Governance Scrutiny Group

Thursday, 28 September 2023

# Capital and Investment Strategy – Quarter Report 1 2023/24

**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 30 June 2023.

1.2. The Capital and Investment Strategy for 2023/24, approved by Council on 2 March 2023, 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 considers the Capital and Investment Strategy update position as of 30 June 2023.

## 3. Reasons for Recommendation

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.

## 4. Supporting Information

### Economic Forecast

4.1. After a short period of economic turmoil, the UK economic outlook appears to be more positive, predictable and less uncertain. Inflation (CPI) has fallen from a recent peak of 11.1% in October 2022 to 7.9% in June 2023, rather than a predicted 8.2% but remains high due to increase in wages and food inflation.

4.2. At its meeting on 21 June 2023, the Bank of England Monetary Policy Committee (MPC) increased the base rate from 4.5% to 5% with further increases anticipated.

4.3. Link Group (the Council's Treasury Advisors) has revised its interest rate forecast with rates expected to peak at 5.5% September 2023 before starting to reduce in the second quarter of 2024.

4.4. Overall, the economy is looking on course to avoid a technical recession with a growth rate of 0.3% expected for the whole of 2023, rising to 1.1% in 2024. There are still risks to economic growth due to labour and supply shortages, Bank of England base rate changes, UK/EU trade arrangements and Geopolitical risks.

**Investment Income**

4.5. Based on Link's base rate forecast of 4.5% the Council budgeted to receive £1,359,300 in investment income in 2023/24 (compared with £673,300 in 2022/23). Actual interest earned to 30 June 2023 totalled £244,372. Whilst base rates are rising the pooled funds have not been as positively affected but we are broadly expecting the budget to hit target. All investments have been made in accordance with the Council's Capital and Investment Strategy. The Council achieved an average interest rate of 4.78% in quarter 1, compared to the average SONIA rate of 4.37%.

4.6. The average level of funds available for investment purposes during the quarter was £54.47m. These funds were available on a temporary basis and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme. The Council holds £13.766m core cash balances for investment purposes (i.e., funds available for more than one year). 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. In December 2022 £5m was invested in HSBC Global Liquidity Fund (ESG) a full list of investments as at 30 June can be found at **Appendix C**.

4.7. The Council continues to internally borrow to fund capital expenditure. It ensures investments are secure and that liquidity is achieved whilst at the same time it is proactively looking to maximise its rate of return.

4.8. The fair value of the Council's diversified funds can fluctuate. These can be seen in **Appendix A**. Funds are still volatile with the downward trend experienced by the political turmoil last year continuing, largely mitigated by appropriations to the Pooled Funds reserve which has a current balance of £1.234m. Currently there is a statutory override preventing any accounting loss impacting on the revenue accounts. This is due to end 31 March 2025 having recently been extended for a further two years. Whilst the value of this type of investment can fluctuate, the revenue returns make up a significant proportion of the overall returns on investment (32% in 2022/23). The Council will continue to monitor the position on these investments and take advice from the treasury advisors.

## 5. Capital Expenditure and Financing

5.1. The original Capital Programme for 2023/24 was £9.576m, with £5.426m carry forwards and other adjustments of £1.722 giving a current budget of £16.724m. The projected outturn is £10.267m, resulting in an estimated underspend of £6.457m arising from realisable savings on Bingham Arena and Crematorium and the need to reprofile the provision for support for Registered Housing Providers to future years.

5.2. The Council undertakes capital expenditure on both its own long-term assets and on grants that can be capitalised under statute (capital payments to third parties). These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.) which has no resulting impact upon the Council's borrowing need; or
- If insufficient financing is available or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

5.3. The actual capital expenditure forms one of the required prudential indicators. Table 1 below shows the actual capital expenditure and how this was financed:

**Table 1**

| | 2022/23 Actual £000 | 2023/24 Estimate £000 | 2023/24 Projection £000 |
|---|---|---|---|
| **Capital Expenditure** | 15,419 | 9,576 | 10,267 |
| **LESS Financed by:** | | | |
| Capital Receipts | (4,386) | (3,387) | (3,797) |
| Capital Grants | (2,790) | (3,739) | (3,867) |
| Reserves | (1,243) | (1,450) | (1,113) |
| **Increase in Borrowing Need** | 7,000 | 1,000 | 1,490 |

5.4. The Council's underlying need to borrow for capital expenditure is called the Capital Financing Requirement (CFR). The CFR represents the net capital expenditure in 2023/24 and prior years that has not yet been paid for by revenue or other resources.

5.5. The Council's CFR for 2023/24 represents a Key Prudential Indicator and is shown below in Table 2. The table shows a forecast net reduction in internal borrowing from £13.266m in 2022/23 to £10.901m in 2023/24. This is a reduction of £2.365m after deducting the MRP of £1.255m and capital receipts applied of £2.6m in 2023/24.

