Appendix A

Investment Strategy
(Integrated Capital and Treasury Strategy)

Part 1- Overview

Introduction

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 risk appetite, providing adequate security and 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 plans. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses.

The Chartered Institute of Public Finance and Accountancy (CIPFA) define treasury management as:

> *"The management of the local 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 strategy now provides an integrated view of capital spend and income, alongside treasury management. This is because long-term Treasury management is inextricably linked to the funding of the capital programme. There is also a requirement to apply treasury management principles to any capital spend that is not related to service provision.

The format of this strategy is as follows:

Part 2- Capital Spend

- A summary of the Council's current capital assets. For those assets that are not held for service provision, an assessment against the principles of Security, Liquidity and Yield.
- Forecasts of the capital and revenue spend required to maintain those assets.
- Planned spend on new capital assets, with the additional assessment of risk, security, liquidity and yield for those assets that are not being acquired for service provision.
- This part of the strategy therefore gives a complete picture of forecast capital spend.

Part 3- Capital balances, receipts and the Capital Financing Requirement (CFR)

- Forecasts of expected receipts from the sale of surplus capital assets.
- Comparing capital spend forecasts with capital reserve balances and forecast future receipts gives the Capital Financing Requirement, which is the Council's need to borrow.

Part 4- Borrowing Strategy and Minimum Revenue Provision (MRP)

- This leads to the setting of a borrowing strategy which sets out how to borrow, when to borrow and for how long.
- Where the Council has a borrowing requirement, then it is required to set a policy on Minimum Revenue Provision.

Part 5- Investment Strategy

- This is then all combined to determine the levels of cash that the Council will have available for investment. This leads to an investment strategy that determines where to invest any balances, including limits on types of investments.

Part 6- Overall Risk considerations

- To consider the cumulative risks that the Council faces that arise from the totality of this strategy.

Part 7- Glossary of terms

- To explain the various terms used in this strategy.

The strategy sets a number of prudential and treasury indicators. A prudential indicator is one which is required by statutory guidance, whereas a treasury indicator is one that is set locally to provide information on performance.

Reporting requirements

Full Council will receive and approve three reports during the year:

- The Integrated Capital and Treasury strategy (this report)
- A mid-year review
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management strategy

Each of these reports will be reviewed by the Finance, Audit and Risk (FAR) Committee and Cabinet. The FAR Committee and Cabinet will also receive reports on the position as at the end of the first (to end of June) and third (to end of December) quarters. The FAR Committee undertakes an oversight role.

These reports will provide relevant updates on performance against the prudential and treasury indicators.

Basis of Estimates

The estimates contained within this strategy are based on the best information that can reasonably be obtained. For forecasts of spend on assets (revenue maintenance, capital maintenance and capital acquisitions) this is based on a combination of previous experience, indicative quotes, condition surveys and professional advice. The estimates of capital receipts are provided by the Council's Senior Surveyor and are prudent estimates based on expected use, type of sale, market conditions and (where applicable) the status of negotiations to date.

The Council has experienced some cost increases on capital projects in the past. These have generally arisen from delays in the start of the project and subsequent inflation rather than incorrect estimates. Budget Holders have been asked to be as realistic as they can be about the timing of projects and ensure that forecast costs are aligned to the expected timing. There will also be external factors that affect estimates, particularly the impacts of the United Kingdom's withdrawal from the European Union and ongoing uncertainty over Covid-19. For capital projects, there is some flexibility to the extent to which they can overspend without further approval (ranging from 5% to 20% dependant on value) and this is considered in setting this overall strategy and in the quarterly monitoring.

Treasury Management Policy and Treasury Management Practices

In line with guidance from the Chartered Institute of Public Finance and Accountancy, the Council sets the following treasury management policy:

1. This Council defines its treasury management activities as: The management of the organisation'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.
2. The Council 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, and any financial instruments entered into to manage these risks.
3. The Council 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 value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

The Council also has 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 follow the recommendations contained within the Code of Practice on Treasury Management (published by CIPFA), 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 cover the following areas:

- 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

Treasury Consultant

The Council renewed its contracted with Link Asset Services to provide treasury management advice for the three year period October 2019 – September 2022. It is recognised that the responsibility for treasury management decisions remains with the Council at all times and the Council will ensure that undue reliance is not placed upon Link. However, 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.

The performance of the treasury consultant is assessed through regular meetings and the justifications for the advice provided.

Skills and culture

It is important that decision makers are given the information that they need to make those decisions. Given that treasury and risk management can be a complex area; this should be accompanied by the availability of appropriate training. To address the availability of information, all Council, Cabinet and Committee reports include sections on both financial and risk implications. Where a decision is more financial in nature then these considerations will be detailed throughout the report. Table 1 details the key groups in relation to decision making and the training that has been made available. This strategy is required to disclose the steps that have been taken to provide training, and it is up to individual members of those groups to ensure that they take advantage of the opportunities offered.

Table 1

Group	Reason for training	Training that has been made available
Full Council (All Councillors)	Required to formally adopt this Strategy. Required to approve any capital purchase over £2.5m.	Annual training that provides an introduction to Local Authority funding and accounting did not take place again due to Covid-19 To look at how it can be effectively reinstated during 2022/23.
Finance, Audit and Risk Committee	To review the Council's policies on Treasury, Capital and the Medium-Term Financial Strategy. To monitor the effective development and operation of risk management.	Members of the Committee (and substitutes) are encouraged to complete a skills self-assessment. This allows the targeting of specific training. Regular reporting to the Committee on Capital, Risk and Treasury provides the opportunity to ask questions.
Chief Finance Officer and Finance Team	Responsibility for the financial management of the Council (under s151 of Local Government Act, 1972), including capital and treasury management. Provide advice to Budget Holders in respect of financial management. Responsible for reviewing and amending the financial implications sections of reports.	Ongoing Continuing Professional Development for all qualified members of the finance team, including focused training for specific areas of responsibility.
Leadership Team (LT)	Individual Service Directors will be responsible for putting forward proposals. Proposals will be reviewed by the Senior Management Team prior to taking through the Committee process. Members of SMT are likely to be involved in negotiating commercial deals.	Previous training session on risk, risk appetite and assessing risk. Regular updates on the Council's funding and finances, including significant changes in regulations. Updates on the core principles of the prudential framework. Planning introductory financial training during early 2022 for newer members of Leadership Team (also to be extended to Senior Management Group).
Political Liaison Board (Joint Member and Officer Leadership Team)	Cabinet makes recommendations to Council on the policy direction and budget for the Council. Approves capital spend up to £2.5m.	Presentations on the implications of the CIPFA Financial Management Code to help ensure effective financial governance and sustainability.

Part 2- Capital Spend

Current Capital Assets

As at 31[s] March 2021, a summary of the capital assets owned by the Council is shown in table 2 below.

