037	0.584	-0.547	15.021	-3.642

3. Debt Rescheduling

No debt rescheduling was undertaken during the quarter.

4. Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators, (affordability limits), are included in the approved TMSS.

During April and May the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The prudential and treasury Indicators are shown in Appendix 1.

APPENDIX 1: Prudential and Treasury Indicators for 2019-20 as at 31 May 2019

Treasury Indicators	2019/20 Budget £'000	31.05.19 Actual £'000
Authorised limit for external debt	9,000	440
Operational boundary for external debt	3,600	440
Gross external debt	2,548	440

Maturity structure of fixed rate borrowing - upper and lower limits		
Under 12 months	17	17
12 months to 2 years	18	18
2 years to 5 years	58	58
5 years to 10 years	82	82
10 years to 20 years	15	15
20 years to 30 years	250	250

Prudential Indicators	2019/20 Budget £'000	31.05.19 Actual £'000
Capital expenditure The budget is the expected capital expenditure during the year. The actual total is spend to date. Only at the end of the year will actuals get close to the budget.	9,220	271
Capital Financing Requirement (CFR) The total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. The year end position reflects the budgeted capital spend during the year. A negative total means that there is no borrowing requirement.	-0,063	-5,919
In year borrowing requirement	0	0
Ratio of financing costs to net revenue stream Net expenditure/ (income) from borrowing and investments, as a % of the Council's net revenue. This is negative as the Council is currently receiving a net income from investments.	-1,969	-2,51