Rushcliffe Borough Council	**Governance Scrutiny Group** **Thursday, 19 September 2024** **Capital and Investment Strategy – Quarter 1 Report 2024/25**

Report of the Executive Manager - 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 2024.

1.2. The Capital and Investment Strategy for 2024/25, approved by Council on 7 March 2024, 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 30 June 2024.

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.

4. Supporting Information

Economic Forecast

4.1. Inflation (CPI) has continued to decline over the quarter, falling from an annual rate of 3.2% to 2.0% in May, in line with the Bank of England's target. However, it is expected to rise again later in the year as service price inflation and wage growth impact.

4.2. The Bank of England dropped the base rate to 5% as of 1 August 2024. The previous rate of 5.25% had been maintained, a level unchanged since August 2023.Furthe interest rate reductions are expected and were assumed in the Treasury Management Strategy for this year.

4.3. The UK economy has emerged from the technical recession at the end of 2023 to expand 0.7% in the first quarter of the calendar year. Monthly GDP data showed zero growth in April, but this is expected to rise to 1.0% in 2024 and is anticipated to reach 1.9% in 2025. The economy is picking up but there are still risks to economic growth due to increased unemployment and lower inflation.

Investment Income

4.4. Based on the Arlingclose interest rate forecast at the time (4.5%), the Council budgeted to receive £1,043,200 in investment income in 2024/25 (compared with £1,359,300 in 2023/24). Actual interest earned to 30 June 2024 totalled £360,034 with total receipts for the year expected to be approximately £1,292,900 (£1,887,576 in 2023/24). Interest receipts are higher than estimated due to larger S106 balances and higher than expected interest rates. All investments have been made in accordance with the Council's Capital and Investment Strategy. The Council achieved an average interest rate of 5.18% in quarter 1.

4.5. The average level of funds available for investment purposes during the quarter was £68.98m. 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 £14.038m core cash balances for investment purposes (i.e., funds available for more than one year). 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. The Council also currently holds two ESG (Environmental, Social and Governance) accounts totalling £7.3m. A full list of investments at 30 June can be found at **Appendix A**.

4.6. Going forward the Council is assessing options for investing in high quality Bonds. These are market tradeable (examples of which are the UK Government) which have low risk of default due to collateral being held by the intermediary and are exempt from bail-in. Investing in bonds would comply with the Council's approved counterparty rates as bonds are usually AAA rated and return an interest over the life of the bond. The Council would choose the appropriate bond based on yield and maturity offered. Including longer-dated high-quality fixed income bonds in the Council's investment portfolio as a longer-term investment helps with diversification, while providing a regular income stream and reducing capital volatility that might be experienced with other asset classes.

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. It has previously been reported that the Council's diversified funds have been subject to fluctuations in fair value. The current position can be seen in **Appendix B**. Funds are still volatile but loss in capital value largely experienced in previous years, is reversing and has been mitigated by appropriations to the Treasury Capital Depreciation Reserve which has a current balance of £1.173m. Currently there is a statutory override preventing any accounting adjustments impacting on the revenue accounts. This is due to end 31st March 2024. Whilst the value of this type of investment can fluctuate, the revenue returns make up a healthy proportion of the overall returns on investment (20% in 2023/24). The Council will continue to monitor the position on these investments and take advice from the treasury advisors and as appropriate increase or reduce the reserve.

Capital Expenditure and Financing

4.9. The original Capital Programme for 2024/25 was £11.079m, with £3.4405m carry forwards and other adjustments of £2.236m giving a current budget of £16.720m. The projected outturn is £10.738m, resulting in an estimated underspend of £5.982 arising from the need to reprofile the provision for support for Registered Housing Providers to future years and Edwalton Community Facility and some smaller schemes.

4.10. The actual capital expenditure forms one of the required prudential indicators. Table 1 below shows the actual capital expenditure and how this is financed, fully funded from council resources.