**Table 2**

| | 2022/23 Actual £'000 | 2023/24 Budget £'000 | 2023/24 Forecast £'000 |
|---|---|---|---|
| Opening CFR | 7,283 | 15,516 | 13,266 |
| CFR in year | 7,000 | 1,000 | 1,490 |
| Less: MRP etc | -1,017 | -1,311 | -1,255 |
| Less Capital Receipts Applied | 0 | -2,600 | -2,600 |
| **Closing CFR** | 13,266 | 12,605 | 10,901 |
| Less: External Borrowing | 0 | 0 | 0 |
| **Internal Borrowing** | 13,266 | 12,605 | 10,901 |
| **Less:** | | | |
| Usable Reserves | -28,170 | -21,853 | -21,377 |
| Working Capital | -45,010 | -38,625 | -43,010 |
| **Available for Investment (-)** | -59,914 | -47,873 | -53,486 |

## 6. Borrowing and Prudential Indicators

6.1. 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**.

6.2. During the quarter ended 30 June 2023, the Council has operated within the treasury and prudential indicators set and it is not envisaged that there will be any difficulties in the current or future years in complying with these indicators.

6.3. All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

6.4. No external borrowing was undertaken during the quarter ended 30 June 2023 and the Council does not anticipate a need to externally borrow in this financial year.

6.5. The Liability Benchmark reflects the real need to borrow. The Council's reports a credit balance which shows that the Council has no need to borrow over the medium term.

6.6. Net Income from Commercial and Service Investments to Net Revenue Streams demonstrates the Council's dependence on investments. The projected figure is higher than estimated due to favourable net revenue streams.

6.7. The Ratio of Financing Costs to Net Revenue Streams is a Key Prudential Indicator of affordability and compares net financing costs (MRP, borrowing costs, including interest foregone from the use of cash balances less investment income) to net revenue income. This indicator shows how the proportion of net income used to pay for financing costs. The projected actual at quarter 1 is 0.15% a relatively small movement from the position at the start of the year due mainly to an increase in the net cost of service relating to pay and inflation. This is included in **Appendix B**.

## 7. Commercial Investments

7.1. The Council must disclose its dependence on commercial income and the contribution non-core investments make towards core functions. This covers assets purchase through the Council's Asset Investment Strategy although no longer actively pursuing commercial investment therefore covers pre-existing commercial investments.

7.2. The Council's target is that this should not exceed 30% with the current actual at around 15% (see Table 3 below). This is slightly below the original target mainly because total Council income is projected to be higher.

**Table 3**

**Commercial Investment Income and Costs**

| 2023/24 | Original £'000 | Current £'000 | Actual £'000 | Projected £'000 |
|---|---|---|---|---|
| **Commercial Property Income** | (1,832) | (1,832) | (468) | (1,800) |
| **Running Costs** | 480 | 483 | 216 | 489 |
| **Net Contribution to core functions** | (1,352) | (1,349) | (252) | (1,311) |
| **Interest from Commercial Loans** | (67) | (67) | 0 | (67) |
| **Total Contribution** | (1,419) | (1,416) | (252) | (1,378) |
| **Sensitivity:** | | | | |
| +/- 10% Commercial Property Income | 183 | 183 | 47 | 180 |
| **Indicator:** | | | | |
| Investment Income as a % of total Council Income | 18.8% | 15.1% | 14.5% | 15.0% |
| | | | | |
| Total Income | 10,117 | 12,575 | 3,220 | 12,415 |

## 8. Conclusion

8.1. Officers can confirm that the approved limits within the Capital and Investment Strategy were not breached during the quarter ended 30 June 2023.

8.2. Treasury Management continues to be fraught with difficulty. The UK economy is recovering but risk of a recession remains with inflationary pressures and interest rates remaining high. Whilst the latter will have a positive effect on returns that can be achieved from investments, uncertainty in the economy is having 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.

## 9. Risk and Uncertainties

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

## 10. Implications

### Financial Implications

10.1. Financial Implications are covered in the body of the report.

### Legal Implications

10.2. 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) recommendations by informing Councillors of Treasury Management activities quarterly. Adoption of the best practice ensures scrutiny of capital and investment activity undertaken during the relevant period.

### Equalities Implications

10.3. There are no equalities implications identified for this report

### Section 17 of the Crime and Disorder Act 1998 Implications

10.4. There are no Section 17 implications identified for this report

### Biodiversity Net Gain

10.5. There are no bio-diversity implications associated with this report.

## 11. Link to Corporate Priorities

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

## Recommendations

It is RECOMMENDED that the Group considers the Capital and Investment Strategy update position as of 30 June 2023.

| | |
|---|---|
| **For more information contact:** | Peter Linfield<br>Director - Finance and Corporate Services<br>0115 914 8439<br>plinfield@rushcliffe.gov.uk |
| **Background papers available for inspection** | Treasury Management Strategy 2023/24 – Council 2 March 2023 |
| **List of Appendices:** | Appendix A – Pooled Funds<br>Appendix B - Prudential and Treasury Indicators for 2023/24 position at 30 June 2023<br>Appendix C – Investments at 30 June 2023 |

