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."*

Recent changes to legislation and guidance have meant that the coverage of this strategy has been extended. First of all 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. Secondly, there is now 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. For capital projects, there is some flexibility to the extent to which they can overspend without further approval (ranging fro 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 has contracted with Link Asset Services to provide treasury management advice during 2018/19. 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 Council will be carrying out a re-procurement of this contract during 2018/19. . 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. Training session provided by Link (the Council's treasury advisors) on risk and how it can be assessed, particularly in relation to capital investment.
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.
Senior Management Team (SMT)	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.	Training session on risk, risk appetite and assessing risk. Regular updates on the Council's funding and finances, including significant changes in regulations. Training on the core principles of the prudential framework.

Part 2- Capital Spend

Current Capital Assets

As at 31s March 2018, 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	17,710
Surplus Land and buildings	Various	Held for future sale or development	6,738
Offices and Storage	DCO	Staff offices, customer service centre and democratic facilities	5,547
Offices and Storage	Unit 3	Off-site storage, back-up IT and emergency planning	438
Leisure Facilities	Hitchin Swim Centre / Archers	Service use	7,711
Leisure Facilities	Letchworth Outdoor Pool	Service use	2,617
Leisure Facilities	North Herts Leisure Centre	Service use	12,942
Leisure Facilities	Royston Leisure Centre	Service use	7,847
Leisure Facilities	Pavilions	Service use	2,001
Leisure Facilities	Recreation Grounds / Play Areas / Gardens	Service use	6,117
Community Centres and Halls	Various	Community facilities, generally operated by third parties	11,775
Markets	Hitchin Market	To provide a market	137
Museums and Arts	Hitchin Town Hall and District Museum	District-wide museum and community facility	11,136
Museums and Arts	Letchworth and Hitchin museums, Burymead store	Museum storage	1,465
Cemeteries	Various	Service use	1,479
Community Safety	Various CCTV cameras	Service use	62
IT	Various computer equipment and software	To enable the delivery of other services	376
Parking	Various car parks	Service use	9,448
Waste Collection	Bins	Service use	696
Public Conveniences	Various	Subject to leases/ management arrangements	610
Other	Various	Various	365
Total			**107,217**

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)**
Offices and Storage	Unit 3	To provide additional storage through installation of a mezzanine floor	50
Investment Properties	Residential Housing	To generate rental income/ capital appreciation, including conversion of Harkness Court	500
IT	Various computer equipment and software	To maintain IT service and provision of equipment in the Council Chamber	287
Various	Various	Capital maintenance of Council buildings	108
Cemeteries	Wilbury Hills Cemetery, Letchworth	Construction of pathway and roadway	35
Leisure Facilities	Hitchin Swim Centre / Archers	New lift in the Swim Centre. Refurbishment of toilets and showers at outdoor pool. New fitness equipment.	222
Leisure Facilities	Letchworth Outdoor Pool	Refurbishment of toilets and showers at outdoor pool. New safety flooring.	175
Leisure Facilities	North Herts Leisure Centre	Completion of redevelopment works.	172
Leisure Facilities	Royston Leisure Centre	New fitness equipment	13
Leisure Facilities	Pavilions	Decommissioning of pavilions, using Capital Receipts direction	120
Leisure Facilities	Recreation Grounds / Play Areas / Gardens	Decommissioning of play areas, using Capital Receipts direction. Refurbishment of other retained play areas.	306
Museums and Arts	Hitchin Town Hall and District Museum	Acquisition of 14/15 Brand Street and other works.	656
Waste Collection	Vehicles	Capitalisation of vehicles related to the new contract	3,600
Waste Collection	Food waste bins	To enable the introduction of weekly food waste collection	132
Parking	Multi-storey car parks	Lighting at Letchworth Multi-storey, wall works at Lairage Car Park, Hitchin.	27
Community Centres and Halls	Various	Grants for refurbishment of community facilities. Relates to properties that are not owned by the Council (REFCUS).	448
Grants	Various	Disabled Facilities Grants and private sector housing grants (REFCUS)	360
Total			**7,211**

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 (£14.9m 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 £1.6m)	A long lease with upward only rent reviews.	On the basis that it generates a reasonable rental stream, likely to be some interest as an investment. Therefore low to medium liquidity.	Valuations are based on the yield generated.
Letchworth Town Hall (value £0.5m)	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.
Bungalow, Gernon Road, Letchworth (value £0.4m)	Not currently let as a residential premises and the Council does not want to create a Housing Revenue Account.	Medium liquidity as part of potential land sale.	None currently
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 the expenditure on a conversion scheme is expected to increase the security of the asset.	The asset will be more liquid with the benefit of planning permission and building regulation approval.	Not currently generating any income. The conversion will increase the capital value / enable generation of rental income.
Other assets valued at less than £0.1m (£0.2m 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 (£14.9m 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 £1.6m)	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. However, the freehold that the Council has is on beneficial terms, and as a result there is a market due to investment returns. Maintenance is the responsibility of the leaseholder. Valuation reports have been checked and challenged by the Council's chartered surveyors.
Letchworth Town Hall (value £0.5m)	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 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 £0.1m)	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.

