

## **Appendix F**

### **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 returns.

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 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 Estates Team 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 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 current economic conditions and the impact of inflation. 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 undertook a tender to provide treasury management advice for a three year period. The contract was awarded to Link Asset Services to provide treasury management advice for the three year period April 2023 –March 2026 with the option to extend for a further two years. Link have since been taken over by MUFG Pension and Market Services (“MUFG”). 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 MUFG. However, there is value in employing external providers of treasury management services 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 purchases over £2.5m.	Training that introduces Local Authority funding and accounting was provided in June 2024 (following the all-out elections in May 2024). All Councillors were invited to attend, with a particular focus on new Members, Cabinet members and Finance, Audit and Risk Committee members.
Finance, Audit and Risk (FAR) 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.	There is a standing item for future agenda items, which includes training ideas. This allows the targeting of specific training. This has enabled a number of training sessions to take place in advance of the regular FAR meetings.  Where relevant (particularly early in the civic year) the presenter of reports provides a more detailed introduction to ensure the key information and context is fully understood.  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.	Regular updates on the Council's funding and finances, including significant changes in regulations.  Ongoing advice and support from the finance team.

## **Part 2- Capital Spend**

### **Current Capital Assets**

As at 31<sup>st</sup> March 2025, a summary of the capital assets owned by the Council is shown in table 2 below.

**Table 2**

<b>Asset Type</b>	<b>Asset</b>	<b>Reason for ownership</b>	<b>Value (£000)</b>
Investment Properties	Various	Retained to generate income	31,313
Surplus Land and buildings	Various	Held for future sale or development	7,904
Offices and Storage	Offices	Staff offices, customer service centre and democratic facilities	3,711
Offices and Storage	Unit 3 / Depots	Off-site storage, back-up IT and emergency planning	573
Leisure Facilities	Hitchin Swim Centre / Archers	Service use	8,727
Leisure Facilities	Letchworth Outdoor Pool	Service use	3,205
Leisure Facilities	North Herts Leisure Centre	Service use	13,388
Leisure Facilities	Royston Leisure Centre	Service use	8,350
Leisure Facilities	Pavilions / Bandstands	Service use	2,015
Leisure Facilities	Recreation Grounds / Play Areas / Outdoor Gym Equipment / Gardens/Allotments	Service use	5,876
Leisure Facilities	Decarbonisation Project	Service Use	6,458
Community Centres and Halls	Various	Community facilities, generally operated by third parties	12,260
Markets	Hitchin Market	To provide a market	149
Museums and Arts	Hitchin Town Hall and District Museum	District-wide museum and community facility	6,844
Museums and Arts	Letchworth and Hitchin museums, Burymead store	Museum storage	1,681
Cemeteries	Various	Service use	1,545
Community Safety	Various CCTV cameras	Service use	183
IT	Various computer equipment and software	To enable the delivery of other services	177
Parking	Various car parks	Service use	11,198
Waste Collection	Bins	Service use	361
Public Conveniences	Various	Subject to leases/ management arrangements	544
Other	Various	Various	787
<b>Total</b>			<b>127,249</b>

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**

<b>Asset Type</b>	<b>Asset</b>	<b>Reason for purchase/ expenditure</b>	<b>Value (£000)</b>
CCTV	Various	CCTV Replacement	41
Cemeteries	Wilbury Hills	Path Enhancement	30
Council Buildings	Various	Decarbonisation Project	852
Grants	Various	Private Sector Housing Grants	26
Grants	Various	S106 Grants (REFCUS)	333
Grants	Various	Various	56
Grants	Various	Warmer Homes Scheme	319
Hitchin Town Hall	Hitchin Town Hall	Air conditioning	100
IT	Various computer equipment and software	To maintain IT service and provision of equipment	1,624
Leisure Facilities	Hitchin Swim Centre / Fitness	Enhancements	300
Leisure Facilities	North Herts Leisure Centre	Enhancements	390
Leisure Facilities	Recreation Grounds / Play Areas / Gardens / Allotments	Refurbishment of play areas.	1,293
Leisure Facilities	Royston Leisure Centre	Enhancements	1,014
Leisure Facilities	Various	Decarbonisation Project	9,829
Leisure Facilities	Various	Remote testing equipment - Emergency Lights and Water Temperature Monitoring	13
Museums	Museums	Museum and Commercial Storage	1,528
Parking	Off Street	Match Funding for Electric Vehicle Charging	100
Parking	Off Street	Upgrade pay and display machines and resurfacing	225
REFCUS	Cycle Strategy / Transport Plans / Green Infrastructure	Cycle Strategy / Transport Plans / Green Infrastructure	713
Various	Various	Capital maintenance of Council buildings/land	446
Waste	Bins	Service Use	1,260
Waste	Bury Mead Road Transfer Facility	Service Use	130
Waste	Vehicle Purchases	Service Use	5,270
<b>Total</b>			<b>25,892</b>