Table 2

Asset Type	Asset	Reason for ownership	Value (£000)
Investment Properties	Various	Retained to generate income	23,843
Surplus Land and buildings	Various	Held for future sale or development	16,435
Offices and Storage	DCO	Staff offices, customer service centre and democratic facilities	4,451
Offices and Storage	Unit 3	Off-site storage, back-up IT and emergency planning	398
Leisure Facilities	Hitchin Swim Centre / Archers	Service use	9,002
Leisure Facilities	Letchworth Outdoor Pool	Service use	3,150
Leisure Facilities	North Herts Leisure Centre	Service use	13,158
Leisure Facilities	Royston Leisure Centre	Service use	8,651
Leisure Facilities	Pavilions / Bandstands	Service use	2,269
Leisure Facilities	Recreation Grounds / Play Areas / Gardens/Allotments	Service use	5,546
Community Centres and Halls	Various	Community facilities, generally operated by third parties	12,268
Markets	Hitchin Market	To provide a market	158
Museums and Arts	Hitchin Town Hall and District Museum	District-wide museum and community facility	12,890
Museums and Arts	Letchworth and Hitchin museums, Burymead store	Museum storage	1,710
Cemeteries	Various	Service use	1,473
Community Safety	Various CCTV cameras	Service use	4
IT	Various computer equipment and software	To enable the delivery of other services	505
Parking	Various car parks	Service use	9,365
Waste Collection	Bins	Service use	351
Waste Collection	Vehicles	Service use	1,816
Public Conveniences	Various	Subject to leases/ management arrangements	621
Other	Various	Various	718
Total			**128,782**

Table 3 shows the capital expenditure that has been incurred during the year, or is forecast to be spent in the remainder of the year:

Table 3

Asset Type	Asset	Reason for purchase/ expenditure	Value (£000)
Cemeteries	Various	Icknield Way and Wilbury Hills Path Enhancement	64
Community Centres and Halls	Various	Grants for refurbishment of community facilities. Relates to properties that are not owned by the Council (REFCUS)	396
Grants	Various	Private Sector Housing Grants / S106 Grants (REFCUS)	166
Investment Properties	Residential Housing	To enable the conversion of Harkness Court to increase housing provision in the District	103
IT	Various computer equipment and software	To maintain IT service and provision of equipment	492
Leisure Facilities	Hitchin Swim Centre / Archers	Replace Outdoor Boiler and Hot Water Calorifer	65
Leisure Facilities	Leisure Condition Survey	Improvements to various Leisure sites	82
Leisure Facilities	Letchworth Outdoor Pool	Replace Outdoor Boiler	40
Leisure Facilities	North Herts Leisure Centre	Replace Sports Hall Heating and Refurbish Gym Floor	34
Leisure Facilities	Recreation Grounds / Play Areas / Gardens	Refurbishment of play areas.	320
Leisure Facilities	Royston Leisure Centre	Thermal Installation	50
Museums and Arts	Hitchin Town Hall and District Museum	Mainly works to the Town Hall	173
Parking	Multi-storey car parks	Lift refurbishment at Lairage, Lighting at Letchworth Multi-storey, wall works at Lairage Car Park	365
Parking	Off Street	Match Funding for Electric Vehicle charging	100
Parking	Off Street	Upgrade pay and display machines and resurfacing and Replacement of Floodlights	381
Parking	On Street	Instal On Street Charging	50
Various	Various	Capital maintenance of Council buildings/land	164
Total			**3,045**

Capitalisation Policy:

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classed as Property, Plant and Equipment.

Expenditure, above the de-minimis level, on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis provided that it is probable that the future economic benefits or service potential associated with the item will flow to the authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) or is below the de-minimis level, is charged as an expense when it is incurred.

The Authority's de-minimis level is £20,000 for property and £10,000 for vehicles, plant and equipment.

The Council will provide grants that fund works on assets that it does not own. This expenditure can be treated as capital expenditure, even though it does not create an asset that the Council would then own or recognise. This is known as revenue expenditure allowed to be funded by capital under statute (or REFCUS).

For the assets that the Council owns (or plans to purchase in the year) that are **not** for service delivery, the security, liquidity and yield in relation to these have been considered. For these assets it is up to the Council to determine how it balances these, and this will depend on its risk appetite. This analysis is shown in Table 4. In most cases, assets are grouped together by type. Assets that are held for income generation purposes are revalued annually. This valuation is on a fair value basis. Unless detailed below the asset is considered to provide sufficient security.

Definitions:

Security- In traditional treasury terms, this is the possibility that other parties fail to pay amounts due to the Authority. For commercial investments it relates to how susceptible they are to changes in value and market conditions.

Liquidity- This is the possibility that the Authority may not have funds available to meet its commitments to make payments. In general it relates to how easy it is to sell an asset.

Yield- The income return on an investment or asset, such as the interest received or rental income from holding a particular investment or asset.

Table 4

Asset (or type of asset)	Security	Liquidity	Yield
Ground leases- mainly of commercial premises in Royston, Letchworth and Hitchin (£19.5m by value)	Generally subject to long leases where the land has been built on. The building would become owned by the Council if there was a default on the lease agreement. Therefore, high security.	It is possible that the Council could try and sell to the leaseholder. Otherwise low liquidity in common with commercial premises.	The assets have been owned for a number of years. Valuations are based on the yield generated.
Churchgate Shopping Centre, Hitchin- ground lease (value £1.7m)	A long lease with upward only rent reviews. However, this is dependent on amounts due being paid. Covid-19 legislation in relation to rent arrears mean that amounts are currently overdue.	On the basis that it generates a reasonable rental stream, likely to be some interest as an investment. Current rental stream is affected by Covid-19. Therefore, low liquidity, which may improve when Covid-19 recovery improves.	Valuations are based on the yield generated.
Letchworth Town Hall (value £0.9m)	25 year lease (from 2012) where the tenant has provided significant investment.	Very low liquidity as would require someone to be interested in this type of building. Listed so would limit redevelopment.	Valuations are based on the yield generated.
Beverley Close Store, Royston (value £0.1m)	15 year lease from 2017	Low liquidity in common with commercial premises.	Valuations are based on the yield generated. Previously used as a Council store and a decision was made to retain for rental income.
Residential housing (Harkness Court)	The demand for housing is considered to be greater than an office building. Therefore, it is expected that the expenditure on a conversion scheme has increased the security of the asset.	The liquidity of the asset increased with the granting of planning permission, building regulation approval and then completion of conversion work. Now expected to have quite high liquidity.	Not currently generating any income. The final completion of the conversion will increase the capital value / enable generation of rental income.
Other assets valued at less than £0.1m (£0.3m in total)	Not fully assessed	Not fully assessed	Not fully assessed

Definitions:

Fair Value: The price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

For each of the assets in table 4, there is also a requirement to carry out a fair value assessment that demonstrates that the underlying assets provide security for the capital invested. There is a further requirement to carry out an assessment of the risk of loss. This assessment generally relates to investments in commercial activities so includes items that may be less relevant to the majority of our assets. In total the risk assessment covers:

- Assessment of the market that competing in, including nature and level of competition, market and customer needs including how these will evolve over time, barriers to entry and exit, and ongoing investment required.
- Use of external advisers and how the quality of these is monitored
- Whether credit ratings are used and how these are monitored
- Any other sources of information that are used

The assessments described above are shown in table 5. In most cases the assets are grouped together by type.

Table 5

Asset (or type of asset)	Fair value assessment	Assessment of the risk of loss
Ground leases- mainly of commercial premises in Royston, Letchworth and Hitchin (£19.5m by value)	Valued on a fair value basis. The valuation is based on rental yields.	Subject to competition from other sites within the same industrial areas and other locations. Difficult (uneconomic) for current lessees to exit due to lease terms and investment in the site. Any maintenance is the responsibility of the leaseholder.
Churchgate Shopping Centre, Hitchin- ground lease (value £1.7m)	Valued on a fair value basis. The valuation is based on rental yields.	External valuations have been commissioned in recent years. These have highlighted the difficulties that face retail and shopping centres in particular. These difficulties have been heightened by the impact of Covid-19. It is unclear whether this additional impact will be ongoing. Whilst, the freehold that the Council has is on beneficial terms which would usually provide investment returns, these returns are uncertain when the leaseholder is unable to generate income to afford to pay them. Whilst maintenance is the responsibility of the leaseholder, this will be impacted by availability of funds. Valuation reports have been checked and challenged by the Council's chartered surveyors.
Letchworth Town Hall (value £0.9m)	Valued on a fair value basis. The valuation is based on rental yields.	The building has some unique features in relation to its prominence and location. However, overall, there currently is an over-supply of office accommodation in Letchworth. Difficult (uneconomic) for current lessees to exit due to lease terms and investment in the building. Any maintenance during the lease term is the responsibility of the leaseholder.

Asset (or type of asset)	Fair value assessment	Assessment of the risk of loss
Beverley Close Store, Royston (value £0.1m)	Valued on a fair value basis. The valuation is based on rental yields.	Subject to competition from other sites within the same industrial areas and other locations. Currently let to a company with significant property interest nearby. Might be difficult to re-let.
Other assets valued at less than £0.1m (£0.3m in total)	Not fully assessed	Not fully assessed

Under the 'Use of Capital Receipts Direction', the Council can treat certain specified revenue spend as capital. Further details of the direction are shown below. Where this direction is used, the spend is included in the capital forecasts in tables 3, 6 and 7.

Use of Capital Receipts Direction:

The Capital Receipts direction has been used to fund the decommissioning of pavilions and play areas in 2018/19. There are no plans to make further use of the Direction in the period 2022/23– 2026/27.

For all assets the future capital cost of maintaining those assets has been considered, and gives the following future capital spend requirements (table 6).

Table 6

Asset	Description of future capital expenditure	Forecast Capital Expenditure (£000)					
		2022/23	2023/24	2024/25	2025/26	2026/27	2027/28 to 2031/32
Existing Capital Programme-schemes 2022/23 onwards							
Various	Capital maintenance based on condition surveys	555	0	0	0	0	0
Cemeteries	St Johns and Wilbury Hills -Enhance Footpaths	0	10	50	0	30	0
Computer Software & Equipment	To maintain IT services	722	94	371	1,099	87	1,084
Hitchin Swim Centre	Refurbishments / Boiler Replacement	0	70	200	300	605	0
Newark Close	Road Replacement	65	0	0	0	0	0
Letchworth Outdoor Pool	Boiler Replacement	0	40	0	0	0	0
North Herts Leisure Centre	Refurbishments / Boiler Replacement	0	550	0	0	0	270
Royston Leisure Centre	Refurbishments / Boiler Replacement	0	225	150	30	200	100
Thomas Bellamy House	Structural and roof enhancements	65	0	0	0	0	0
Various	Growth Fund Projects	713	0	0	0	0	0
Various	Private sector housing grants (REFCUS)	60	60	60	60	60	240
Various Leisure Facilities	Condition Survey enhancements	0	80	0	0	0	0
Various Off-Street Car Parks	Resurfacing / Enhancements	846	8	0	0	0	0
Various Parks and Playgrounds	Enhancements	255	435	215	180	180	720
New Capital Programme							
Environmental Improvements	Various works required to deliver the environmental enhancements highlighted within the North Herts Greenhouse Gas Reduction Report	115	0	0	0	0	0
Former Public Convenience on Portmill Lane, Hitchin	To return the property to a lettable standard	25	0	0	0	0	0
Hitchin Swim Centre / NH Leisure Centre / Royston Leisure Centre	Solar PV installation	0	560	0	0	0	0
Various Parks and Playgrounds	Enhancements	183	250	0	0	0	0
Waste and Recycling	Bin replacements	90	90	90	90	90	450

Asset	Description of future capital expenditure	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28 – 2031/32
Bury Mead Road Transfer Facility	Wall reinforcement	30	0	0	0	0	0
New Mausoleum	Build new Mausoleum at Wilbury Hills Cemetery	250	0	0	0	0	0
Council Car Fleet	New accounting Standard requires the Council's leased Vehicles to be recorded on the Council's Asset Register	141	0				
Grounds Maintenance Vehicles	New accounting Standard requires the Council's leased Vehicles to be recorded on the Council's Asset Register	315	0				
Total		**4,430**	**2,472**	**1,136**	**1,759**	**1,252**	**2,864**

The totals for 2027/28 to 2031/32 are estimates only and could be subject change. These should be treated as early indications only, and formal approval of these amounts is not required.

The revenue maintenance of these assets has also been considered. The Council has chosen to allocate a central budget of £244k per year for this purpose.

<u>New Capital Assets</u>

There are also proposals for the following capital expenditure on new capital assets and expenditure on existing assets that is not related to capital maintenance (table 7).

Table 7

Asset	Reason for capital expenditure	Forecast Capital Expenditure (£000)					
		2022/23	2023/24	2024/25	2025/26	2026/27	2027/28 to 2031/32
Existing Capital Programme-schemes 2021/22 onwards							
Off-Street Parking	Parking Machines Upgrade - Contactless Payment Facility Installation	20	0	0	0	0	0
Off-Street Parking	Parking Machines Replacement	0	0	0	150	150	0
Walsworth Common Pavilion	New pavilion	0	300	0	0	0	0

Royston Leisure Centre	Extension to provide a new multi-functional room and increase size of fitness room	0	1,000	0	0	0	0
John Barker Place	Contribution to redevelopment	1,096	0	0	0	0	0
Waste and Recycling	Vehicles	0	0	0	4,000	0	0
Waste and Recycling	Recyclable material transfer facility, vehicle depot and offer facility co-located with a residual waste transfer facility	0	0	3,000	3,000	0	0
New Capital Programme							
NH Museum and Community Facility	Museum Storage Solution	2,000	2,000	0	0	0	0
Charnwood House, Paynes Park, Hitchin	For the modifications and fit out to bring the building up to modern lettable condition.	TBC					
Total		**3,116**	**3,300**	**3,000**	**7,150**	**150**	**0**

Below is an estimate of the total capital expenditure to be incurred in the years 2022/23 to 2026/27. This is based on tables 6 and 7. This is a Prudential Indicator and the Council is required to set a target for it and monitor against it during the year.

Prudential Indicator 1: Estimate of total capital expenditure to be incurred in years 2022/23 to 2026/27

Year	£m
2022/23	7.546
2023/24	5.772
2024/25	4.136
2025/26	8.909
2026/27	1.402

A full list of planned future capital expenditure (2022/23 onwards) is provided as Appendix A1. A list of new capital schemes and schemes planned to commence from 2022/23 is provided in Appendix A2.