Asset (or type of asset)	Fair value assessment	Assessment of the risk of loss
Bungalow, Gernon Road, Letchworth (value £0.4m)	Valued on a fair value basis, reflecting residential property prices	As a residential property, demand remains relatively good. It is competing against other residential properties on the market. There is a risk of a general down-turn in residential property prices. As part of a wider development, there is currently one party that is interested in a purchase. The needs of that party currently match the use of this site, and it is expected that this will remain the case up to the point of sale. Any valuation on this basis is subject to planning. Alternative plan would be to retain the property and let through a Council owned company, which would then generate a revenue income.
Other assets valued at less than £0.1m (£0.2m 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 2019/20 – 2023/24.

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)					
		2019/20	2020/21	2021/22	2022/23	2023/24	2024/25 to 2028/29
Existing Capital Programme-schemes 2019/20 onwards							
Various	Capital maintenance based on condition surveys	255	255	255	0	0	*500*
Lairage Multi-storey car park	Structural wall repairs	120	0	0	0	0	*0*
Computer Software & Equipment	To maintain IT services	702	119	64	450	0	*1,695*
Play equipment at Holroyd Cres (Baldock), King George V (Hitchin), Wilbury (Letchworth) and Howard Park (Letchworth)	Replacement and renovation	85	85	0	0	0	*0*
Various	Private sector housing grants (REFCUS)	60	60	60	60	60	*300*
New Capital Programme							
Hitchin Town Hall	Acoustic panelling	30	0	0	0	0	*0*
Hitchin Town Hall	Sprung floor replacement	75	0	0	0	0	*0*
Hitchin and Letchworth Outdoor Pools	Automatic Chemical Dosing Pumps	20	0	0	0	0	*0*
Various Leisure Facilities	Condition Survey enhancements	64	23	0	39	140	*0*
Various car parks	General capital maintenance	0	0	0	0	0	*200*
Reprogramming (as at Quarter 2)							
Various	Growth Fund Projects	713	0	0	0	0	*0*
Letchworth Multi-storey car park	Parapet walls, soffit & decoration	138	0	0	0	0	*0*
Various off-street car parks	Resurfacing	91	0	0	0	0	*0*
Lairage Multi-storey car park	Lifts refurbishment and safety improvements	399	0	0	0	0	*0*
St Mary's Car Park	Replace and enhance lighting	60	0	0	0	0	*0*
Walsworth Common	Pitch improvements	100	0	0	0	0	*0*
Total		**2,912**	**542**	**379**	**549**	**200**	***2,695***

The totals for 2024/25 to 2028/29 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 £185k per year for this purpose. In previous years this has been sufficient. Works will be carried out as required.

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)**					
		2019/20	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25 to 2028/29**
Existing Capital Programme-schemes 2019/20 onwards							
Residential Property	Provide Housing at Market Rents (also see below)	150	0	0	0	0	*0*
Royston Leisure Centre	Extension to provide a new multi-functional room and increase size of fitness room	0	0	0	0	1,000	*0*
Walsworth Common Pavilion	New pavilion	0	300	0	0	0	*0*
Community Centres and Halls (various)	Grants for refurbishment of community facilities. Relates to properties that are not owned by the Council (REFCUS) (see below)	250	120	0	0	0	*0*
New Capital Programme							
Hitchin Town Hall	Additional Bar facility	15	0	0	0	0	*0*
Reprogramming (as at Quarter 2)							
Hitchin Swim Centre	Car park extension	498	0	0	0	0	*0*
Community Centres and Halls (various)	Grants for refurbishment of community facilities (REFCUS)	292	0	0	0	0	*0*
John Barker Place	Contribution to redevelopment	1,096	0	0	0	0	*0*
Parking	On-street charging machines/ installations	285	0	0	0	0	*0*
Various	S106 projects	129	0	0	0	0	*0*
Baldock Town Hall	Contribution to works	66	0	0	0	0	*0*
Residential Property	Provide Housing at Market Rents (also see below)	2,350	0	0	0	0	*0*
Bancroft, Hitchin	Multi-Use Games Area	170	0	0	0	0	*0*
Total		**5,301**	**420**	**0**	**0**	**1,000**	***0***

Below is an estimate of the total capital expenditure to be incurred in the years 2019/20 to 2023/24. 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 2019/20 to 2023/24

Year	£m
2019/20	8.213
2020/21	0.962
2021/22	0.379
2022/23	0.549
2023/24	1.200

A full list of planned future capital expenditure (2019/20 onwards) is provided as Appendix A1. A list of new capital schemes and schemes planned to commence from 2019/20 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 been considered (table 8).

