INTEGRATED PLAN

PART C - CAPITAL STRATEGY

Contents

Capital Strategy Report 2021/22

1. Introduction

1.1. This capital strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

1.2. This document has been prepared in accordance with the 2017 CIPFA Prudential Code, which requires a Capital Strategy to be approved at a meeting of the Council ahead of the financial year 2021/22.

2. Capital Expenditure

2.1. Capital expenditure is where the County Council spends money on assets, such as property or vehicles that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

2.2. The County Council applies de-minimis levels for the recognition of expenditure on the acquisition, creation or enhancement of property, plant and equipment. Assets costing below these levels are not capitalised and are charged to revenue in year. The County Council's policy on capitalisation along with other accounting polices is set out in its Statement of Accounts at: https://www.hertfordshire.gov.uk/about-the-council/freedom-of-information-and-council-data/open-data-statistics-about-hertfordshire/what-we-spend-and-how-we-spend-it/.

2.3. In 2021/22, the County Council is planning capital expenditure of £366.703m as summarised below:

Table 1: Estimates of Capital Expenditure

	2019/20 Actual £000	2020/21 Forecast £000	2021/22 Budget £000	2022/23 Budget £000	2023/24 Budget £000	2024/25 Budget £'000
General fund services*	196,561	271,247	352,809	361,074	279,812	204,568
Housing development investments	849	17,622	13,895	-	-	-
Commercial Investments	14,324		-	-	-	-
TOTAL	**211,734**	**288,868**	**366,703**	**361,074**	**279,812**	**204,568**

**Excludes schools delegated capital spend*

2.4. In developing the refreshed four year capital programme, the Council has taken the existing programme and reviewed to ensure emerging issues and policy developments can be driven forward. This includes:

- £53m of investment in new Special Schools and specialist resource provision to enable delivery of the SEND strategy approved by Cabinet in December 2020
- £10m of investment in sustainable projects significantly drive forward delivery of the Sustainable Hertfordshire strategy approved by Cabinet in March 2020 with

an action plan approved in December 2020, including £1.5m earmarked for pilot projects in schools energy initiatives. It will also enable the council to seek external funding, providing matched funding where needed, to maximise funding available to support the strategy

- £10m of investment for our Climate Change Response, providing additional capital funding to improve drainage in response to highways flooding brought about by increasing and changing rainfall patterns.
- £7m of investment to move forward roll out of 20 mph speed limits
- £3m of investment in active travel schemes
- Investment in our waste infrastructure, including at our recycling centres with equipment to minimise the environmental impact and cost of waste transfer

In 2021/22, the main General Fund capital projects include:

- New school developments £49.3m
- Infrastructure to support the delivery of the Harlow Gilston Garden Town £45.0m
- Highways maintenance £42.8m
- Schools capital repairs and maintenance £23.6m
- Energy generation project £15.8m

The County Council also plans to incur £13.895m of capital expenditure on housing development investments in 2021/22. Further information is contained in section 6.

The full capital programme can be found in Appendix B of this capital strategy. Further detail, including project descriptions and financing, can be found for each Portfolio in the relevant portfolio statement in Part B of the Integrated Plan.

2.5. Capital Expenditure is monitored under Prudential Indicator 1 – for further information see Appendix A.

Governance

2.6. Departments bid annually to include projects in the County Council's capital programme. Bids must meet one of more of the following objectives:

- **Invest to deliver -** maintenance or development of assets to support service delivery. This may range from major highways or school expansion projects to programmes for equipment replacement;
- **Invest to save** – projects which will reduce running costs, or avoid costs (capital or revenue) that would otherwise arise;
- **Invest to grow** – either revenue streams or enhanced capital receipts. These in turn will help meet budget pressures and/or provide future capital resources;
- **Invest to enable** – spend that supports transformation in the way services are provided or how assets are used, to achieve improved outcomes and/or generate efficiencies;
- **Invest for the future** – projects that will unlock future service potential, asset values or funding streams.

2.7. All new or revised capital bids include the business case for investment, including appraisal of alternative and “do nothing” options, arrangements for project management for delivery and an assessment of risk. The business case of all bids met from County Council funding includes consideration of any revenue impact arising from any borrowing required (interest costs plus minimum revenue provision [MRP] for the repayment of debt). This is calculated as the average cost over the life of the asset in recognition of the revenue impact of capital spend beyond the Integrated Plan period.

2.8. The Strategic Management Board appraises bids based on available funding and financing costs, statutory responsibility, service priorities and delivery of revenue savings. The final capital programme is presented to Cabinet in January and to Council in February each year.

2.9. Inclusion of a scheme in the County Council’s approved capital programme ensures adequate funding is set aside to support planned expenditure. Formal approval is then required to commence the scheme in order to ensure adequate management planning is in place. The formal decision-making process is set out in the County Council’s Financial Regulations at:
https://democracy.hertfordshire.gov.uk/CeListDocuments.aspx?CommitteeId=216&MeetingId=522&DF=21%2f11%2f2017&Ver=2

2.10. £10m has been allocated across the four years, to support HCC’s delivery of the Sustainable Hertfordshire strategy, its nine central ambitions and the delivery of the Sustainable Hertfordshire Action Plan. Within the IP this is included within the Highways and Environment Portfolio (and within the Environment and Infrastructure department). Funding will be allocated to departments for approved schemes that meet these objectives, which may be in other departments/portfolios. For example, one of the first projects will the £1.5m pilot programme in schools energy efficiency, which will be managed by the Property team in Resources. Virements of funds for such schemes will be approved by the Director of Resources and the Executive Member for Resources and Performance.

