Rushcliffe Borough Council	**Governance Scrutiny Group** **Thursday, 23 February 2023** **Capital and Investment Strategy – Quarter Report 3 2022/23**

Report of the Director - Finance and Corporate Services

1. Purpose of report

1.1. The purpose of this report is to summarise the capital and investment activities of the Council for the period 1 April to 31 December 2022.

1.2. The Capital and Investment Strategy for 2022/23 approved by Council on 3 March 2022, outlines the Council's capital and investment priorities as follows:

- Security of capital
- Liquidity of investments; and
- Optimising yield earned on investments (cash and property).

1.3. The Strategy includes indicators that help ensure that the Council's capital investment plans are affordable, prudent, and sustainable. Setting an integrated Capital and Investment Strategy is a requirement of the CIPFA Code of Practice.

2. Recommendations

It is recommended that the Group notes the Capital and Investment Strategy update position as of 31 December 2022.

3. Reasons for Recommendation

3.1 CIPFA's Code of Practice for Treasury Management (2021) recommends that Councillors should be informed of Treasury Management activities quarterly. This report, therefore, ensures this Council is embracing best practice for the scrutiny of capital and investment activity in accordance with the CIPFA Code of Practice, although authorities are allowed to defer introducing revised reporting requirements until 2023/24 (these include changes in capital strategy, prudential indicators, and investment reporting).

4. Supporting Information

Economic Forecast

4.1. The UK is currently experiencing a deteriorating economic outlook with prices currently rising 10.7% a year (Nov 22) and the Bank of England have warned that inflation might reach 12% within months, as the prices of fuel, energy and food put pressure on household budgets.

4.2. The Bank of England Monetary Policy Committee (MPC) reacted to this by voting on 15 December to increase the base rate to 3.5% with further increases anticipated.

4.3. Link Group (the Council's Treasury Advisors) has revised its interest rate forecast through a series of stepped increases. They are forecasting that interest rates will peak at 4.5% in June 23 before starting to tail off from December 2023.

4.4. Overall, the economy is looking at a protracted recession with public finances stretched, making it harder for Local Authorities to absorb any potential further shocks in the short term.

Investment Income

4.5. At the time of setting the 2022/23 budget, Link's base rate forecast was 0.5% and the Council budgeted to receive £673,300 in investment income (compared with £462,100 in 2021/22). Actual interest earned to 31 December 2022 totalled £849,142 with total receipts for the year expected to be approximately £1,255,400 (£676,742 in 2020/21). **Appendix D** details the Councils current investments and the respective counterparties. Interest receipts are higher than estimated due to ongoing increases in interest rates and larger investment balances, due to re-profiling of the capital programme and additional S106 monies. All investments have been made in accordance with the Council's Capital and Investment Strategy.

4.6. In order to maintain returns and mitigate risks, the Council has continued to diversify its investments mix. As a result, the Council is currently placing deposits in Money Market Funds (MMFs), Call Accounts, CCLA Property Fund, UK Local Authorities and Diversified Funds with a larger amount than normal being held in MMFs to ensure liquidity. In December £5m was invested in HSBC Global Liquidity Fund (ESG).

4.7. In light of these cash balances, the Council continues to internally borrow to fund capital expenditure. Whilst the Council continues to ensure investments are secure and liquidity is achieved (in light of uncertain income streams), it is proactively looking to maximise its rate of return.

4.8. The fair value of the Council's diversified funds can fluctuate, and the movement can be seen in **Appendix A**. The funds are currently showing £1.4m deficit and some funds are just starting to pick up from the downward trend experienced by the political turmoil last year. The majority of deficit is mitigated by proposed appropriations to reserves of £0.6m from 2022/23 in year efficiencies and a £0.2m carried forward from 2021/22. Currently there is a statutory override preventing any accounting loss impacting on the revenue accounts. This was due to end 31 March 2023 however DLUHC have decided, after consultation, to extend this for a further two years. It is however, prudent to maintain the reserve as detailed above whilst the investments remain.

Borrowing and Prudential Indicators

4.9. As part of the Capital and Investment Strategy, the Council established a range of Prudential Indicators (which also accords with professional practice) to monitor both Treasury and Capital as the two are intrinsically linked. Details of the performance against the Prudential Indicators can be found at **Appendix B**.

4.10. The Liability Benchmark reflects the real need to borrow. A credit balance (as shown at Appendix B) confirms that the Council has no need to borrow over the medium term.

4.11. Net Income from Commercial and Service Investments to Net Revenue Streams reflects the Council's dependence on investments. The projected figure is lower than estimated due to changes in the operational start dates for the Crematorium and Bingham Hub, rising utility costs and favourable net revenue streams.

Commercial Investments

4.12. The Council's target is that this should not exceed 30% with the current actual just under 20% (see **Appendix C**)

Conclusion

4.13. Treasury Management continues to be fraught with difficulty. The UK economy is recovering but risk of a recession remains real with inflationary pressures and rising interest rates. Whilst the latter will have a positive effect on returns that can be achieved from investments, uncertainty in the economy will have a negative impact on the capital value of some of the Council's investments. Officers will continue to monitor the environment and report any significant issues to the Governance Scrutiny Group.

5. Risk and Uncertainties

5.1. The report covers both counterparty, interest rate and property related risks.

6. Implications

6.1. Financial Implications

Financial implications are covered in the body of the report.

6.2. Legal Implications

There are no specific legal implications identified in this report. The report demonstrates the Council's good practice in following CIPFA's Code of Practice for Treasury Management (2021) which recommends reporting Treasury Management activities quarterly. Adoption of the best practice ensures scrutiny of capital and investment activity undertaken during the relevant period.