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. Individual market factors will be considered prior to acquisition. It is likely that the property will be held through a company. The Council's interest will therefore be secured via a loan or equity holding. Any loan can be secured against property. Any equity interest does not offer the same security, but it may be required due to HMRC rules on the funding of companies.	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.

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.

<u>Part 3- Capital balances, receipts and the Capital Financing Requirement (CFR)</u>

<u>Capital Funding</u>

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 10

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25 to 2028/29
Forecast Receipts (£000)	4,950	3,000	2,250	0	0	Tbc

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 maximise the sales values it can achieve.

As a result of planned expenditure in 2018/19 and future years, the Council forecasts the following use of funding for capital (table 11).

Table 11

Funding Source	Brought forward (at 31/3/18)	Forecast expenditure and funding sources (£000)						
		2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25 to 2028/29
Capital Expenditure		7,211	8,213	962	379	549	1,200	2,695
Less: Set-aside receipts used	10,252	5,920	4,332	0	0	0	0	0
Less: Capital receipts used	3,090	572	2,507	675	379	549	1,200	2,395
Less: Grant funding used		300	763	0	0	0	0	300
Less: S106 receipts used		146	468	37	0	0	0	0
Less: Funding from revenue		0	0	0	0	0	0	0
Less: Other Capital Contributions		273	143	250	0	0	0	0
Borrowing requirement		**0**	**0**	**0**	**0**	**0**	**0**	**0**

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 2018 (actual)	-10.3
As at 31st March 2019 (forecast)	-4.4
As at 31st March 2020 (forecast)	0
As at 31st March 2021 (forecast)	0
As at 31st March 2022 (forecast)	0
As at 31st March 2023 (forecast)	0
As at 31st March 2024 (forecast)	0

Based on the totals in tables 10 and 11, the Council is forecasting remaining capital receipts of up to £5m as at the end of the period up to 2028/29. However this is dependent on future capital requirements (particularly beyond 2023/24), the generation of capital receipts and future schemes for investment of capital to generate income.

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 16) the Council has a Capital Financing Requirement of zero and therefore does not 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 31/3/18)**	**Forecast balance at year end**						
		2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25 to 2028/29**
General Fund[1]	7,403	7,055	7,055	6,664	6,408	6,469	6,469	6,469
Add back MRP	0	0	0	0	0	0	0	0
Revenue Reserves[2]	5,679	7,077	7,577	8,077	8,577	9,077	9,577	6,577
S106 balances	2,951	2,805	2,337	2,300	2,300	2,300	2,300	2,300
Provisions	1,252	1,252	1,252	1,252	1,252	1,252	1,252	1,252
Outstanding Debt	456	440	423	405	387	368	347	267
Total	**17,741**	**18,629**	**18,644**	**18,701**	**18,924**	**19,466**	**19,945**	**16,865**

1 Based on General Fund forecasts as per 'Revenue Budget 2019/20' report up to 2022/23, then assumed that net expenditure and funding will match.
2 Revenue Reserve balance as at 31/3/19 as per 'Revenue Budget 2019/20' report. 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.

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 well as the availability of revenue funding, the Council would also need to consider the advantages and disadvantages of external borrowing. Interest rates are still at very low levels and are only expected to go up, which will increase the cost of external borrowing in the future. It may also be possible to generate higher returns from investing revenue reserves than the interest costs that would be saved. However this has to be balanced against the certainty of interest costs that will be incurred as soon as borrowing is taken out. There is also a need for the Council to retain a certain buffer of revenue reserves as cash to manage the peaks and troughs in its cash balances. Whilst the Council can borrow for short-term cash-flow needs, this can become expensive. Whatever strategy is adopted, it should be prudent.

As the Council has no borrowing requirement, table 13 below just shows no new borrowing.

Table 13

	Brought forward (at 31/3/18)	**Forecast amount of borrowing in year (£000)**							**Carried forward (at 31/3/29)**
		2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25 to 2028/29**	
Total borrowing requirement	456	0	0	0	0	0	0	0	0
Made up of:									
Internal borrowing	0	0	0	0	0	0	0	0	0
External borrowing	456	0	0	0	0	0	0	0	265

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.

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 in the longer term.

Prudential Indicator 3: External Debt

Year	Forecast Borrowing £m	Forecast other long-term liabilities[1] £m	Forecast Total External Debt £m	Operational Boundary £m	Authorised Limit £m
As at 31st March 2018 (actual)	0.456	0.131	0.587	Set by previous strategy	
As at 31st March 2019 (forecast)	0.440	2.628	3.068	4.1	10
As at 31st March 2020 (forecast)	0.423	2.125	2.548	3.6	9
As at 31st March 2021 (forecast)	0.405	1.622	2.027	3.1	9
As at 31st March 2022 (forecast)	0.387	1.119	1.506	2.6	8
As at 31st March 2023 (forecast)	0.367	0.616	0.983	2.0	7
As at 31st March 2024 (forecast)	0.347	0.113	0.460	1.5	7

1 Comprises the finance lease relating to Letchworth Multi-storey car park and the forecast 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 31/03/19 (£)	Interest Rate (actual or forecast) (%)	Current Annual interest cost (£)
PWLB	08/01/49	80	Oct 2025	5,346	1,138	3.125	34
	16/09/49	80	Jul 2029	380	50	3.0	1
	10/05/46	80	Jan 2026	10,150	2,065	3.125	62
	12/11/48	80	Jul 2028	13,885	3,769	3.0	110
	23/09/60	60	Jul 2020	4,570	406	6.125	21
	18/08/61	60	Jul 2021	13,817	2,218	7.0	141
	28/07/64	60	Jul 2024	15,801	4,516	6.0	260
	02/03/65	60	Jan 2025	19,558	6,013	6.0	348
	01/10/65	60	Jul 2025	33,976	11,161	6.0	648
	05/07/66	60	Jan 2026	35,000	12,212	6.0	711
	02/08/66	60	Jul 2026	50,000	18,437	6.0	1,076
	18/03/68	60	Jan 2028	40,000	19,407	7.375	1,403
	03/01/69	60	Jul 2028	53,027	28,381	8.125	2,265
	06/03/70	60	Jan 2030	20,100	12,334	8.75	1,064
	24/11/70	60	Jul 2030	18,714	12,325	9.5	1,156
	26/01/71	60	Jan 2031	25,000	17,076	9.75	1,646
	05/03/71	60	Jan 2031	12,500	8,309	9.25	760
	05/03/71	60	Jan 2031	25,0000	16,623	9.25	1,520
	31/05/46	80	Jan 2026	9,570	2,038	3.125	62
	28/02/47	80	Jan 2027	5,832	1,219	2.5	30
	18/10/46	80	Jul 2026	1,527	301	2.5	7
	20/02/48	80	Jan 2028	14,952	3,873	3.0	113
	22/09/50	80	Jul 2030	654	209	3.0	6
	27/08/82	60	Jul 2042	250,000	250,000	11.5	28,750
	07/12/45	80	Sep 2025	1,500	300	3.125	9
	16/09/49	80	Sep 2029	640	190	3.0	6
	20/03/53	80	Mar 2033	1,020	464	4.125	19
	23/10/53	80	Sep 2033	750	335	4.0	13
	20/11/53	80	Sep 2033	420	191	4.0	8
	25/04/52	80	Mar 2032	480	209	4.25	9
	30/01/48	80	Sep 2027	1,560	385	3.0	11
	29/06/40	80	Mar 2020	715	29	4.0	1
	20/09/45	80	Sep 2025	16,690	3,536	3.125	111
Total					**439,717**		

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 out 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	70
10 years to 20 years	0	80
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
2019/20	1.5	1.5	0.5
2020/21	1.5	1.5	0.5
2021/22	1.4	1.4	0.5
2022/23	1.4	1.4	0.5
2023/24	1.4	1.4	0.5
2023/24	1	1	0.3

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.

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	Loans linked to investment assets £m	Expected annual borrowing costs for loans linked to investment assets £m
2019/20	20.710	1.089	0	0
2020/21	20.710	1.139	0	0
2021/22	20.710	1.189	0	0
2022/23	20.710	1.189	0	0
2023/24	20.710	1.189	0	0

The Council would not borrow money 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 new 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 only instance where this could apply is the purchase of housing for renting at market rates. However this has been in the capital programme for a few years and is funded from capital receipts, so is not subject to this restriction.

If the Council did want to use borrowing to fund capital investment for a profit, then this can be done if it is fully explained as part of this capital strategy.