### **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. Lower limits may be applied where it relates to grant funding

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**

<b>Asset (or type of asset)</b>	<b>Security</b>	<b>Liquidity</b>	<b>Yield</b>
Ground leases- mainly of commercial premises in Royston, Letchworth and Hitchin (£25.7m 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.
Letchworth Town Hall (value £0.8m)	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 £0.2m)	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) (value £0.6m)	The property is on a long lease to Broadwater Hundred. The property would ultimately revert to the Council if the company did not pay the rent due. The demand for housing is high (shown by how quickly the properties were let) and so the security is considered to be high.	High demand should mean the property has high liquidity if the Council and company agreed to sell the property. The liquidity is lowered as currently leased to the company.	Generating a yield from the lease to Broadwater Hundred.
Other assets valued at less than £0.1m (£0.5m 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**

<b>Asset (or type of asset)</b>	<b>Fair value assessment</b>	<b>Assessment of the risk of loss</b>
Ground leases- mainly of commercial premises in Royston, Letchworth and Hitchin (£25.7m 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.
Letchworth Town Hall (value £0.8m)	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.
Beverley Close Store, Royston (value £0.2m)	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.
Residential housing (Harkness Court) (value £0.6m)	Valued on market value	Due to national (and local) housing shortage, there is high demand. The risk of loss is low, and will generally only be due to short-term voids.
Other assets valued at less than £0.1m (£0.5m 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 was last 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 2026/27– 2030/31. This is because the Council has high revenue reserves and low available capital receipts.

For all assets the future capital cost of maintaining those assets has been considered, and gives the following future capital spend requirements (table 6). For some of the elements of some items (marked with an asterisk) the spend could be included in table 7 but is included here to make the tables shorter.

Table 6

Asset	Description of future capital expenditure	Forecast Capital Expenditure (£000)					
		2026/27	2027/28	2028/29	2029/30	2030/31	2031/32 to 2035/36
Existing Capital Programme-schemes 2026/27 onwards							
Various	Capital maintenance based on condition surveys	50	50	50	50	50	250
CCTV	CCTV	12	0	0	0	0	0
Computer Software & Equipment	To maintain IT services	173	62	1,023	358	77	1,800
Hitchin Swim Centre*	Refurbishment of the Changing Village	0	225	0	0	0	0
North Herts Museum & Community Facility	Town Hall Kitchen Enhancement	25	0	0	0	0	0
Various	Private sector housing grants (REFCUS)	261	60	60	60	60	300
Various Off-Street Car Parks	Resurfacing / Enhancements	458	77	70	60	0	0
Various Parks and Playgrounds	Enhancements	250	320	180	180	180	900
Waste and Recycling	Bin replacements	150	90	90	90	90	450
New Capital Programme							
Cemeteries	Wilbury Hills cemetery improvements	120	0	0	0	0	0
Royston Leisure Centre	Learner Pool	750	4,002	0	0	0	0
Parking	Digital and other signage for car parks in Hitchin, to promote better use of car parks	200	0	0	0	0	0
North Herts Leisure Centre	Water play feature	200	0	0	0	0	0
Various Parks and Playgrounds	Ivel Springs footpaths	25	0	0	0	0	0
Total		2,674	4,886	1,473	798	457	3,700

The totals for 2031/32 to 2035/36 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 £323k in 26/27 and £273k in subsequent years for this purpose.