6.3. Equalities Implications

There are no equalities implications identified in this report.

6.4. Section 17 of the Crime and Disorder Act 1998 Implications

There are no crime and disorder implications identified in this report.

7. Link to Corporate Priorities

Quality of Life	No direct impact on quality of life
Efficient Services	Responsible income generation and maximising returns
Sustainable Growth	No direct impact on sustainable growth
The Environment	Helping to protect the environment by consideration of carbon footprint and fossil-based investments as part of the Capital and Investment Strategy

8. Recommendations

It is recommended that the Group notes the Capital and Investment Strategy update position as of 31 December 2022.

For more information contact:	Peter Linfield Executive Manager - Finance and Corporate Services 0115 914 8439 plinfield@rushcliffe.gov.uk
Background papers available for inspection	Treasury Management Strategy 2022/23
List of Appendices:	Appendix A – Pooled Funds Appendix B - Prudential and Treasury Indicators for 2022/23 position at 31 December 2022 Appendix C – Commercial Investment Income and Costs Appendix D – Investments at 31 December 2022

APPENDIX A

Fair Value	**31.03.22**	**30.06.22**	**30.09.22**	**31.12.22**	**Difference**
Aegon-Previously Kames	4,976,196	4,425,213	4,145,841	4,377,738	-598,458
Ninety One-Previously Invest	4,819,826	4,538,071	4,401,865	4,498,733	-321,092
RLAM	991,193	982,352	965,030	978,590	-12,603
CCLA Property	2,416,786	2,543,095	2,435,135	2,058,130	-358,656
CCLA Divesified	2,018,480	1,887,902	1,845,419	1,830,824	-187,656
	15,222,481	**14,376,633**	**13,793,290**	**13,744,015**	**-1,478,466**

APPENDIX B

Prudential and Treasury Indicators for 2022/23
Position at 31 December 2022

	2022/23 £'000 Original Estimate	2022/23 £'000 Projected
Prudential Indicators		
Capital Expenditure	14,611	18,140
Proportion of financing costs to net revenue streams	5.29%	4.92%
Expected Investment Position (at 31 March 2023)	30,917	53,719
Capital Financing requirement as at 31 March 2023	14,933	15,516
Net Income (from Commercial and Service Investments) to Net Revenue Streams	14.5%	5.3%
Treasury Management Indicators		
Authorised Limit for external debt Borrowing and other long-term liabilities	25,000	25,000
Operational Boundary for external debt Borrowing and other long-term liabilities	20,000	20,000
Upper limit for fixed interest rate exposure on investments up to 1 year	50%	50%
Upper limit for variable rate exposure (investments)	100%	100%
Upper limit for total principal sums invested over 1 year	15,400	26,900
Liability Benchmark	(20,917)	(42,719)

APPENDIX C

Commercial Investment Income and Costs

2022/23	Original £'000	Current £'000	Actual £'000	Projected £'000
Commercial Property Income	(1,772)	(1,753)	(1,553)	(1,661)
Running Costs	616	647	525	753
Net Contribution to core functions	(1,156)	(1,106)	(1,028)	(908)
Interest from Commercial Loans	(81)	(110)	(59)	(105)
Total Contribution	(1,237)	(1,216)	(1,087)	(1,013)
Sensitivity:				
+/- 10% Commercial Property Income	177	175	155	166
Indicator:				
Investment Income as a % of total Council Income	19.5%	22.8%	19.9%	15.7%
Total Income	9,484	10,711	8,111	11,261

APPENDIX D

Financial Institution	Amount £	Length of Investment	Interest
Standard Chartered	4,000,000	182 days	4.06%
Standard Chartered	3,000,000	183 days	4.28%
Blackpool Council	5,000,000	183 days	1.15%
Close Brothers	5,000,000	179 days	2.00%
HSBC ECG	5,000,000	Call	3.19%
Hertfordshire District Council	5,000,000	273 days	2.83%
Wrexham Borough Council	5,000,000	273 days	2.48%
Residual MMF/Call Account Balances	19,138	Call	2.50%
Blackrock	5,158,980	Call	3.21%
Ccla - Psdf	3,755,548	Call	3.31%
Federated Investors (Uk)	5,676,702	Call	3.25%
Goldman Sachs Asset Management	2,156,248	Call	3.17%
Hsbc Asset Management	2,640,099	Call	0.50%
Invesco Aim	949,193	Call	3.22%
Aberdeen Asset Management	3,830,970	Call	3.28%
Bank Of Scotland Plc	378,925	Call	0.01%
Bank Of Scotland Plc	109,752	32 Days	1.55%
Barclays Bank Plc	4,396,846	32 Days	2.95%
Handelsbanken Plc	904,637	35 Days	1.55%
Santander Uk Plc	162,955	Call	1.23%
Santander Uk Plc	4,048,588	35 Days	1.88%
Royal London Cash Plus Fund	991,193	On-going	3.46%
Ccla Property Fund	2,416,786	On-going	3.86%
Ccla Diversified Income Fund	2,018,480	On-going	3.25%
Aegon Diversified Income Fund	4,976,196	On-going	6.80%
Ninety One Diversified Income Fund	4,819,826	On-going	6.20%
Total Investments/Average Interest Rate	**81,411,060**		**3.24%**

Glossary of Terms

Money Market Funds – these funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risks.

CCLA Property Fund - this a local authority property investment fund. The property fund is designed to achieve long term capital growth and a rising income from investments in the commercial property sector.

Pooled Funds – shares in diversified investment vehicles consisting of different investment types including banks, equity shares and property, these funds have the advantage of providing wide diversification of investment risks.