<u>Minimum Revenue Provision</u>

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 does not have a need to borrow, so therefore does not currently need to apply a Minimum Revenue Provision (MRP).

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 2019/20 to 2023/24

Year	Estimated cost of borrowing (£m)	Forecast net revenue budget (£m)	Estimated cost of borrowing as a % of net revenue budget (%)
2019/20	0.042	15.136	0.28
2020/21	0.041	14.808	0.28
2021/22	0.040	14.911	0.27
2022/23	0.039	15.021	0.26
2023/24	0.037	15.021	0.25

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 31/3/18)	Forecast balance at year end (£000)					
		2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Revenue balances (including MRP added back)	17,741	18,629	18,644	18,701	18,924	19,466	19,945
Capital Receipts	3,090	2,627	5,070	7,395	9,266	8,717	7,517
Capital Grants Unapplied	954	954	954	954	954	954	954
Add: Long-term liabilities[1]	131	2,628	2,125	1,622	1,119	616	113
Less: Capital Financing Requirement	-10,315	-4,935	-63	-63	-63	-63	-63
Add: External Borrowing taken out	0	0	0	0	0	0	0
Less: Borrowing repayments	25	16	17	18	18	19	21
Total forecast of available for investment	**32,206**	**29,757**	**26,839**	**28,717**	**30,308**	**29,797**	**28,571**

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 (£000)	Reason for Loan	Proportionality of value	Expected Credit Loss model and credit control
Building Control	107	To support the formation of the company. The Council is also a shareholder in the company, owning 1/7th of the shares.	Insignificant in the context of overall cash balances. Around 0.3% 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 £3m	To provide the company with finances to purchase and develop property assets. These properties will then be let or sold to generate income and profit.	Based on investment limits in table 17 below, it could be the equivalent of one investment in a bank or building society.	Any loan would be secured against the property assets of the company. Expected credit loss would be looked at in more detail in advance of any loans 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 and reports by accountancy firm KPMG). Whilst the Council is fairly highly exposed to Building Societies, it is aiming to rebalance this exposure over time and 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 a AA-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.

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 (2019/20) 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.

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	3	10% 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	22	5	3	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		8	3	AAA Country rating and AA-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	18	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			3	As above, but £3million
Rated UK Building Societies			3	Rating F3 or above (short-term) or BBB or above (long-term). 10% with any one counterparty.
UK Property Funds	8		8	25% in any one fund or combination of funds. Maximum of 60% in Property Funds and Building Societies combined. No durational limits.
Money Market Funds	8	n/a	3	AAA rated. Maximum of 25% in MMFs and 10% 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 then 1 year (365 days). This limit is based on 40% of total investments, but is again reflected as an absolute value of **£12m**, which is based on 40% of the expected level of investments at the end of the year.

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 investment term will exceed 5 years.

Investment funds (money market 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.

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 (e.g. in relation to property funds).

The Council maintains a treasury risk on its risk register.

There is some 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 5 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 (%)
2018/19	0.75	
2019/20	1.25	1.20
2020/21	2.00	1.50
2021/22	2.00	1.75
2022/23	2.00	1.75
2023/24	2.25	2.00

Combining these average interest rates with expected balances, gives a forecast of the interest that will be earned in each year.

Table 19

	2019/20	2020/21	2021/22	2022/23	2023/24
Forecast of average balance available for investment (£m)	28.3	27.8	29.5	30.05	29.2
Forecast of average interest earned on investments (%)	1.2	1.5	1.75	1.75	2.0
Forecast of interest earned (£m)*	0.340	0.417	0.516	0.526	0.584
Current interest assumed in the revenue budget.	0.300	0.167	0.167	0.167	0.167

*Due to current economic uncertainty Interest estimates in the revenue budget are lower than those forecast from multiplying the average balance by forecast interest rates. These will be reassessed each year.

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
2019/20	0.042	0.340	-0.298	15.136	-1.969
2020/21	0.041	0.417	-0.376	14.808	-2.539
2021/22	0.040	0.516	-0.476	14.911	-3.192
2022/23	0.039	0.526	-0.487	15.021	-3.242
2023/24	0.037	0.584	-0.547	15.021	-3.642

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 £8m.

The capital programme includes an allocation of £3m for investments in market housing within North Hertfordshire. This will expose the Council to a similar risk to Building Society investments, in that they will both be influenced by the UK housing market. This is part of the rationale for reducing the amounts that can be invested in Building Societies. In general, Building Societies will have a much more diversified risk exposure e.g. by location and number of properties.

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 in place; and
- The total level of loans by type is in accordance with the limits set out in this Strategy.