Where this proposed expenditure does not relate to service delivery, the security, liquidity and yield in relation to this spend has to be considered. The capital allocations do not include any spend that is not linked to service delivery, but the Council will continue to consider opportunities in relation to residential property and investments in line with the Property Acquisition and Development Strategy. If these opportunities arise then they will be brought to Council for consideration, alongside an updated Investment Strategy. The table below (table 8) provides an analysis of security, liquidity and yield in relation to these types of investment.

Table 8

Asset (or type of asset)	Security	Liquidity	Yield
Residential Property	The underlying value of residential property generally appreciates over the medium term due to the overall shortage of supply. The focus on developing new properties or converting existing properties to residential will also help to ensure security due to the expected uplift in value. Individual market factors will be considered prior to acquisition. Where retained it is likely that the property will be held through a company, although various funding structures can be considered (e.g. loan funding, equity funding or leasing the assets to the company for onward rental). Maximum security would be achieved through loan funding (with the loan secured against the property) or an onward leasing arrangement. But there may be instances where higher levels of equity funding are considered appropriate.	Property is a medium to long-term asset due to the costs of buying and selling. However, it is generally possible to sell residential property within a reasonable time-frame if priced accordingly.	The expected rental yield will be compared to the costs of acquisition or construction as part of the business case.
Investments in line with the Property Acquisition and Development Strategy	As detailed in the Property Acquisition and Development Strategy, the security of investments will be given a high weighting in determining which ones to take forward. However there will always be some risk relating to both general market conditions and specific factors relevant to individual properties. Spreading the total investment over a number of properties will help mitigate the second of these.	Property is a medium to long-term asset due to the costs of buying and selling, and that property markets can be cyclical in nature. The Property Acquisition and Development Strategy targets those properties that are considered to be more liquid e.g. they have a wider range of tenants and/ or uses.	To reflect the risk of property investment a net surplus of 1-1.5% (above borrowing, administration and acquisition costs) will be targeted as a minimum. Any target surplus will be commensurate with the level of risk.

For these assets, table 9, also details an assessment of the risk of loss. This covers the same factors that have been detailed previously. Where relevant, assets have been grouped together.

Table 9

Asset (or type of asset)	Assessment of the risk of loss
Residential Property	This will be fully assessed as part of the business case for the acquisition of any properties.
Investments in line with the Property Acquisition and Development Strategy	This will be fully assessed as part of the business case for the acquisition of any properties.

Part 3- Capital balances, receipts and the Capital Financing Requirement (CFR)

Capital Funding

The Council forecasts the following additions to its capital receipts (table 10). All the planned disposals are surplus land that is being sold to generate capital receipts. The disposals will also reduce the risks and costs of holding the land. Due to the potential impact on negotiations over disposal values, individual values are not detailed. Table 8 above mentions potential opportunities for the Council to develop residential properties on existing land. If these were to be progressed, then that would require a refresh of the Investment Strategy. If the properties were then sold at the end, then that would result in a delayed (but expected to be greater) capital receipt. If some (or all of) the properties were retained, then that would swap a capital receipt for an expected revenue income stream. The valuations used are prudent for selling with limited restrictions and assuming that planning permission can be obtained. If the Council requires enhanced conditions in relation to affordable housing provision or high environmental standards, then that could result in a reduced capital receipt. If that were the case then it may be necessary to revise the Investment Strategy. That would increase the borrowing requirement, increase borrowing costs and therefore have a greater revenue impact (due to revenue costs of capital).

Table 10

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Balance B/Fwd	1,133	4,441	10,017	4,902	2,644	0
Used in Year	1,664	5,624	5,115	2,258	2,644	0
Forecast Receipts (£000)	4,972	11,200	0	Tbc	Tbc	Tbc
Balance C/Fwd	4,441	10,017	4,902	2,644	0	0

The above timing and values are an estimate only. Actual timings will depend on market conditions and time taken for planning permission to be granted (where sales values are subject to planning). The Council will seek to get the best value it can from land sales.

As a result of planned expenditure in 2021/22 and future years, the Council forecasts the following use of funding for capital (table 11).

Table 11

Funding Source	Brought forward (at 31/3/21)	Forecast expenditure and funding sources (£000)						
		2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28 to 2031/32
Capital Expenditure		3,045	7,546	5,772	4,136	8,909	1,402	2,864
Less: Set-aside receipts used	5,097	1,087	762	370	1,878	999	0	0
Less: Capital receipts used	1,133	1,664	5,624	5,115	2,258	2,644	0	0
Less: Grant funding used		136	720	0	0	0	0	0
Less: IT Reserve used		35	0	0	0	0	0	0
Less: S106 receipts used		75	270	37	0	0	0	0
Less: Funding from revenue		0	170	0	0	3,200	0	0
Less: Other Capital Contributions		48	0	250	0	0	0	0
Borrowing requirement		**0**	**0**	**0**	**0**	**2,066**	**1,402**	**2,864**
Cumulative borrowing requirement		**0**	**0**	**0**	**0**	**2,066**	**3,468**	**6,332**

Definitions:

Capital receipts- money received from the sale of surplus assets.

Set-aside receipts- previously money generated from the sale of surplus assets was not defined as capital receipt. The residual funding that the Council has (which is mainly from the sale of its housing stock to North Herts Homes) is treated as a set-aside receipt. In essence these are treated in the same way as capital receipts.

The borrowing requirement is the balancing item. It is also known as the Capital Financing Requirement (CFR). This is a Prudential Indicator and the Council is required to set a target for it and monitor against it during the year.

Prudential Indicator 2: Capital Financing Requirement

Year	£m
As at 31st March 2021 (actual)	-5.2
As at 31st March 2022 (forecast)	-4.1
As at 31st March 2023 (forecast)	-3.3
As at 31st March 2024 (forecast)	-3.0
As at 31st March 2025 (forecast)	-1.1
As at 31st March 2026 (forecast)	2.0

Where the Council has a Capital Financing Requirement (i.e. the borrowing requirement is positive) then it:

- Must make a charge to revenue for a Minimum Revenue Provision.
- Can choose whether to borrow internally or externally.

Part 4- Borrowing Strategy and Minimum Revenue Provision (MRP)

Borrowing strategy

Definitions:

Internal Borrowing- Even when the Council has no capital reserves, it can borrow internally against its revenue balances and reserves. This uses the cash that is available and is different to funding capital from revenue. The Council is still required to have a Minimum Revenue Provision but does not incur any external interest costs. Interest income from investing the revenue balances and reserves would be lost.

External Borrowing- Borrowing from a third party (e.g. Public Works Loans Board, a Local Authority or a financial institution). Interest costs would be incurred, as well as having to make a Minimum Revenue Provision.

Based on Prudential Indicator 2 (page 18) the Council has a Capital Financing Requirement from 2025/26 onwards and therefore does have a need to borrow.

If the Council had a borrowing requirement, then in order to determine whether to borrow internally or externally, it must consider the level of revenue reserves and provisions that it has, and when it expects that these will be spent. Forecasts of the revenue budget give the following estimates (table 12). These totals are also used in determining the cash that it has available for investment.