**APPENDIX A**

## Pooled Funds summary of capital value movement

| Total Amount Invested | Fair Value | 31.03.23 | 30.04.23 | 31.05.23 | 30.06.23 | Difference | Difference in valuation from time of initial investment to current month |
|---|---|---|---|---|---|---|---|
| 5,000,000.00 | **Aegon-Previously Kames** | 4,364,956 | 4,411,518 | 4,399,193 | 4,383,672 | 18,716 | 616,328 |
| 5,000,000.00 | **Ninety One-Previously Investec** | 4,559,707 | 4,560,198 | 4,509,059 | 4,488,899 | (70,808) | 511,101 |
| 1,000,000.00 | **RLAM** | 983,676 | 988,835 | 981,690 | 980,687 | (2,989) | 19,313 |
| 2,000,000.00 | **CCLA Property** | 2,018,374 | 2,018,374 | 2,018,374 | 2,015,601 | (2,773) | - 15,601 |
| 2,000,000.00 | **CCLA Diversified** | 1,839,164 | 1,856,626 | 1,848,025 | 1,829,781 | (9,383) | 170,219 |
| 15,000,000.00 | | **13,765,876** | **13,835,552** | **13,756,342** | **13,698,640** | **(67,236)** | 1,301,360 |

**APPENDIX B**

## Prudential and Treasury Indicators for 2023/24
## Position at 30 June 2023

| | 2023/24 £'000 Original Estimate | 2023/24 £'000 Projected |
|---|---|---|
| **Prudential Indicators** | | |
| **Capital Expenditure** | 9,576 | 10,267 |
| **Proportion of financing costs to net revenue streams** | (0.37%) | 0.15% |
| **Expected Investment Position at 31 March 2024** | 48,149 | 53,486 |
| **Capital Financing requirement as at 31 March 2024** | 12,605 | 10,901 |
| **Net Income (from Commercial and Service Investments) to Net Revenue Streams** | 11.3% | 11.9% |
| **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** | 24,100 | 26,700 |
| **Liability Benchmark** | (38,149) | (42,624) |

**APPENDIX C**

**Investments as at 30 June 2023**

# Current Investments

| Financial Institution | Amount £ | Length of Investment | Interest | Date |
|---|---|---|---|---|
| Standard Chartered | 4,000,000 | 182 days | 5.22% | 30 November 2023 |
| Standard Chartered | 3,000,000 | 183 days | 4.70% | 11 October 2023 |
| Close Brothers | 5,000,000 | 179 days | 4.90% | 30 July 2023 |
| HSBC ECG | 5,085,875 | Call | 4.82% | N/A |
| Rushmoor Borough Council | 5,000,000 | 364 days | 4.50% | 19 April 2024 |
| Cornwall Council | 5,000,000 | 184 days | 4.35% | 15 November 2023 |
| Uttlesford council | 5,000,000 | 72 days | 4.45% | 01 August 2023 |
| East Midlands Combined Authority | 5,000,000 | 30 days | 4.70% | 19 July 2023 |
| Aviva Investors | 216 | Call | 4.74% | N/A |
| Blackrock | 949,029 | Call | 4.75% | N/A |
| Ccla – Psdf | 4,734,690 | Call | 4.78% | N/A |
| Federated Investors (Uk) | 7,003,592 | Call | 4.73% | N/A |
| Goldman Sachs Asset Management | 256,401 | Call | 4.71% | N/A |
| Handelsbanken Plc | 12,023 | Call | 4.73% | N/A |
| Hsbc Asset Management | 714,407 | Call | 0.50% | N/A |
| Invesco Aim | 512,678 | Call | 4.71% | N/A |
| Aberdeen Asset Management | 3,029,194 | Call | 4.82% | N/A |
| Bank Of Scotland Plc | 378,943 | Call | 0.01% | N/A |
| Bank Of Scotland Plc | 110,841 | 32 Days | 2.15% | N/A |
| Barclays Bank Plc | 6,596 | Call | 1.60% | N/A |
| Barclays Bank Plc | 4,476,302 | 32 Days | 4.45% | N/A |
| Handelsbanken Plc | 11,993 | 35 Days | 2.20% | N/A |
| Santander Uk Plc | 164,851 | Call | 2.78% | N/A |
| Santander Uk Plc | 83,262 | 35 Days | 3.78% | N/A |
| Royal London Cash Plus Fund | 983,676 | On-going | 3.96% | N/A |
| Ccla Property Fund | 2,018,374 | On-going | 4.36% | N/A |
| Ccla Diversified Income Fund | 1,839,164 | On-going | 3.25% | N/A |
| Aegon Diversified Income Fund | 4,364,956 | On-going | 6.80% | N/A |
| Ninety One Diversified Income Fund | 4,559,707 | On-going | 6.20% | N/A |
| **Total Investments/Average Interest Rate** | **73,296,770** | | **4.78%** | |

## 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.

Covered Bonds – these investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means they are exempt from bail-in.

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

LIBID – London Inter Bank Bid Rate. The rate at which banks are willing to borrow from other banks

SONIA – Sterling Overnight Index Average – This rate reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors