

**CABINET**  
**25 January 2022**

**\*PART 1 – PUBLIC DOCUMENT**

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

REPORT OF: SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: FINANCE AND I.T.

COUNCIL PRIORITY: ENABLE AN ENTERPRISING AND CO-OPERATIVE ECONOMY

**1. EXECUTIVE SUMMARY**

*The Investment Strategy provides the following key information:*

- A capital programme of £7.090m in 2022/23 and £20.219m for the period 2023/24 to 2026/27.
- Recommendations on the Prudential and other Treasury indicators that will be monitored and reported on during the year (2022/23)
- 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 Department of Levelling Up, Housing and Communities (DLUHC) 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 2021. Notes of the comments raised at the workshops were provided to Cabinet in December. There have been two changes to the capital programme since the budget workshop, which are:
- Investment of £250k in a new mausoleum. This will mainly be funded from a specific reserve. The sale of niches will generate income for the Council.
  - Change to show the majority of bin purchases as capital (rather than revenue) expenditure. This is consistent with the Council's capitalisation policy.
- 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 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 2021/22. The report advised that total expenditure of £22.266m would be required to deliver the current capital programme for 2021-2031, with £3.045m forecast to be spent in 2021/22. 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 2021.

Table 1

	2021/22 £M	2022/23 £M	2023/24 to 2030/31 £M
<b>Original Estimates approved by Full Council February 2021</b>	<b>14.718</b>	<b>7.919</b>	<b>21.114</b>
<b>Changes approved by Cabinet in 3rd Qrt 2020/21</b>	1.102	0.537	0
<b>Changes approved by Cabinet in 2020/21 Capital Outturn report</b>	0.473	0	0
<b>Revised Capital estimates at start of 2021/22</b>	<b>16.293</b>	<b>8.456</b>	<b>21.114</b>
<b>Executive Member – Finance and I.T. approved additional Expenditure – Financial System upgrade</b>	0.082	0	0
<b>Executive Member – Finance and I.T. approved additional Expenditure – Installation of high-definition cameras in the Council Chamber</b>	0.018	0	0
<b>Changes at Q1 2021/22</b>	-0.224	0.312	0
<b>Executive Member – Finance and I.T. approved additional Expenditure on Careline Servers</b>	0.015	0	0
<b>Changes at Q2 2021/22</b>	-13.139	-2.661	-8.000
<b>Current Capital Estimates</b>	<b>3.045</b>	<b>6.107</b>	<b>13.114</b>

7.3 The Treasury Strategy Statement for 2021/22 was approved by Council in February 2021. A mid year review of the Treasury Strategy will be provided to Council in January 2022. There have been no changes made to the Strategy during the course of 2021/22.

## 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 £5.213m
- A total capital programme for the period of 2022/23 to 2026/27 of £27.309m.

- 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 (2022/23 onwards)
  - Appendix A2- A list of new capital schemes and schemes planned to commence from 2022/23.
- 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).
- 8.5 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 17) details that the assessment of the expected risk of loss will be carried out as part of individual business cases.
- 8.6 Table 10 (on page 17) provides a forecast of the capital receipts that the Council will generate over the next few years. The preceding paragraph provides a description of the factors that will affect the timing and amount of expected capital receipts. Any significant changes would require a change to the Investment Strategy and could also affect the revenue budget in the medium-term.
- 8.7 As detailed in table 11 (on page 18) based on forecasts of capital receipts and spend, the Council will have a need to borrow to fund the capital programme. This will require £1.6m of borrowing in 2025/26, an additional £1.4m in 2026/27, and a further £2.9m between 2027-2032. As detailed on page 19, the Council can consider whether to borrow internally or externally. However as detailed on page 20, forthcoming changes to the Prudential Code will require Councils to initially consider internal borrowing as it is considered to be cheaper and lower risk. Therefore it is assumed that the Council will borrow internally.
- 8.8 Where the Council has a need to borrow then it incurs a revenue charge known as a Minimum Revenue Provision (MRP). On page 26 it is detailed that the Council will charge MRP on an equal instalment basis. This reflects that the majority of capital spend is related to service provision and therefore the assets are expected to provide consistent benefits over their life.

- 8.9 Table 17 on page 30 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:
- Change the institution minimum credit rating for non-UK investments (from AA- to A+). This would open up more non-UK investment options and therefore allow for greater diversification of risk. The A+ rating would still exceed the rating of UK institutions (retained at BBB). The Country credit rating would be retained at AAA, which is higher than the UK rating of AA-.
  - Various changes to investment limits measured in £m (by type of investment, institution and groups of investments) to reflect the forecast year end balances. The percentages that these are based on are unchanged.
- 8.10 The Strategy still allows the Council to invest in a Property Fund(s) and a Multi-asset Fund(s), with up to £2m in each type of investment. As detailed on page 31 these investments have been delayed by expected changes to the Prudential Code. These investments will be placed on hold until there is greater certainty over some capital investment opportunities that are not currently part of the proposed capital programme. If / when they are progressed, there is a contract in place with our treasury advisers to provide professional advice on which funds to invest in (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 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 (2022/23 onwards)

16.3 Appendix A2- A list of new capital schemes and schemes planned to commence from 2022/23

### **17. CONTACT OFFICERS**

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### **18. BACKGROUND PAPERS**

18.1 None