Table 12

Revenue balance	**Brought forward (at 31/3/21)**	**Forecast balance at year end**						
		2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28 to 2031/32**
General Fund[1]	8,865	9,559	8,518	6,951	5,990	5,631	5,732	5,732
Add back MRP	0	0	0	0	0	0	52	629
Revenue Reserves[2]	20,758	16,573	17,145	17,645	18,145	14,145	14,645	14,645
S106 balances	4,242	4,188	3,918	3,881	3,881	3,881	3,881	3,881
Provisions	2,783	2,783	2,783	2,783	2,783	2,783	2,783	2,783
Outstanding Debt	405	387	367	347	325	305	290	275
Total	**37,053**	**33,490**	**32,731**	**31,607**	**31,124**	**26,745**	**27,383**	**27,945**

1 Based on General Fund forecasts as per 'Revenue Budget 2022/23' report.
2 Revenue Reserve balance as at 31/3/22. Then increases in line with contributions to waste vehicle reserve at £500k per year for 7 years. At end of 7 years assumed that this funding will be used to fund new waste vehicles. For simplicity this ignores some of the fluctuations in reserve balances that are detailed in the 'Revenue Budget 2022/23' report.

MRP is added back as it is not an outflow of cash and can be used for internal borrowing. The cash outflow happens when the borrowing is repaid. As explained in the Revenue Budget report, MRP has not been reflected in the revenue budgets so there is not a need to add it back.

During 2021/22 CIPFA have consulted on an update to the Prudential Code. At the time of writing this report the new edition has not been published. One of the main changes that has been incorporated is an expectation that Authorities will use cash reserves (i.e. borrow internally) before they borrow externally. The reason for this is that it reduces costs as not paying external interest.

However, in the longer term it will introduce financing risk, as there will come a time when the Council will have diminished its cash reserves (except amounts held for cashflow purposes) and will need to borrow externally. This will need to be planned so that borrowing can be achieved at a reasonable rate.

Current forecasts (see tables 11 and 12) are that the Council will have revenue reserves significantly in excess of its borrowing requirement. Therefore all borrowing (except any cashflow borrowing) will be internal over the period of the Investment Strategy.

Table 13

	Brought forward (at 31/3/21)	Forecast amount of borrowing in year (£000)							Carried forward (at 31/3/32)
		2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28 to 2031/32	
Total borrowing requirement	405	0	0	0	0	2,066	3,468	6,332	
Made up of:									
Internal borrowing	0	0	0	0	0	2,066	3,468	6,332	6,332
External borrowing	405	(18)	(20)	(20)	(22)	(20)	(15)	(40)	250

The brought forward borrowing total is made up of historic borrowing that it is not cost effective to pay off. This is because the interest that would be payable over the course of the remaining loan has to be paid upfront instead. The reduction is due to these being loans that are repaid in instalments.

Definitions:

Operational Boundary: This is the limit beyond which external debt is not normally expected to exceed. Set as £1m (rounded to the nearest £0.1m) above the forecast external debt.

Authorised Limit: This represents a 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 or required in the longer term. This is set at £5m above the operational boundary.

Prudential Indicator 3: External Debt

Year	Forecast Borrowing £m	Forecast other long-term liabilities[1] £m	Less: Internal Borrowing £m	Forecast Total External Debt £m	Operational Boundary £m	Authorised Limit £m
As at 31st March 2021 (Actual)	0.405	1.742	0	2.147	3.1	8.1
As at 31st March 2022 (forecast)	0.387	1.234	0	1.621	2.7	7.7
As at 31st March 2023 (forecast)	0.367	1.183	0	1.094	2.1	7.1
As at 31st March 2024 (forecast)	0.347	0.603	0	0. 566	1.6	6.6
As at 31st March 2025 (forecast)	0.325	0.412	0	0.425	1.5	6.5
As at 31st March 2026 (forecast)	2.371	0.337	(2.066)	0.642	1.5	6.5
As at 31st March 2027 (forecast)	3.578	0.259	(3.468)	0.369	1.4	6.4

1 Comprises the finance lease relating to Letchworth Multi-storey car park, Grounds Maintenance Vehicles / Machinery, Leased Vehicles and the 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 (table 14). 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. This is reflected in the indicators set out as Treasury Indicator 4 below.

Table 14

Loan Type	Start date	Duration (years)	Maturity date	Amount Borrowed (£)	Balance Outstanding 31/03/22 (£)	Interest Rate (actual or forecast) (%)	Current Annual interest cost (£)
PWLB	08/01/49	80	Oct 2025	5,346	680	3.125	25
	16/09/49	80	Jul 2029	380	36	3.0	1
	10/05/46	80	Jan 2026	10,150	1,235	3.125	45
	12/11/48	80	Jul 2028	13,885	2,692	3.0	89
	28/07/64	60	Jul 2024	15,801	2,236	6.0	171
	02/03/65	60	Jan 2025	19,558	3,272	6.0	240
	01/10/65	60	Jul 2025	33,976	6,538	6.0	466
	05/07/66	60	Jan 2026	35,000	7,589	6.0	529
	02/08/66	60	Jul 2026	50,000	12,025	6.0	824
	18/03/68	60	Jan 2028	40,000	14,282	7.375	1,155
	03/01/69	60	Jul 2028	53,027	21,609	8.125	1,905
	06/03/70	60	Jan 2030	20,100	10,025	8.75	933
	24/11/70	60	Jul 2030	18,714	10,250	9.5	1,028
	26/01/71	60	Jan 2031	25,000	14,430	9.75	1,478
	05/03/71	60	Jan 2031	12,500	6,987	9.25	680
	05/03/71	60	Jan 2031	25,0000	13,979	9.25	1,360
	31/05/46	80	Jan 2026	9,570	1,218	3.125	45
	28/02/47	80	Jan 2027	5,832	790	2.5	23
	18/10/46	80	Jul 2026	1,527	187	2.5	5
	20/02/48	80	Jan 2028	14,952	2,695	3.0	90
	22/09/50	80	Jul 2030	654	161	3.0	5
	27/08/82	60	Jul 2042	250,000	250,000	11.5	28,750
	07/12/45	80	Sep 2025	1,500	190	3.125	7
	16/09/49	80	Sep 2029	640	142	3.0	5
	20/03/53	80	Mar 2033	1,020	386	4.125	17
	23/10/53	80	Sep 2033	750	280	4.0	12
	20/11/53	80	Sep 2033	420	160	4.0	7
	25/04/52	80	Mar 2032	480	170	4.25	8
	30/01/48	80	Sep 2027	1,560	260	3.0	9
	20/09/45	80	Sep 2025	16,690	2,113	3.125	81
Total					**386,617**		

Definitions:

Refinancing Risk (or Maturity Risk): The risk that if all borrowing becomes due for repayment at the same time that this will be at a time when the costs for taking out new borrowing (refinancing) are very high.

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).

Treasury Indicator 4: Maturity Structure of Fixed Interest Rate Borrowing

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	100
10 years to 20 years	0	100
20 years and above	0	100

The Council does not place any restrictions on where it can borrow from. This is because the Council will hold the money and therefore there is not a risk around the security of the funds. In practice any borrowing is likely to come from the Public Works Loan Board, UK banks, UK building societies and other Local Authorities. All borrowing will be denominated in GBP Sterling. The decision on any borrowing will be made by the Chief Finance Officer and reflect the advice of the Council's treasury advisers.

