

**CABINET**  
**26 JANUARY 2021**

**\*PART 1 – PUBLIC DOCUMENT**

**TITLE OF REPORT: INVESTMENT STRATEGY (INTEGRATED CAPITAL AND TREASURY)**

REPORT OF THE SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: FINANCE AND I.T.

CURRENT COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

NEW COUNCIL PRIORITY: ENABLE AN ENTERPRISING AND CO-OPERATIVE ECONOMY

**1. EXECUTIVE SUMMARY**

1.1 The Investment Strategy provides the following key information:

- A capital programme of £14.718m in 2021/22 and £25.074m for the period 2022/23 to 2025/26.
- Recommendations on the Prudential and other Treasury indicators that will be monitored and reported on during the year (2021/22)
- As the Council has identified a need to borrow for capital purposes, a borrowing and Minimum Revenue Provision (MRP) policy
- The scope of treasury investments where the Council will invest any surplus cash.

**2. RECOMMENDATIONS**

- 2.1. That Cabinet recommend to Council the adoption of the Investment Strategy (as attached at Appendix A), including the capital programme and prudential indicators.
- 2.2. That Cabinet recommend to Council the adoption of the four clauses in relation to the Code of Practice on Treasury Management (as detailed in paragraphs 8.12 to 8.17).

**3. REASONS FOR RECOMMENDATIONS**

- 3.1 To ensure that the capital programme meets the Council's objectives and officers can plan the implementation of the approved schemes
- 3.2 To ensure the Council's compliance with CIPFA's code of practice on Treasury Management, the Local Government Act 2003, statutory guidance from the Ministry of Housing, Communities and Local Government and the CIPFA Prudential Code. As well as determining and managing the Councils risk appetite in respect of investments.

#### **4. ALTERNATIVE OPTIONS CONSIDERED**

- 4.1 Each proposed service related capital scheme is the result of consideration of options for the best way of continuing service delivery by the relevant Service Director in consultation with the relevant Executive Member. The capital schemes relating to District investments (rather than directly service related) will primarily consider the benefits to the District and residents, as well as a risk-based yield.
- 4.2 The primary principle governing the Council's investment criteria is the security and liquidity of its investments. After this the return (or yield) is then considered, which provides an income source for the Council. In general, greater returns can be achieved by taking on greater risk.

#### **5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS**

- 5.1 All Members were given opportunity to comment on all new Capital investment proposals, as well as existing projects earmarked in future years, at the Member Budget Workshops held in November 2020. Notes of the comments raised at the workshops were provided to Cabinet in December.
- 5.2 Members will be aware that consultation is incorporated into project plans of individual capital schemes as they are progressed.
- 5.3 There is ongoing dialogue with the Authority's Cash Manager, Tradition and regular meetings with Treasury advisors (Link).

#### **6. FORWARD PLAN**

- 6.1 This report does not contain a recommendation on a key Executive decision, as the ultimate decision is made by Full Council.

#### **7. BACKGROUND**

- 7.1 The Corporate Business Planning Process begins each year with consideration of policy priorities and the Council's Priorities for the District and a review of the Medium Term Financial Strategy. Finance and other resources are aligned to the strategic priorities as set out in the Council Plan.
- 7.2 Cabinet receives quarterly updates on the delivery and funding of the Council's capital programme, with the report presented at the December meeting of Cabinet providing estimates as at the end of the second quarter of 2020/21. The report advised that total expenditure of £46.119m would be required to deliver the current capital programme for 2020-2030, with £3.937m forecast to be spent in 2020/21. Table 1 below details the changes to the existing capital programme reported to Cabinet since the Capital Programme was approved by Full Council in February 2020. In December, Cabinet approved a referral to Council for the reprofiling of IT budgets to allow the purchase of laptops. These will be subject to approval by Full Council in January but are included in the table below to provide a complete picture of the current anticipated position.

Table 1

	2020/21 £M	2021/22 £M	2022/23 to 2029/30 £M
<b>Original Estimates approved by Full Council February 2020</b>	<b>9.357</b>	<b>5.405</b>	<b>26.650</b>
<b>Changes approved by Cabinet in 3rd Qrt 2019/20</b>	3.801	0	0
<b>Changes approved by Cabinet in 2019/20 Capital Outturn report</b>	0.277	0	0
<b>Revised Capital estimates at start of (2020/21)</b>	<b>13.435</b>	<b>5.405</b>	<b>26.650</b>
<b>Changes approved by Cabinet in Covid-19 Financial Impacts report 21/07/20</b>	-2.809	1.713	1.096
<b>Executive Member – Finance and I.T. approved additional Expenditure on 4 schemes</b>	0.180	0	0
<b>Changes at Q1</b>	-0.287	0.296	0
<b>Executive Member – Finance and I.T. approved additional Expenditure on 4 schemes</b>	0.458	0	0
<b>Changes at Q2</b>	-7.040	7.022	0
<b>Proposed reprofiling of IT budgets to allow the purchase of laptops (subject to Full Council approval in January)</b>	0.050	0.030	0.169
<b>Executive Member – Finance and I.T. request to approve additional Expenditure on Council Chamber to enable an improved layout</b>	0.021	0	0
<b>Current Capital Estimates</b>	<b>4.008</b>	<b>14.466</b>	<b>27.915</b>

7.3 The Treasury Strategy Statement for 2020/21 was approved by Council in February 2020. A mid year review of the Treasury Strategy will be provided to Council in January 2021. There have been no changes made to the Strategy during the course of 2020/21.

## 8. RELEVANT CONSIDERATIONS

8.1 The proposed Investment Strategy is attached at Appendix A. Council are asked to approve this strategy, which includes the following:

- New capital investment proposals totalling £1.348m
- A total capital programme for the period of 2021/22 to 2025/26 of £39.792m.
- Adoption of a treasury strategy that covers borrowing and investment forecasts and limits, including prudential indicators

8.2 The following are provided as appendices to Investment Strategy, and are also appendices to this report:

- Appendix A1- A full list of planned future capital expenditure (2021/22 onwards)
- Appendix A2- A list of new capital schemes and schemes planned to commence from 2021/22

- 8.3 The format of the Investment Strategy is described in the introduction section (pages 2 and 3). The following sections highlight the significant considerations in relation to this version of the Strategy.
- 8.4 In general the capital programme detailed in tables 6 and 7 on pages 13 and 14 is what was presented to the budget workshops (as referenced in paragraph 5.1). The two exceptions to this are:
- The proposed changes to the IT budgets for purchase of laptops as detailed in paragraph 7.2. The detail presented to the budget workshop did detail a shift from desktop to laptop PCs, but the amounts and profiling has changed since then. Full details are provided in the separate report to Cabinet and Council.
  - The addition of a £27k budget for the purchase of 76 election polling booths and ballot boxes. A number of the booths are coming to end of their useful life. This purchase is for a new type of more portable booth that should make transit and storage easier, and hopefully less expensive. It is also possible to reclaim a proportion of the costs when we carry out elections on behalf of others (e.g. County Council, Police and Crime Commissioner and Parliamentary). The opportunity to progress with this purchase this year was only identified after the budget workshops.
- 8.5 As detailed in table 7 on page 14, there is an allocation of £20m that is aligned to the Property Acquisition and Development Strategy. In addition, there is an allocation for spend on residential property that is funded from capital reserves and has been reprogrammed in to 2021/22. Table 8 (on page 16) provide an assessment of the Security, Liquidity and Yield of the projected spend on these assets. Table 9 (on page 16) details that the assessment of the expected risk of loss will be carried out as part of individual business cases. The paragraph at the bottom of page 24 details the changes to the rules for accessing Public Works Loan Board borrowing, and why it has been necessary to shift the focus of the residential property investment to development and conversion.
- 8.6 As detailed in table 11 (on page 17) based on forecasts of capital receipts and spend, the Council will have a need to borrow to fund the capital programme. This will require £5.2m of borrowing in 2021/22, rising to £6.3m in 2023/24, £13.0m in 2024/25 and up to £18.2m by the end of 2030/31. As detailed on page 19, the Council can consider whether to borrow internally or externally. The advantages and disadvantages of each are also considered on pages 19 and 20. Based on this, and the uncertainty over value and timing of capital receipts it is considered that the Council should assume that it will need to borrow externally. This will be given further consideration at the time that any borrowing is needed. If the forecast is that the need is more likely to just be for a short period (e.g. there is greater certainty over capital receipts) or there is a clearer indication over future interest rates (e.g. they are not likely to rise) then internal borrowing will be reconsidered. It is also possible that there will not be the need to borrow that is identified if there is slippage on the capital programme, this is particularly likely in relation to the investments described in paragraph 8.4 above as they are dependent on there being the right opportunities.
- 8.7 Where the Council has a need to borrow then it incurs a revenue charge known as a Minimum Revenue Provision (MRP). For external borrowing there is also a need to pay interest costs. The need to borrow in effect comes from the decision that has been made to invest £20m in line with the Property Acquisition and Development Strategy. The primary reason for any such investment is for the purposes of the Council's functions or the benefit, improvement or development of the area. However, investments will only be taken forward if they generate a return above the cost of capital (based on prevailing

interest costs and estimated MRP). This reflects suitable compensation for the risks of property investment. This return has not been factored in the revenue budgets and nor will the costs of capital (interest charges and MRP). This is considered to be a prudent net approach to take. The totals for Treasury Indicator 6 on page 24 are based on existing investment assets and spend in line with the capital programme on residential property and investments in line with the Property Acquisition and Development Strategy. The annual income is based on forecasts for the existing investments and an assumed return of 6% for new investments (2.5% MRP + 2% interest + 1.5% margin). The loans are in accordance with the identified need to borrow and the cost of borrowing is assumed at 4.5% (2.5% MRP and 2% interest).

- 8.8 The Council also needs to determine a MRP policy. The current capital programme is a combination of spend on service provision and investments that should generate a consistent return over time. Therefore, it is considered appropriate to use adopt an equal instalment MRP policy. This can be reviewed in future if the Council ever looked at an investment with a return profile that increased over the life of the asset.
- 8.9 Table 17 on page 29 details where the Council can invest its surplus cash. This sets limits to ensure appropriate diversification. The following changes are proposed compared to last year:
- Increase investment limit with other individual Local Authorities from £3m per Authority to £5m. This is based on increasing the percentage that can be invested from 10% to 15%. This reflects that other Local Authorities are relatively low risk due to their tax raising powers, and that a number of other Local Authorities will now only look at borrowing £5m or more.
  - Increase overall Building Societies limit from £16m to £17m. This change applies the same percentage as last year, but the forecast year end total investment balance is slightly higher.
  - Increase the limit with the same banking group from £4m to £5m and increase the total limit with banks from £20m to £21m. This change applies the same percentages as last year, but the forecast year end total investment balance is slightly higher.
  - To reduce the amount that can be invested in Property Funds to £2m. This uses the same percentage but applies it to the forecast balance at the end of 2025/26. This reflects that this should be considered to be a long term investment.
  - To add the option to invest in UK multi-asset funds. These funds invest in a range of assets to achieve diversification. These assets include equities, bonds and cash and are can be spread over a broad range of strategies, styles, sectors and regions. These should be considered to be longer-term investments and are expected to provide a greater return (over time) that is commensurate with the increased liquidity risk. The proposed limit is set at £2m in line with the rationale for Property Funds (above).
- 8.10 In relation to the Property Funds and Multi-asset Funds mentioned above it is important to invest in a fund that is appropriate for the Council (e.g. considering types of investments, level of risk, balance between income and capital growth, approach to ethical and green investments). The treasury budget will be used to procure professional advice in respect of this. It should also be noted that the fees involved will be very small in comparison to the potential differentials in yields between the various funds.

- 8.11 The Code of Practice on Treasury Management requires that a report be submitted to Full Council setting out four clauses which should be formally passed in order to approve adoption of the code. The four clauses are detailed below, including how they are met by the Council. As recommended by CIPFA, where appropriate these are included within the Council's Constitution and Financial Regulations.
- 8.12 Clause 1 relates to creating and maintaining a Policy and practices as a cornerstone for effective treasury management.
- 8.13 Full Council are asked to approve the adoption of the following Treasury Management Policy Statement, which is the same as in previous years:
- This organisation defines its treasury management activities as: "The management of the authority's 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".
  - This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.
  - This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.
- 8.14 The Council has adopted treasury management practices (TMPs) which set out how the Council will carry out, manage and control the achievement of the policy above in practice. These TMPs are substantially unchanged from last year and follow the recommendations contained within the Code, subject only to amendment where necessary to reflect the particular circumstances of the Council. Such amendments are minor and do not result in any material deviation from the Code's key principles. The TMPs are operationally focused and therefore the themes covered are detailed below, rather than providing the full document. Where relevant the detail is already covered in the Investment Strategy (e.g. approved instruments):
- TMP1- Risk Management
  - TMP2- Performance Measurement
  - TMP3- Decision making and analysis
  - TMP4- Approved instruments, methods and techniques
  - TMP5- Organisation, clarity and segregation of responsibilities, and dealing arrangements
  - TMP6- Reporting requirements and management information arrangements
  - TMP7- Budgeting accounting and audit arrangements
  - TMP8- Cash and cash-flow management
  - TMP9- Money laundering
  - TMP10- Staff training and qualifications
  - TMP11- Use of external service providers
  - TMP12- Corporate Governance
- 8.15 Clause 2 relates to the reporting on treasury activities. These are set out in the Investment Strategy on page 3.

- 8.16 Clause 3 relates to the delegation of responsibility for the implementation and regular monitoring of its treasury management policies. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet (Constitution 5.6.9) and for the execution and administration of treasury management decisions to the Service Director: Resources (Constitution 14.6.12 (a) (iii) and Financial Regulations section 13) who will act in accordance with the Council's policy statement and treasury management practices and the CIPFA Standard of Professional Practice on Treasury Management.
- 8.17 Clause 4 relates to the scrutiny of treasury management strategy and policies. The Council nominates the Finance, Audit and Risk Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies (Constitution 10.1.5 (c)).

## **9. LEGAL IMPLICATIONS**

- 9.1 Full Council will decide the overall capital budget (Constitution 4.3) and approve the treasury management strategy statement (Constitution 4.4.1 (dd)).
- 9.2 Cabinet will recommend to Full Council the annual capital budget (Constitution 5.6.38) and treasury management strategy statement (Constitution 5.6.39).
- 9.3 The Finance, Audit and Risk Committee will consider the Council's policy in relation to Treasury Management and make recommendations on the Annual Treasury Management and Investment Strategy, and Treasury Management Code of Practice (Constitution 10.1.5 (c)).
- 9.4 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." That officer is the Service Director- Resources.
- 9.5 The proposed Prudential Indicators contained within the Investment Strategy comply with the Local Government Act 2003. The Investment Strategy has been developed to comply with the statutory guidance from the Ministry of Housing, Communities and Local Government and the CIPFA Prudential Code.

## **10. FINANCIAL IMPLICATIONS**

- 10.1 These are covered in section 8.

## **11. RISK IMPLICATIONS**

- 11.1 Capital investment is sometimes needed to mitigate against a risk to the Council. This is detailed to Members when a new investment comes forward. The risk implications of each individual scheme are considered in project plans as the schemes are progressed. The capital programme assumes a level of third party contributions and grants towards the cost of the schemes. There is a risk that not all the contributions are forthcoming.
- 11.2 Investment risks in relation to treasury management are covered in this report and the Investment Strategy. The TMPs (see 8.13) and Financial Regulations provide controls to manage other risks

## **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 2021/22 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” requirements do not apply to this report.

## **14. ENVIRONMENTAL IMPLICATIONS**

- 14.1. There are no known Environmental impacts or requirements that apply to recommendations of this report. The projects at section 8.4 may have impacts that contribute to an adverse impact. As these projects go forward, an assessment will be made where necessary.

## **15. HUMAN RESOURCE IMPLICATIONS**

- 15.1 There are no direct human resources implications arising from this report.

## **16. APPENDICES**

- 16.1 Appendix A - Investment Strategy
- 16.2 Appendix A1 - A full list of planned capital expenditure (2021/22 onwards)
- 16.3 Appendix A2 - A list of new capital schemes and schemes planned to commence from 2021/22

## **17. CONTACT OFFICERS**

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## **18. BACKGROUND PAPERS**

- 18.1 None