Table 1

Table 1	2023/24 Actual £'000	2024/25 Estimate £'000	2024/25 Projection £'000
Capital Expenditure	6,752	16,720	10,738
Less Financed by:			
Capital Receipts	(3,026)	(5,596)	(3,706)
Capital Grants	(3,042)	(8,214)	(5,742)
Reserves	(684)	(2,910)	(1,290)
Increase in borrowing need	0	0	0

4.11. 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 2024/25 and prior years that has not yet been paid for by revenue or other resources. It is a Key Prudential Indicator and can be seen in **Appendix C.** No new borrowing is envisaged over the Medium-Term, so the CFR balance continues to reduce after deducting MRP repayments and capital receipts as seen in Table 2.

4.12. The CFR will be adjusted by the impact of the implementation of IFRS16 (the impact of all leases going on balance sheet) and this will be updated in the quarter 2 report.

Table 2

Capital Financing Requirement (CFR)	2023/24 Actual £'000	2024/25 Projection £'000
Opening Balance	13,266	9,889
Add: unfinanced capital expenditure	0	0
Less MRP/VRP	(1,255)	(1,200)
Less applied Capital Receipts and S106	(2,122)	(1,000)
Closing Balance	9,889	7,689

Treasury Management and Prudential Indicators

4.13. 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 C**.

4.14. During the quarter ended 30 June 2024, the Council has operated within treasury management indicators set and it is not envisaged that there will be any difficulties in the current or future years in complying with these indicators.

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

4.16. No external borrowing was undertaken during the quarter ended 30 June 2024 and the Council does not anticipate a need to externally borrow in this financial year.

4.17. The Asset (or Liability) Benchmark reflects the real need to borrow. The Council is reporting a credit balance (asset) which shows that the Council has no need to borrow over the medium term.

4.18. Net Income from Commercial and Service Investments to Net Revenue Streams reflects the Council's dependence on investments. The projected figure is marginally lower due to a slightly higher surplus from the business rates pool.

4.19. 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 the proportion of net income that is used to pay for financing costs. The projected actual at quarter 1 is -0.69%, the minus indicating that interest receipts exceed financing costs and net revenue streams are slightly higher as mentioned at paragraph 4.18 above.

Commercial Investments

4.20. The Council must disclose its dependence on commercial income and the contribution non-core investments make towards core functions. This covers assets purchased through the Council's Asset Investment Strategy, as well as pre-existing commercial investments.

4.21. The projected position for total contribution of non-core investments towards core functions is 13% compared with the estimated figure of 13.4% reflecting rent increases, offset by inflationary increases on service maintenance contracts and legal costs in connection with the disposal of Candleby Lane. (see Table 3 below).

Table 3

Commercial Investments 2024/25	Current Estimate £'000	Actual YTD £'000	Projection £'000
Commercial Property Income	(1,902)	(486)	(1,935)
Running Costs	458	102	489
Net contribution to core functions	(1,444)	(384)	(1,446)
Interest from Commercial Loans	(63)	(17)	(66)
Total Contribution	(1,507)	(401)	(1,512)
Total Income	(11,231)	(3,807)	(11,615)
Total Contribution/Total income	13.4%	10.5%	13.0%
Sensitivity +/- 10%	(190)	(49)	(194)

5. Conclusion

5.1. Officers can confirm that the approved limits within the Capital and Investment Strategy were not breached during the quarter ended 30 June 2024.

5.2. Treasury Management continues to be fraught with difficulty. The UK economy is recovering but risk remains globally along with inflationary pressures and falling interest rates and ongoing international conflict which could give rise to further international economic instability. The latter will have a negative effect on returns that can be achieved from investments, and global unrest may 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.

6. Risk and Uncertainties

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

7. Implications

7.1. Financial Implications

Financial Implications are covered in the body of the report.

7.2. Legal Implications

There are no specific legal implications identified in this report. The report demonstrates the Councils good practice in following CIPFA's Code of Practice for Treasury Management (2021) recommends 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.

7.3. **Equalities Implications**

There are no equalities implications identified for this report.

7.4. **Section 17 of the Crime and Disorder Act 1998 Implications**

None.

8. 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
Sustainable Growth	No direct impact on sustainable growth

9. Recommendations

It is recommended that the Group notes the Capital and Investment Strategy update position as of 30 June 2024.