The Council can enter in to borrowing arrangements at both fixed and variable rates. Variable rate borrowing has a greater risk and so therefore Treasury Indicator 5 limits the amount of borrowing that can be at a variable rate. To aid administration and monitoring, the limits are shown as £ values but are based on percentages of the Operational Boundary. Borrowing at fixed rates can be up to 100% (inclusive) of the Boundary, and variable rate borrowing can be up to 30% of the Boundary.

Definitions:

Fixed Rate: The rate of interest is set at the point the borrowing is taken out and remains at the same percentage rate for the full term of the loan.

Variable Rate: The rate of interest varies during the term of the loan and usually tracks prescribed indicator rate (e.g. Bank of England base rate)

Treasury Indicator 5: Fixed and Variable Borrowing Rate Exposure

Year	Operational Boundary relating to borrowing excluding long term liabilities £m	Limit on Fixed Rate borrowing £m	Limit on Variable Rate borrowing £m
2021/22	1.5	1.5	0.4
2022/23	1.4	1.4	0.4
2023/24	1.4	1.4	0.4
2024/25	1.4	1.4	0.4
2025/26	1.4	1.4	0.4
2026/27	1.3	1.3	0.4

There is a requirement for the Council to consider the proportionality of the income that it generates from its non-service (investment) assets and how this compares to any borrowing that is linked to those assets. Current and planned investment assets were detailed in table 3 and table 8. Treasury indicator 6 shows the capital value and expected income from these assets, alongside any borrowing that is attached to those assets and the expected cost of that borrowing.

The totals below are based on existing investment assets, plus £2m estimate spend in relation to commercial storage and £50k income generated. It also assumes income in relation to the leasing of Harkness Court to a Local Authority Trading Company. The borrowing is in accordance with the identified need to borrow, even though the borrowing will actually be for service related capital investment. The cost of borrowing is assumed at 2.5%, which reflects Minimum Revenue Provision only, as borrowing will be internal.

Treasury Indicator 6: Income from investment assets and the costs of associated borrowing

Year	Capital value of investment assets £m	Expected annual income from investment assets £m	Total borrowing £m	Expected annual borrowing costs for loans linked to investment assets £m
2022/23	23.879	1.191	0	0
2023/24	25.879	1.199	0	0
2024/25	23.879	1.249	0	0
2025/26	23.879	1.249	1.915	0.050
2026/27	23.879	1.249	3.302	0.083

The Council would not borrow money in advance of need or at a low rate to try and reinvest that money to earn a higher interest rate, and profit from the margin between the two rates. However, the waste contract requires the use of vehicles that are provided by the contractor. The Council has taken the view that it receives the risks and rewards of those vehicle assets. Under accounting regulations, it is therefore required to treat this as a finance lease embedded within the contract. This requires the Council to recognise the vehicle assets as belonging to it, alongside a liability. The liability is effectively repaid through the contract sums over the seven years of the contract.

The extended definition of borrowing in advance of need now covers borrowing for capital investments where they are acquired purely to generate profit. The change to the PWLB rules also means that this borrowing cannot be accessed if there is any capital spend that is primarily to generate income, even if that spend was intended to be financed from reserves. The capital programme has been reviewed and there are no investments which have a primary purpose of generating income.

Minimum Revenue Provision

When the Council has a Capital Financing Requirement (CFR) it is required to make a charge to the General Fund (revenue budget) called a Minimum Revenue Provision (MRP). Subject to guidelines, the Council sets its MRP policy, which is detailed below:

Minimum Revenue Provision:

The Council is required to have a Minimum Revenue Provision (MRP) policy, and when required make charges to revenue in accordance with that policy.

The Council will use the asset life method. The MRP amount will be spread over the estimated life of the assets, in accordance with the regulations. The Council will apply one of the two approaches below based on the project(s) that the borrowing is used for and the benefits derived from the project(s).

- Equal instalments – The principal repayment made is the same each year.

Or

- Annuity – the principal repayments increase over the life of the asset. This has the advantage of linking MRP to the benefits arising from capital expenditure, where these benefits are expected to increase over the life of the asset.

The Council will have a need to borrow in 2025/26 if the Capital programme is fully spent and will therefore need to apply a Minimum Revenue Provision (MRP). The current capital programme is mainly spend on service provision. Therefore, it is considered appropriate to adopt an equal instalment MRP policy.

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.

Treasury Indicator 7: Cost of borrowing (interest and MRP) as a % of the net revenue budget 2021/22 to 2025/26

Year	Estimated cost of borrowing (£m)	Forecast net revenue budget (£m)	Estimated cost of borrowing as a % of net revenue budget (%)
2022/23	0.039	17.992	0.216
2023/24	0.037	16.650	0.222
2024/25	0.036	15.860	0.227
2025/26	0.034	15.619	0.218
2026/27	0.073	15.529	0.472

Based on the assumptions above the following available investment balances are assumed. This includes a forecast of revenue reserves, capital reserves, capital financing requirement and external borrowing (table 15).

Table 15

Balances	Brought forward (at 31/3/21)	Forecast balance at year end (£000)					
		2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Revenue balances (including MRP added back)	37,053	33,489	32,731	31,607	31,124	26,745	27,382
Capital Receipts	1,133	4,441	10,017	4,902	2,644	0	0
Capital Grants Unapplied	938	899	186	186	186	186	186
Add: Long-term liabilities[1]	1,742	1,234	1,183	603	412	337	259
Less: Capital Financing Requirement	-5,182	-4,095	-3,333	-2,963	-1,085	1,980	3,382
Less: Borrowing repayments	18	18	20	20	22	20	15
Total forecast of available for investment	**46,030**	**44,140**	**47,430**	**40,241**	**35,431**	**25,268**	**24,430**

1 The net position of money owed by the Council or to the Council can lead to increased or decreased cash available for investment. The short-term position is assumed to be net zero. Long-term liabilities are included as the expenditure has been assumed to have been incurred, but the cash has not yet been paid. This primarily relates to the waste vehicles.

The Council needs to consider the following in determining how long it will invest any surplus cash for:

- The period that any particular cash balance is available for. If a balance is expected to be available over a long period then it is possible to invest it over a long period.
- How much might be required to cover short term variations in cash. For example, it could be forecast that the cash at the start and end of the month will be the same. But if there is a need to pay out half that cash at the start of the month before getting an equivalent amount just before the end, then there is a need to plan.
- The risk of investing for longer periods as it increases the chance that the counterparty could have financial problems and therefore not pay back the principal invested and/ or the interest due.
- The risk of investing for longer periods as it could lead to a lost opportunity. If the investment is at a fixed rate and then there is a general rise in rates available (e.g. due to an unexpected Bank of England base rate rise) then it would not be possible to take advantage of the new improved rates until the investment matures.

Before considering where the Council will invest any surplus cash in treasury investments, it firstly needs to consider any loans that it may want to make for other purposes. A local authority can choose to make loans to local enterprises, local charities, wholly owned companies and joint ventures. These loans can relate to service provision or to promote local economic growth. These loans may not seem prudent when considered purely in relation to security and liquidity. Table 16 details current and planned loans and shows the reasons for these loans, how their value is proportionate, the risk of loss and credit control arrangements that are in place.

