

COUNCIL
29 February 2024

***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: SUSTAINABILITY

1. EXECUTIVE SUMMARY

The Investment Strategy provides the following key information:

- A capital programme of £22.633m in 2024/25 and £24.405m for the period 2025/26 to 2028/29.
- Recommendations on the Prudential and other Treasury indicators that will be monitored and reported on during the year (2024/25)
- 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

That Council:

- 2.1. Approve the adoption of the Investment Strategy (as attached at Appendix A), including the capital programme and prudential indicators.
- 2.2. Approve the adoption of the four clauses in relation to the Code of Practice on Treasury Management (as detailed in paragraphs 8.10 to 8.16).

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.
- 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 2023. Notes of the comments raised at the workshops were provided to Cabinet in January. Cabinet agreed to all the schemes presented to the budget workshops, with the following amendments:
- Spend on a new waste depot (reference ECP50) is not expected to be until at least 2026/27, so the current amount is phased across 2026/27 and 2027/28.
 - Section 106 funding has been added back into the Royston Leisure Centre extension (reference: ECP41) as it had been omitted.
 - The section 106 funding contribution to the Norton Common Bowls Pavilion (reference NCP4) has been amended to a lower total (previously £40k).
- 5.2 At the January Cabinet meeting verbal updates were on capital schemes were provided, which has resulted in the following additions and changes to the capital programme:
- Our new Leisure Centre operator (SLM) have put forward a proposal that we could provide the capital funding to purchase the fitness equipment and other capital investments contained within their bid (for 2024/25 and 2025/26). SLM have a higher cost of capital than the Council so doing this allows them to provide a further increase in the management fee income. That management fee income increase would more than off-set our revenue costs of capital.
 - We have re-looked at the viability of a new learner pool at Royston. It may be financially viable, but that is subject to the capital cost and the net income that SLM can generate from the facility. The capital cost will be tested via a procurement

process (alongside the gym extension). It has been added to the capital programme to allow the project to progress, subject to a suitable business case.

- We have submitted a bid to the Public Sector Decarbonisation Fund (PSDF) for the decarbonisation of our Leisure Centres, and it includes heat pumps and solar panels. The bid is based on Council match funding of £3.7m, with the fund paying around £7m. We do not yet know if our bid has been successful. Indications are that based on current energy prices, the energy cost savings will offset the revenue costs of capital of the Council's funding. The actual cost savings should be higher as some of the boilers would need replacing soon anyway, and energy prices would be expected to increase over time which would increase the relative savings. To allow the scheme to progress (subject to the application being successful and re-testing the financial viability) it has been added to the capital programme. This has been added by retaining the existing projects (i.e. solar PV, solar thermal and boiler replacements) as separate items, with an extra item for the additional cost for the additional PSDF (this also includes the grant funding). This will allow the existing schemes to still be progressed if the PSDF bid is unsuccessful.
- Increase the capital allocation (to £8.5 million from £4.0million) for the vehicles needed for the new waste and street cleansing contract. The increase is a prudent estimate based on the initial tenders received. The increase reflects some property growth and inflation on vehicle costs.

5.3 Following the Cabinet decision at its meeting in December funding for new bins for fibre (paper and cardboard) has been added. In accordance with accounting guidance the cost of delivering them to residents has been capitalised. This is because that cost is necessarily incurred in making them available for their intended use.

5.4 All of the adjustments above are included in detail in Appendix A1. Tables 6 and 7 of Appendix A (pages 12,13 and 14) then summarise the contents of Table A. Not all of the adjustments detailed above are identified separately in Tables 6 and 7. This specifically applies to the fitness equipment/ other leisure capital investments and the PSDF items as these are detailed across separate specific schemes.

5.4 Changes to the Revenue Budget forecasts, can result in changes to the balances available for investment. This can change the forecast of the yield generated. This has resulted in changes to this report since the version considered by Cabinet.

5.5 Members will be aware that consultation is incorporated into project plans of individual capital schemes as they are progressed.

5.6 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 decision is made by Full Council. It is therefore not referred to in the Forward Plan.

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 January meeting of Cabinet providing estimates as at the end of the second quarter of 2023/24. The report advised that total expenditure of £36.445m would be required to deliver the current capital programme for 2023-2033, with £8.225m forecast to be spent in 2023/24. 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 2023.

Table 1

	2023/24 £M	2024/25 £M	2025/26 to 2032/33 £M
Original Estimates approved by Full Council February 2023	8.516	7.427	15.624
Changes approved by Cabinet in 3rd Qrt 2022/23	1.554	0	0
Changes approved by Cabinet in 2022/23 Capital Outturn report	1.221	0	0
Revised Capital estimates at start of 2023/24	11.291	7.427	15.624
Changes at Q1	-0.853	0.686	0.585
New Financial System - Council Approved 28/09/23	0.200		
Changes at Q2 (mainly changes to museum storage and John Barker place, off-set by addition of LAHF)	-2.413	1.789	2.109
Current Capital Estimates	8.225	9.902	18.318

- 7.3 The Treasury Strategy Statement for 2023/24 was approved by Council in February 2023. A mid year review of the Treasury Strategy is provided to Council in January 2024. There have been no changes made to the Strategy during the course of 2023/24.

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 £16.434m (mainly explained by the changes detailed in paragraphs 5.2 and 5.3).
 - A total capital programme for the period of 2024/25 to 2028/29 of £47.037m.
 - Adoption of a treasury strategy that covers borrowing and investment forecasts and limits, including prudential indicators.

- 8.2 The following is provided as an appendix to the Investment Strategy, and is also appendices to this report:
- Appendix A1- A list of new capital schemes and schemes planned to commence from 2024/25.
- 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 12-14 is what was presented to the budget workshops (as referenced in paragraph 5.1) with the addition of items referenced in paragraphs 5.1 to 5.3.
- 8.5 Table 10 (on page 17) provides a forecast of the capital receipts that the Council will generate over the next few years. Capital receipts are received from the sale of surplus land that the Council owns. 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 would also affect the revenue budget in the medium-term.
- 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 £11.857m of borrowing in 2024/25, an additional £4.023m in 2025/26, and a further £11.439m between 2026-2034. As detailed on page 19, the Council can consider whether to borrow internally or externally. However as detailed on page 20, the Prudential Code requires 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. Internal borrowing means that we use our cash reserves, rather than getting money in by borrowing from third parties. This is different to using our reserves to directly fund capital. The implication of internal borrowing (versus external borrowing) is that the cost is in lost interest income, rather than incurring external interest charges. This should be lower cost and lower risk. Based on forecasts, the capital programme up to 2028/29 can be covered by internal borrowing.
- 8.7 Where the Council has a need to borrow then it incurs a revenue charge known as a Minimum Revenue Provision (MRP). On page 25 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. MRP is calculated by dividing capital spend (on those schemes that the Council needs to fund from a borrowing requirement) and dividing that by the expected useful life of the asset. There is not a MRP charge until the year after the spend is incurred. The overall MRP charge is a large amount but this reflects that there are a number of invest-to-save projects included (e.g. capital funding for SLM leisure investments, public sector decarbonisation fund and learner pool). Invest-to-save projects will generate income or revenue cost reductions that off-set the revenue costs of capital (interest and MRP costs).

- 8.8 Table 17 on page 29 details where the Council can invest its surplus cash. This sets limits to ensure appropriate diversification. The following amendments have been made compared to previous years:
- Limits are based on the forecast average total balances during the year (rather than the forecast closing balance) as this better reflects the overall position. To avoid the risk of being over-exposed to a particular asset type at year end, the following percentage limits have been reduced:
 - 50% with banks in total, previously 60%
 - 20% in non-UK banks, previously 25%
 - 20% in Money Market Funds, previously 25%
 - 25% in investments that are longer than 1 year, previously 40%

All other changes in limit values are due to changes in the forecast total investment values that the percentages are applied to. As in previous years, all amounts are rounded up to the nearest £1m.

- 8.9 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.
- 8.10 Clause 1 relates to creating and maintaining a Policy and practices as a cornerstone for effective treasury management.
- 8.11 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.
- 8.12 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. The majority of the 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 (Changed to include Environment, Social and Governance (ESG) considerations)
- 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

8.13 Clause 2 relates to the reporting on treasury activities. These are set out in the Investment Strategy on page 3.

8.14 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 5.7.9) and for the execution and administration of treasury management decisions to the Service Director: Resources (Constitution 14.6.12 (b) (iv) 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.

8.15 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 TOR 4.4.1 (b) of the Constitution provides that Full Council will exercise the function of approving or adopting the capital budget (Constitution 4.3) and approve the treasury management strategy statement (Constitution 4.4.1 (cc)).

9.2 Cabinet will recommend to Full Council the annual capital budget (Constitution 5.7.39) and treasury management strategy statement (Constitution 5.7.40).

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. The Department for Levelling Up, Housing and Communities (DLUHC) issued revised guidance on local authority investments in 2017 that the Council is required to have regard to.

10. FINANCIAL IMPLICATIONS

- 10.1 The revenue implications of capital spend and treasury investment returns are included in the revenue budget report (also on the agenda of this meeting).
- 10.2 Capital implications are covered throughout this report and the appendices.

11. RISK IMPLICATIONS

- 11.1 Good Risk Management supports and enhances the decision-making process, increasing the likelihood of the Council meeting its objectives and enabling it to respond quickly and effectively to change. When taking decisions, risks and opportunities must be considered.
- 11.2 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.
- 11.3 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 2024/25 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.

- 12.3 The inclusion of banks on our counter-party list will consider the Country that they are in and an objective analysis of the approach to equalities in that Country. This will be in addition to any sovereign (Country) and institution credit rating.

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 list of capital schemes planned to commence from 2024/25

17. CONTACT OFFICERS

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18. BACKGROUND PAPERS

- 18.1 None