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Background papers available for inspection	Capital and Investment Strategy 2024/25
List of Appendices:	Appendix A – Investments at 30 June 2024 Appendix B – Pooled Funds Appendix C – Prudential and Treasury Indicators for 2024/25 at 30 June 2024 –Glossary of Terms

APPENDIX A

Fixed	Financial Institution	Amount £	Length of I	Interest
Pooled Fund	Royal London Cash Plus Fund366	1,005,085	On-going	3.96%
Pooled Fund	CCLA Property Fund366	1,970,157	On-going	4.36%
Pooled Fund	CCLA Better World Cautious Fund366	1,929,604	On-going	3.25%
Pooled Fund	Aegon Diversified Income fund366	4,597,766	On-going	6.80%
Pooled Fund	Ninety One Diversified Income Fund366	4,535,612	On-going	6.20%
MMF	Aviva Investors1	227	Call	5.14%
MMF	Blackrock 1	5,218,590	Call	5.17%
MMF	CCLA - PSDF1	2,911,101	Call	5.21%
MMF	Federated Investors (UK)1	9,526,681	Call	5.22%
MMF	Goldman Sachs Asset Management1	203,773	Call	5.11%
MMF	HSBC Asset Management ESG1	5,354,970	Call	5.17%
MMF	Invesco AIM 1	9,362,800	Call	5.21%
MMF	Aberdeen Asset Management1	9,180,612	Call	5.23%
Government	Rushmoor Borough Council	5,000,000	364 days	5.25%
Government	Wakefield District Council	5,000,000	61 days	5.30%
Government	The Moray Council	5,000,000	364 days	5.00%
Government	North Lanarkshire Council	5,000,000	365 days	5.00%
Government	Central Bedfordshire Council	5,000,000	92 days	5.25%
Government	Stockport Metro Borough Council	5,000,000	202 days	5.50%
Banks Unsecured	Bank of Scotland PLC1	892	Call	0.01%
Banks Unsecured	Bank of Scotland PLC32	114,225	32 Days	3.75%
Banks Unsecured	Barclays Bank PLC1	6,733	Call	2.00%
Banks Unsecured	Barclays Bank PLC32	4,708,681	32 Days	5.20%
Banks Unsecured	Handlesbanken PLC1	12,052	Call	0.25%
Banks Unsecured	Handlesbanken PLC35	12,511	35 Days	2.75%
Banks Unsecured	Santander UK PLC1	452,756	Call	3.23%
Banks Unsecured	Santander UK35	86,899	35 Days	4.78%
	Average Interest Rate			5.18%
	Total	**91,191,727**		

APPENDIX B

Pooled Funds

Amount Invested	Fair Value	31.03.24	31.07.23	Difference	Difference in valuation from initial investment
5,000,000	Aegon-Previously Kames	4,597,766.02	4,661,218	63,452	(338,782)
5,000,000	Ninety One-Previously Investec	4,535,612.29	4,532,170	(3,442)	(467,830)
1,000,000	RLAM	1,005,084.78	1,013,899	8,815	13,899
2,000,000	CCLA Property	1,970,157.29	1,962,390	(7,767)	(37,610)
2,000,000	CCLA BWCF	1,929,603.88	1,925,043	(4,561)	(74,957)
15,000,000		**14,038,224.26**	**14,094,721**	**56,497**	**(905,279)**

APPENDIX C

Prudential & Treasury Indicators at 30th June 2024	2024/25 Original Estimate £'000	2024/25 Projected £'000
Prudential Indicators		
Capital Expenditure	16,720	10,738
Expected Investment Position at 31 March 2025	55,706	83,996
Capital Financing requirement at 31 March 2025	7,863	7,689
Proportion of financing costs to net revenue streams	0.88%	-0.69%
Gross Debt (Debt incl PFI & Leases)	0	0
Net Income (from Commercial and Service Investments) to Net Revenue Streams	11.2%	11.0%
Treasury Management Indicators		
Authorised Limit for external debt (Borrowing and other LT Liabs)	20,000	20,000
Operational Boundary for external debt (borrowing and other LT Liabs)	15,000	15,000
Upper limit for fixed interest rate exposure on investments up to 1 year	50%	33%
Upper limit for variable rate exposure (investments)	100%	67%
Upper limit for total principal sums invested over 1 year	27,900	41,998
Liability Benchmark	(45,706)	(73,996)

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