#### New Capital Assets

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)					
		2026/27	2027/28	2028/29	2029/30	2030/31	2031/32 to 2035/36
Existing Capital Programme-schemes 2026/27 onwards							
CCTV Control Room	Upgrade Control Room	0	0	0	0	45	0
Charnwood House	Refurbish and update the building for community use.	300	0	0	0	0	0
Computer Software & Equipment	An alternative set of 25 machines that are outside of the Windows Environment for Disaster Recovery	0	0	15	0	0	30
NH Museum and Community Facility	Museum Storage Solution / Replace Chiller	2,600	0	0	0	0	0
Public Sector Decarbonisation Project phase 2	Public Sector Decarbonisation Project	2,001	423	0	0	0	0
Various off-street parking	Charging, Payments & Management System	235	0	0	0	0	0
Various on-street parking	Installation of trial on-street charging	50	0	0	0	0	0
Various Parks and Playgrounds	Broadway Gardens Resurfacing	250	0	0	0	0	0
Walsworth Common Pavilion	New pavilion	300	0	0	0	0	0
Warm Homes		478	478	0	0	0	0
Waste and Recycling	Vehicles and Northern Transfer Station	0	0	3,000	3,000	0	5,500
New Capital Programme							
Cemeteries	New Burials Management System	55	0	0	0	0	0
Hitchin Swim Centre	Pool Hall Seating Replacement / Pool Cover	131	0	0	0	0	0
NH Lesiure Centre	Pool Cover	58	0	0	0	0	0
Total		6,458	901	3,015	3,000	45	5,530

Below is an estimate of the total capital expenditure to be incurred in the years 2026/27 to 2030/31. 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 2025/26 to 2029/30**

Year	£m
2026/27	9.132
2027/28	5.787
2028/29	4.488
2029/30	3.798
2030/31	0.502

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 other investments where they support regeneration or support Council priorities. 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
Other investments	The primary reason for any other investment would be to enable regeneration and/ or to support the delivery of Council priorities. But given overall Council finances, the security of investments will be given a high weighting in determining whether to take any forward. However there will always be some risk relating to both general market conditions and specific factors relevant to individual properties.	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.	To reflect the risk of property investment a net surplus of 1% (above revenue costs of capital, administration and acquisition costs) should 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
Other investments	This will be fully assessed as part of the business case for the acquisition or development 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. 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, then that could result in a reduced capital receipt. An allowance has been incorporated for higher environmental standards for new disposals, but the impact is uncertain as it will be affected by the cost of those enhanced standards (which is expected to fall over time) and any premium that the end purchaser of the property is prepared to pay. If there were changes in the receipts that could be achieved, 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). The Council has other limited surplus land that may have a value but is not included in the forecasts below as the amount and/or timing of the receipt is too uncertain.

**Table 10**

	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Balance B/Fwd	1,273	0	0	0	0	0
Used in Year	1,273	3,000	0	1,000	0	0
Forecast Receipts (£000)	0	3,000	0	1,000	Tbc (0)	Tbc (0)
Balance C/Fwd	0	0	0	0	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 2026/27 and future years, the Council forecasts the following use of funding for capital (table 11).

**Table 11**

Funding Source	Brought forward (at 31/3/25)	Forecast expenditure and funding sources (£000)						
		2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32 to 2035/36
Capital Expenditure		26,416	9,132	5,787	4,488	3,798	502	9,230
Less: Set-aside receipts used	587	587	0	0	0	0	0	0
Less: Capital receipts used	685	685	3,000	0	1,000	0	0	0
Less: Grant funding used		2,745	1,524	654	0	0	0	0
Less: IT Reserve used		0	0	0	0	0	0	0
Less: S106 receipts used		361	37	55	0	0	0	0
Less: Funding from revenue		3,230	1,150	4,002	0	0	0	0
Less: Other Capital Contributions		48	250	0	0	0	0	0
<b>Borrowing requirement</b>		<b>18,760</b>	<b>3,171</b>	<b>1,076</b>	<b>3,488</b>	<b>3,798</b>	<b>502</b>	<b>9,230</b>

<b>Cumulative borrowing requirement</b>		<b>18,760</b>	<b>21,931</b>	<b>23,007</b>	<b>26,495</b>	<b>30,293</b>	<b>30,795</b>	<b>40,025</b>
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#### 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.

Revenue funding- Capital can be funded from revenue (but capital funding can not be used for revenue). The availability of reserves has provided scope for some revenue funding of capital.

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

<b>Year</b>	<b>£m</b>
As at 31 <sup>st</sup> March 2025 (actual)	-0.6
As at 31 <sup>st</sup> March 2026 (forecast)	18.8
As at 31 <sup>st</sup> March 2027 (forecast)	21.9
As at 31 <sup>st</sup> March 2028 (forecast)	23.0
As at 31 <sup>st</sup> March 2029 (forecast)	26.5
As at 31 <sup>st</sup> March 2030 (forecast)	30.3

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 above 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 31/3/25)	Forecast balance at year end					
		2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
General Fund <sup>1</sup>	16,081	15,643	15,643	14,273	14,516	14,051	13,007
Add back MRP	0	0	1,448	1,540	1,427	1,690	1,860
Revenue Reserves <sup>2</sup>	13,700	10,188	8,449	8,949	9,449	9,949	10,449
S106 balances	5,139	4,779	4,742	4,687	4,687	4,687	4,687
Provisions	915	915	915	915	915	915	915
Outstanding Debt	325	305	290	275	265	257	250
<b>Total</b>	<b>36,160</b>	<b>31,830</b>	<b>31,487</b>	<b>30,639</b>	<b>31,259</b>	<b>31,549</b>	<b>31,168</b>

1 Based on General Fund forecasts from Appendix E.

2 Revenue Reserve balance as at 31/3/25. Incorporates use of Business Rate reserve and waste vehicle reserve. For simplicity this ignores some of the fluctuations in reserve balances, as these do not have a material impact.

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. The Revenue budget (as required by accounting rules) includes forecasts of the MRP charge.

The Prudential Code (published by the Chartered Institute of Public Finance and Accountancy) provides a framework for Councils to develop investment plans that are affordable, prudent and sustainable. This details that an expectation that Councils 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 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 31/3/25)	Forecast amount of borrowing in year (£000)							Carried forward (at 31/3/36)
		2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32 to 2035/36	
Total borrowing requirement	325	18,760	3,171	1,076	3,488	3,798	502	9,230	
Made up of:									
Internal borrowing	0	18,760	3,171	1,076	3,488	3,798	502	9,230	40,025
External borrowing	325	(20)	(15)	(15)	(10)	(8)	(7)		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 <sup>1</sup> £m	Less: Internal Borrowing £m	Forecast Total External Debt £m	Operational Boundary £m	Authorised Limit £m
As at 31 <sup>st</sup> March 2025 (actual)	0.325	0.210	0	0.535	2.0	7.0
As at 31 <sup>st</sup> March 2026 (forecast)	19.065	5.782	(18.760)	6.087	26.0	31.0
As at 31 <sup>st</sup> March 2027 (forecast)	22.221	4.962	(21.931)	5.252	29.0	34.0
As at 31 <sup>st</sup> March 2028 (forecast)	23.282	4.142	(23.007)	4.417	29.0	34.0
As at 31 <sup>st</sup> March 2029 (forecast)	26.760	3.321	(26.495)	3.586	32.0	37.0
As at 31 <sup>st</sup> March 2030 (forecast)	30.550	2.500	(30.293)	2.757	35.0	40.0
As at 31 <sup>st</sup> March 2031 (forecast)	31.045	1.637	(30.795)	1.887	34.0	39.0

1 Comprises the finance lease relating to Letchworth Multi-storey car park and Leased 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**

<b>Loan Type</b>	<b>Start date</b>	<b>Duration (years)</b>	<b>Maturity date</b>	<b>Amount Borrowed (£)</b>	<b>Balance Outstanding 31/03/26 (£)</b>	<b>Interest Rate (actual or forecast) (%)</b>	<b>Current Annual interest cost (£)</b>
	16/09/49	80	Jul 2029	380	17	3.0	1
	12/11/48	80	Jul 2028	13,885	1,097	3.0	42
	02/08/66	60	Jul 2026	50,000	1,499	6.0	220
	18/03/68	60	Jan 2028	40,000	5,464	7.375	539
	03/01/69	60	Jul 2028	53,027	9,654	8.125	990
	06/03/70	60	Jan 2030	20,100	5,863	8.75	591
	24/11/70	60	Jul 2030	18,714	6,413	9.5	688
	26/01/71	60	Jan 2031	25,000	9,497	9.75	1,030
	05/03/71	60	Jan 2031	12,500	4,564	9.25	470
	05/03/71	60	Jan 2031	25,000	9,132	9.25	941
	28/02/47	80	Jan 2027	5,832	166	2.5	7
	18/10/46	80	Jul 2026	1,527	22	2.5	1
	20/02/48	80	Jan 2028	14,952	952	3.0	39
	22/09/50	80	Jul 2030	654	90	3.0	3
	27/08/82	60	Jul 2042	250,000	250,000	11.5	28,750
	16/09/49	80	Sep 2029	640	70	3.0	3
	20/03/53	80	Mar 2033	1,020	266	4.125	12
	23/10/53	80	Sep 2033	750	199	4.0	9
	20/11/53	80	Sep 2033	420	112	4.0	5
	25/04/52	80	Mar 2032	480	110	4.25	5
	30/01/48	80	Sep 2027	1,560	75	3.0	3
<b>Total</b>					<b>305,262</b>		

**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 at a high level 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, all the limits have a broad range. This is particularly necessary for the 'under 12 months' limit, to allow for cash-flow borrowing (if it was required).

**Treasury Indicator 4: Maturity Structure of Fixed Interest Rate Borrowing**

<b>Maturity period</b>	<b>Lower %</b>	<b>Upper %</b>
Under 12 months	0	100
12 months to 2 years	0	100
2 years to 5 years	0	100
5 years to 10 years	0	100
10 years to 20 years	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**

<b>Year</b>	<b>Operational Boundary relating to borrowing excluding long term liabilities £m</b>	<b>Limit on Fixed Rate borrowing £m</b>	<b>Limit on Variable Rate borrowing £m</b>
2025/26	20.2	20.2	6.1
2026/27	24.0	24.0	7.2
2027/28	24.9	24.9	7.5
2028/29	28.7	28.7	8.6
2029/30	32.5	32.5	9.8
2030/31	32.4	32.4	9.7

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 and estimates of the income that they are expected to generate. As there is no borrowing linked to investment assets, the expected annual borrowing costs are shown as zero.

**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 linked to investment assets £m	Expected annual borrowing costs for loans linked to investment assets £m
2026/27	31.700	1.544	0	0
2027/28	31.700	1.544	0	0
2028/29	31.700	1.547	0	0
2029/30	31.700	1.549	0	0
2030/31	31.700	1.549	0	0

Borrowing in advance of need

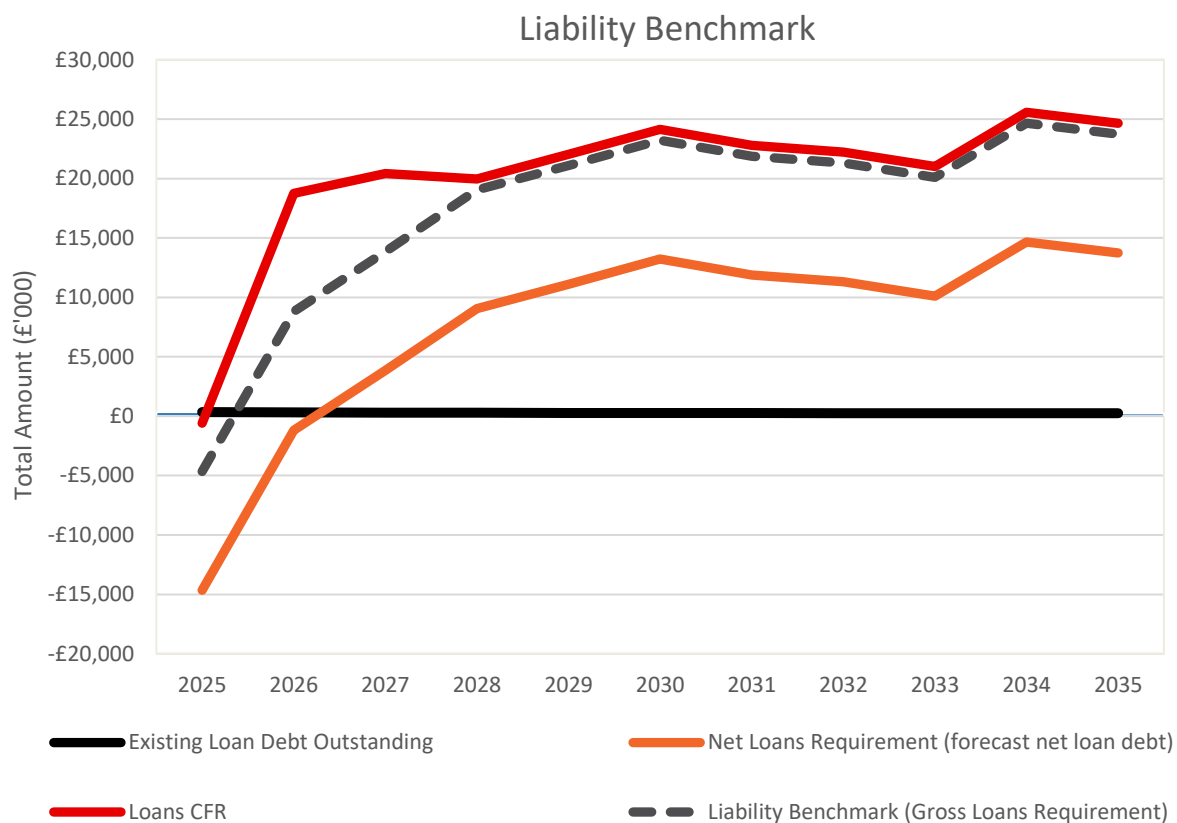
The Council would not borrow money in advance of need or at a low rate to try and reinvest that money to earn a higher interest rate, and profit from the margin between the two rates.

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.

As part of the revised CIPFA Treasury Management Code and Prudential Code, Councils are required to adopt a Liability Benchmark (LB) treasury indicator to support the financing risk management of the capital financing requirement. The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB: -

1. **Existing loan debt outstanding:** the Authority's existing loans and their repayment over time (black line).
2. **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on forecast capital spend and MRP charges (light blue line).
3. **Net loans requirement:** this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.



The Liability Benchmark is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance. In its simplest form, it is calculated by deducting the amount of investable resources available on the balance sheet (reserves, cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day-to-day cash flow.

The purpose of this indicator is to compare the authority's existing loans outstanding (the black line) against its future need for loan debt, or liability benchmark (the dotted line). If the black line is below the orange line (as above), the existing portfolio outstanding is less than the loan debt required, and the authority will need to borrow to meet the shortfall. If the black line is above the orange line, the authority will (based on current plans) have more debt than it needs, and the excess will have to be invested. The chart therefore tells an authority how much it needs to borrow and when. It therefore shows that the Council does need to take out further borrowing.

#### 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 with no charge levied in the first year, 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 has a need to borrow in 2025/26 if the Capital programme is fully spent (as at Q2 forecast there will be a borrowing need) and will therefore need to apply a Minimum Revenue Provision (MRP). The current capital programme is mainly spent 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 2025/26 to 2030/31

Year	Estimated cost of borrowing (£m)	Forecast net revenue budget (£m)	Estimated cost of borrowing as a % of net revenue budget (%)
2025/26	0.034	23.650	0.1
2026/27	1.481	27.321	5.4
2027/28	1.572	26.287	6.0
2028/29	1.458	21.978	6.6
2029/30	1.720	22.260	7.7
2030/31	1.889	22.470	8.4

### Part 5- Investment Strategy

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 31/3/25)	Forecast balance at year end (£000)					
		2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Revenue balances (including MRP added back)	36,160	31,830	31,486	30,639	31,258	31,549	31,168
Capital Receipts	685	0	0	0	0	0	0
Capital Grants Unapplied	881	168	168	168	168	168	168
Add: Long-term liabilities <sup>1</sup>	316	5,782	4,962	4,142	3,321	2,500	1,637
Less: Capital Financing Requirement	-588	18,760	21,931	23,007	26,495	30,293	30,795
Less: Borrowing repayments	21	20	15	15	10	8	7
<b>Total forecast of available for investment</b>	<b>38,609</b>	<b>19,000</b>	<b>14,670</b>	<b>11,927</b>	<b>8,242</b>	<b>3,916</b>	<b>2,171</b>

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 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**

<b>Loan</b>	<b>Amount</b>	<b>Reason for Loan</b>	<b>Proportionality of value</b>	<b>Expected Credit Loss model and credit control</b>
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 1/8 <sup>th</sup> of the shares.	Insignificant in the context of overall cash balances.	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	Up to £50k, current loan £20k	The loan is used for cashflow purposes to enable the company to become established.	As above.	As the loan is just for cashflow purposes it is unsecured. The Council receives regular reports on lettings performance which is the key indicator of company performance.
Stevenage Leisure Ltd	£308K	Was to purchase Technogym Equipment, which enables the provision of fitness activities at the Leisure Centres.	As above.	<p>The Covid-19 pandemic affected the financial performance of SLL, and a repayment holiday was agreed. Whilst SLL returned to paying a full management fee during 2023/24, they have not been able to make loan repayments. As at the end of the contract in March 2024 the loan remained unpaid and SLL went in to liquidation in July 2024. The liquidation is still in progress. As at 31<sup>st</sup> March 2025 there was a full bad debt provision in place.</p> <p>There are other transactions and accrued amounts (both positive and negative) that need to be resolved through the liquidation process, which is still ongoing.</p>

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).

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
- ESG (Environmental, Social and Governance) investments from UK Banks 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
- Rated 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

- 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). Includes a linked call account, as that maximises liquidity whilst also paying a higher level of interest.
- ESG (Environmental, Social and Governance) investments from 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.
- ESG (Environmental, Social and Governance) investments from non-UK banks where the Country has a AA- 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 and have an ESG policy.

All investments will be denominated in Sterling. There may not be ESG investments currently available in all the categories detailed above but included in the strategy in case they become available.

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 average balance during the year (2026/27)\* 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 limit to be placed with each Local Authority counter-party has been increased to £5m (25%). This reflects that (1) an increasing number of Local Authorities borrowers are only interested in deals at £5m or above, and (2) the limiting of bank investments to ESG only means that the Council will need to maximise other investment options. Other Local Authorities are the best option to achieve increased options whilst also managing risk.

Previously there have been separate categories for investments with Building Societies based on their asset level (above £300m and above £1bn). These have now been combined due to the policy of having a £1m minimum investment value.

All other percentage limits have been kept the same as last year. The limits are shown in table 17 below.

\* This is the balance taken from table 15 above, of the average closing balance for 25/26 and 26/27, which is £16.6m.

**Table 17**

<b>Investment Type</b>	<b>Max. amount in type of investment (£m)</b>	<b>Maximum amount in group (£m)</b>	<b>Maximum amount with any individual counterparty (£m)</b>	<b>Rationale and details</b>
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	5	£5m limit 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 (ESG investments only)	9	3	2	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, 50% with banks in total
Non-UK banks- includes deposits and Certificates of deposit (ESG investments only)		3	2	AA- or above Country rating and A+ or above institution rating. Maximum of 10% with any one counterparty. Maximum of 15% in non-UK banks.
Combined Lloyds Current Account and Call Account	n/a	n/a	5	Used for cashflow purposes
UK Building Societies (unrated)- with assets over £300m only	9	n/a	1	Review of Pillar 3 reports and KPMG report on comparative profits. Up to £1m with any one counterparty. Maximum of 50% with UK Building Societies.
Rated UK Building Societies			2	Rating F3 or above (short-term) or BBB or above (long-term). 10% with any one counterparty.
Money Market Funds with an ESG policy	2	n/a	1	AAA rated. Maximum of 10% in MMFs and 5% with any one fund.

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 25% of total investments but is again reflected as an absolute value of **£5m**, which is based on 25% of the expected average level of balances during the year (rounded up to nearest £1m). Due to Local Government Reorganisation timelines, there will be no investments with a set term of greater than 2 years

Money market 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.

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 (MUFG) 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 (%)
2026/27	3.25	3.375
2027/28	3.25	3.25
2028/29	3.25	3.25

The 2028/29 rate is then used for investments in subsequent years.

Combining these average interest rates with expected balances, gives a forecast of the interest that will be earned in each year. Although the Council has retained the option to invest in longer term Property and Multi-asset funds, these type of investments are unlikely to happen so have not been assumed in calculating the forecast interest returns.

**Table 19**

	2026/27	2027/28	2028/29	2029/30	2030/31
Forecast of average balance available for investment (£m)- short to medium term	16.8	13.3	10.1	6.1	3.0
Forecast of interest earned (£m)	0.567	0.432	0.328	0.198	0.098
Current interest assumed in the revenue budget.	0.362	0.322	0.259	0.144	0.144

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
2025/26	0.034	1.980	-1.946	23.650	-8.2
2026/27	1.481	0.560	0.921	27.321	3.4
2027/28	1.572	0.380	1.192	26.287	4.5
2028/29	1.458	0.237	1.221	21.978	5.6
2029/30	1.720	0.107	1.613	22.260	7.2
2030/31	1.889	0.013	1.876	22.470	8.3

## **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.

## **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 a 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.