Table 16

Loan	Amount	Reason for Loan	Proportionality of value	Expected Credit Loss model and credit control
Building Control	Currently £107k, provision for it to increase up to £172k	To support the formation of the company. The Council is also a shareholder in the company, owning 1/8th of the shares.	Insignificant in the context of overall cash balances. Around 0.2% of total investments.	Regular monitoring of financial forecasts and business plans. The continuation of the company to provide Building Control services is more significant than the value of the loan.
Wholly owned Property Company	Tbc, up to £100k	Current intention is that any loan would be for cashflow purposes to enable the company to become established. Therefore, assumed at a maximum of £100k, although expected to be significantly less. This may need to be reviewed and the Strategy updated if the company funding model changes (e.g. providing a loan to the company to purchase property itself).	As above, around 0.2% (maximum) of total investments.	Any loan could be secured against the property assets of the company. An equity investment would provide less security and increase expected credit loss. However, it may enable the company to be more profitable, and therefore increase returns. Expected credit loss would be looked at in more detail in advance of any investment being granted and linked to the planned use of those funds.

When the Council invests its surplus cash, it seeks to find reliable counterparties to ensure that the amount invested (and the interest earned) is returned. The Council has decided that it is prepared to take on a higher level of risk than recommended by its treasury advisers in relation to unrated Building Societies and the duration of its investments. This risk is mitigated by reviewing published information in relation to unrated Building Societies (i.e. “Pillar 3” reports). Whilst the Council has in the past been fairly highly exposed to Building Societies, it has rebalanced this exposure during the last couple of years to make greater use of other investment types.

The following criteria are used to determine the list of counterparties:

- UK Local Authorities- as they are able to raise additional funds from taxation
- UK Government- Debt Management Office provides highly liquid investments at the lowest risk as backed by the UK Government
- UK Banks and Building Societies with a Fitch Credit rating of BBB (long-term)/ F3 (short-term) or greater- as they have been subject to UK ‘stress tests’ and also have a high credit rating
- Part-nationalised UK banks- as they have been subject to UK ‘stress tests’ and the UK government has an increased interest in not allowing them to fail.
- The Council’s own banker (Lloyds) that it uses for transactional purposes. Although if its credit rating falls below BBB then any balances will be kept to a minimum (i.e. for cashflow purposes only)
- Non-UK banks with a UK subsidiary that have a Fitch Credit rating of BBB (long-term)/ F3 (short-term) or greater, and are subject to the same stress tests as UK banks
- Non-UK banks where the Country has a AAA rating and the institution has an A+-and above rating.
- Unrated UK Building Societies- as organisations have to pay to obtain a rating; most Building Societies do not get one. They do produce annual reports known as Pillar 3 reports, and these will be used to assess their credit worthiness. Furthermore, the Council will only invest in Building Societies that have assets of at least £300m, which limits the potential exposure.
- Money Market funds that are AAA rated.
- Property funds that hold property within the UK.
- Ultra Short Dated Bond Funds- These funds invest in fixed income instruments with very short maturity dates, usually up to one year. This generally provides better returns than money market funds. Whilst this does introduce some capital risk, this is minimised by the short-term nature of such investments. Where AAA rated.
- Multi-asset Funds- These funds invest in a variety of assets including equities, bonds and cash and are can be spread over a broad range of strategies, styles, sectors and regions. Risk is diversified by the spread of investments held.

All investments will be denominated in Sterling.

The Council will seek to appropriately diversify its investments across a range of types and counterparties. This means that if there were any security or liquidity issues with a particular type of investment or counterparty, the Council would still have access to the majority of its funds. The limits are initially based on a percentage of total funds but are converted to actual values to make the administration of investments more efficient. The values are calculated by applying the percentages to the expected balance at the end of the year (2022/23)* and then rounded up to the nearest £1m. If these limits are set too low then it limits the investment opportunities available and also increases the administration as there is then a need to find more places to invest available funds. The limits are shown in table 17 below.

* This is the balance taken from table 15 above of £47.430M

Table 17

Investment Type	Maximum amount in that type of investment (£m)	Maximum amount in group (£m)	Maximum amount with any individual counterparty (£m)	Rationale and details
Debt Management Office (UK Government)	No limit			Short-term investment with UK Government that is therefore the lowest possible risk
UK Local Authorities	No limit	n/a	7	15% with any one counterparty, no limit on total with Local Authorities due to tax raising powers
UK Banks and UK subsidiaries of foreign banks that are subject to the same stress tests as UK banks (excluding Lloyds current account)- includes Deposits and Certificates of Deposit	33	7	5	Rating F3 or above (short-term) or BBB or above (long-term) and part nationalised banks. 10% with any one counterparty, 15% with institutions in the same banking group, 75% with banks in total
Lloyds Current Account		n/a	5	Used for cashflow purposes
Non-UK banks- includes deposits and Certificates of deposit		11	5	AAA Country rating and A+ and above institution rating. Maximum of 10% with any one counterparty. Maximum of 25% in non-UK banks. 75% in banks in total.
UK Building Societies- assets of £300m to £1bn	n/a	26	2	Review of Pillar 3 reports and KPMG report on comparative profits. 10% with any one counterparty subject to maximum of £2m. Maximum of 60% with UK Building Societies and Property Funds combined.
UK Building Societies- assets of over £1bn			4	As above, but £4million
Rated UK Building Societies			5	Rating F3 or above (short-term) or BBB or above (long-term). 10% with any one counterparty.
UK Property Funds	2		2	Due to long-term nature of investment 10% of 2026/27 year end cash balance to be invested in any one fund or combination of funds. No durational limits.
Money Market Funds	11	n/a	5	AAA rated. Maximum of 25% in MMFs and 10% with any one fund.
Ultra-Short Dated Bond Funds	5		1	AAA rated. Maximum of 10% in USDBFs and £1M with any one fund.
UK Multi-Asset Funds	2		2	Due to long-term nature of investment 10% of 2026/27 year end cash balance to be invested in

				any one fund or combination of funds. No durational limits.

The Council will primarily limit its liquidity risk by only investing money until it thinks it will next need it. On top of this it will also have a general limit on investments that are greater than 1 year (365 days). This limit is based on 40% of total investments but is again reflected as an absolute value of **£18m**, which is based on 40% of the expected level of investments at the end of the year (rounded up to nearest £1m). Investments with a set term of greater than 2 years will be subject to approval by the Chief Finance Officer, which will include a consideration of how much the investment will be as a percentage of total funds at the date it matures. It will be ensured that this is less than 40% of the estimated balance. No fixed investment term will exceed 5 years.

Investment funds (money market funds, multi-asset funds and property funds) do not have a set term and funds can be requested to be withdrawn at any time. Investment balances will be kept under review to ensure that they do not exceed the maximum amount set by this or subsequent treasury strategies. However, there is no time limit on the period that funds can be held invested for. For property funds there are both up-front set up and exit costs. Furthermore, the capital value of these funds also fluctuates over time. So, whilst in general it is possible to exit these funds at any time, there are likely to be more optimum times to do so. Therefore, it is expected that the period of investment could exceed 5 years. For multi-asset funds, the capital value of these funds also fluctuates over time. So, whilst in general it is possible to exit these funds at any time, there are likely to be more optimum times to do so. Therefore, it is expected that the period of investment could exceed 5 years. The expected changes to the Prudential Code in relation to internal and external borrowing have meant that investments in the multi-asset and property funds have been delayed. Whilst there are no allocations in the capital programme for direct property investments, there are some opportunities that are being looked in to. If these were to be taken forward then they would require an update to this Strategy, which would be subject to re-approval by Council. Given the issues involved with exiting from multi-asset and property funds, these investments will not be progressed until there is greater certainty over any opportunities and therefore the availability of longer-term cash.

Within the investment market, the opportunity for ‘green’ investments is starting to emerge. These are offering returns that are similar to, or the same as, non-green alternatives for the same level of risk. Subject to these investments being compliant with other aspects of the treasury strategy, then these investments will be prioritised over non-green alternatives.

In general, the Council will access treasury deals directly, rather than using a cash manager. In the current market, the Council is able to get the same (or very similar) rates as a cash manager and this therefore avoids the fees charged by the cash manager. However, the Council will use a cash manager (Tradition) where it provides access to a better investment rate after accounting for the fees. As the actual investment will be with a counterparty, the Council will not set any limits on the number or value of deals that are accessed via Tradition.

Where the Council makes use of credit ratings these will be assessed immediately prior to placing an investment. The Council then receives alerts whenever ratings change and will monitor these alerts to see if an investment has fallen below the minimum criteria. For fixed term investments, it generally will not be possible to do anything in relation to a rating change. Although for a significant drop, enquiries will be made as to the exit costs involved. If these are not significant then the Council will end the investment early. For open term investments, the Council will seek to disinvest, although it will consider any exit costs.

There is a link between the interest rates that the Council can expect to achieve on its investments and the Bank of England base rate. Our treasury advisors (Link) have provided the following forecasts of base rates over the next 3 years. Using this and the investment limits above, we have estimated an average interest rate that the Council will achieve on its investments in each year.

Table 18

Year	Forecast of Bank of England Base Rate as at end of the year (%)	Forecast of average interest earned on investments (%)
2022/23	0.75	0.250
2023/24	1.00	0.325
2024/25	1.25	0.575

Combining these average interest rates with expected balances, gives a forecast of the interest that will be earned in each year. Although the Council is still planning on investing in longer term Property and Multi-asset funds, these have not been assumed in calculating the forecast interest returns. By taking on greater liquidity risk, a higher medium-term return could be expected. The table below makes an estimate of £4m invested in these funds and a return of 2%. This will be accompanied by a financial risk as returns are very uncertain, particularly on a short-term basis.

Table 19

	2022/23	2023/24	2024/25	2025/26	2026/27
Forecast of average balance available for investment (£m)- short to medium term	47.4	40.2	35.4	25.3	24.4
Forecast of average interest earned on investments (%)- short to medium term	0.25	0.325	0.575	0.825	0.825
Forecast of interest earned (£m)*	0.119	0.131	0.204	0.208	0.202
Current interest assumed in the revenue budget.	0.102	0.097	0.096	0.092	0.092

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.

Prudential Indicator 8: Forecast of Financing Costs as a percentage of net revenue budget

Year	Cost of borrowing £m	Less: Forecast of interest earned £m	Net Financing costs £m	Net Revenue Budget £m	Financing Costs as a % of Net Revenue Budget £m
2021/22	0.040	0.050	-0.010	15.468	-0.065
2022/23	0.039	0.119	-0.080	17.992	-0.442
2023/24	0.037	0.131	-0.094	16.650	-0.565
2024/25	0.036	0.205	-0.169	15.860	-1.063
2025/26	0.034	0.210	-0.176	15.619	-1.128
2026/27	0.073	0.204	-0.131	15.529	-0.843

Part 6- Overall Risk Considerations

The risk exposures for each of the elements of this strategy are generally independent, and therefore can be considered in isolation.

The Council's investments assets generally comprise of ground leases on commercial properties that are all within North Hertfordshire. The main exception to this is the freehold of the Churchgate Shopping Centre in Hitchin. A property fund generally invests in building (and land) assets that provide higher yields, and also diversifies across the United Kingdom. They also currently tend to focus on industrial, warehouses and office buildings. This means that there is limited cross-over in risk exposure, and before investing in a property fund (current investments are zero) the Council would review the current investments of the selected fund. Furthermore, this strategy limits any investment in a property fund to a maximum of £2m.

Part 7- Glossary

A number of definitions are included in the strategy when they are first referenced. These are not duplicated here. This part provides list of other terms used in this report, as well as those used in the statutory guidance.

Borrowing- a written or oral agreement where the Council temporarily receives cash from a third party (e.g. a Bank, the Public Works Loan Board or another Local Authority) and promises to return it according to the terms of the agreement, normally with interest.

Investment: This covers all of the financial assets of the Council as well as other non-financial assets that the Council holds primarily or partially to generate a profit; for example, investment property portfolios. This will include investments that are not managed as part of normal treasury management processes or under treasury management delegations. Furthermore, it also covers loans made by the Council to one of its wholly-owned companies or associates, to a joint venture, or to a third party. The term does not include pension funds or trust fund investments, which are subject to separate regulatory regimes.

Within this strategy, the term investment is used in the following contexts:

- Capital investment- expenditure to acquire or improve a capital asset.
- Investment properties- assets that are held for the purpose of generating an income.
- Cash/ treasury investments- the cash that the Council has, which is made up of revenue reserves, capital reserves and the effects of cashflow timings. These amounts are invested to manage the risks of holding cash and to generate investment income.

Financial investments: These are made up of Cash/ Treasury investments and loans. This term is defined within the statutory guidance (as specified investments, loans and unspecified investments) but has not been directly used in this strategy. Part 5 of the Strategy is focused on these investments.

Specified Investment: These are essentially short-term Cash/ Treasury investments. To be a specified investment, it needs to meet the following criteria:

- The investment is denominated in sterling and any payments or repayments in the respect of the investment are payable only in sterling.
- The investment is not a long term investment. This means that the local authority has contractual right to repayment within 12 months, either because that is the expiry term of the investment or through a non-conditional option.
- It is not capital expenditure.
- The investment is considered to be high quality or is with the UK Government, another Local Authority or a Parish/ Community Council.

High Quality investment: These are investments (specified and non-specified) which are assessed on the priority basis of security, liquidity and yield. Where relevant they make use of relevant additional information, such as credit ratings. The investments set out in part 5 are considered by the Council to be ‘high quality’.

- The investment is denominated in sterling and any payments or repayments in the respect of the investment are payable only in sterling.
- The investment is a long term investment. This means that the local authority has contractual right to repayment in greater than 12 months.
- It is not capital expenditure.

- The investment is considered to be high quality or is with the UK Government, another Local Authority or a Parish/ Community Council.

Unspecified investment: In the statutory guidance, these are financial assets that are not specified investments or loans. This creates a circular definition. The Council considers that they meet the following definition:

Loan: a written or oral agreement where the Council temporarily transfers cash to a third party, joint venture, subsidiary or associate who promises to return it according to the terms of the agreement, normally with interest. This definition does not include a loan to another local authority, which is classified as a specified investment. The Council will meet the following conditions when providing such loans:

- Total financial exposure to these type of loans is proportionate;
- An allowed "expected credit loss" model has been used as set out in Accounting Standards
- Appropriate credit control arrangements are in place to recover overdue repayments; and
- The total level of loans by type is in accordance with the limits set out in this Strategy.