2.11. For full details of the County Council’s capital programme see Appendix B – Capital Programme.

3. Capital Financing

3.1. All capital expenditure must be financed either from external sources (government grants and other contributions), the County Council’s own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned in-year financing of the above expenditure is as follows:

Table 2: In year capital financing

	2019/20 Actual £000	2020/21 Forecast £000	2021/22 Budget £000	2022/23 Budget £000	2023/24 Budget £000	2024/25 Budget £'000
Borrowing*	85,687	112,336	185,212	168,028	139,330	83,559
Capital receipts	7,549	16,468	25,969	15,528	13,642	10,750
Grants	81,957	105,136	137,130	138,850	93,241	92,191
Contributions	32,932	51,628	15,630	36,668	33,149	17,460
Revenue	1,764	103	-	-	-	-
Reserves	1,845	3,197	2,763	2,000	450	608
TOTAL	**211,734**	**288,868**	**366,703**	**361,074**	**279,812**	**204,568**

' Includes internal and external borrowing*

3.2. Capital expenditure which cannot be immediately financed from other sources such as capital receipts and grants will impact on the County Council's underlying need to borrow. The County Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR) and increases with any new capital expenditure financed by borrowing (internal and external).

3.3. Debt is only a temporary source of finance, since this must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. The County Council's full minimum revenue provision statement is set out at Appendix C.

3.4. Based on the above figures for expenditure and financing, the movement in the County Council's estimated CFR is as follows:

Table 3: Capital financing requirement

	2019/20 Actual £000	2020/21 Forecast £000	2021/22 Budget £000	2022/23 Budget £000	2023/24 Budget £000	2024/25 Budget £000
Opening CFR	612,056	691,748	786,090	947,809	1,059,939	1,153,853
Net movement in CFR	79,692	94,342	161,719	112,130	93,914	43,363
Closing CFR	691,748	786,090	947,809	1,059,939	1,153,853	1,197,216
Net movement in CFR comprises:						
Additional borrowing	85,687	112,337	185,212	168,028	139,330	83,559
MRP - Borrowing	(4,127)	(13,107)	(15,692)	(20,232)	(24,731)	(27,619)
MRP - Finance Leases	-	(2,901)	(3,259)	(3,357)	(1,937)	(1,810)
MRP of PFI contracts	(1,868)	(1,986)	(2,042)	(2,059)	(2,115)	(2,316)
Application of capital receipts / contributions*	-	-	(2,500)	(30,250)	(16,633)	(8,451)
Total movement	**79,692**	**94,343**	**161,719**	**112,130**	**93,914**	**43,363**

**Application of capital receipts and contributions to replace borrowing required in the short term for self-financing schemes. For more information see section 3.10 – 3.12.*

3.5. The Capital Financing Requirement is monitored under Prudential Indicator 2 – for further information see Appendix A.

Asset disposals

3.6. When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts.

3.7. The County Council will assess all surplus assets to determine the relative benefits of immediate disposal to reduce borrowing compared with the likely capital gain and revenue streams if the asset is held and developed in order to arrive at a pipeline of capital receipts. Progress on achieving capital receipts is closely monitored and matched against expected spend so that alternative sites can be brought forward for disposal if required. A list of sites owned and used by the Council is published in the link below. This identifies the purpose of the asset, including if it has been categorised as surplus: https://www.hertfordshire.gov.uk/about-the-council/freedom-of-information-and-council-data/open-data-statistics-about-hertfordshire/what-we-spend-and-how-we-spend-it/what-we-spend-and-how-we-spend-it.aspx.

3.8. The County Council plans to receive £25.969m of capital receipts from the disposal of surplus assets in the coming financial year which is considered a prudent view on what delivery will be. Should the forecast capital receipts not be achieved, any shortfall will need to be financed through borrowing or the use of reserves.

3.9. Within this £25.969m capital receipt target, the County Council anticipates receipts from the sale of assets directly to Herts Living Ltd and to its joint venture vehicle of £1.575m and £11.698m respectively in 2021/22. Future receipts may be used to fund in-year expenditure, to reduce the CFR for borrowing undertaken in earlier years or set aside in a reserve to be used for future capital financing or related investment. Once there is greater certainty on the timing and value of receipts, a decision will be taken on the best way to utilise these receipts.

3.10. Some expenditure may be needed to secure capital receipts, for example to support planning applications or consolidate sites. This is met from the Spend to Achieve capital budget, created to fund spending that enhances the value/deliverability of future receipts. This budget is reviewed annually dependent on the availability of receipts and the forward programme of potential schemes.

Self-financing and forward funded schemes

3.11. Schemes may be identified where (a) there is a business case to dispose of one asset in order to fund development of an alternative, and/or (b) capital expenditure is incurred in advance of the receipt of grants and contributions that will fund the scheme. These proposals will each be considered and approved by Cabinet subject to service impact, business case and the following principles:

- The proposed scheme can be demonstrated to be robustly self-financing, including reliability of both the value and timing of the receipt/income;
- The scheme cannot be achieved within the existing capital programme;

- The necessary planning requirements for alternative accommodation can be met;
- The cash flow effect can be accommodated within overall resources, and financing costs have been considered in the business case; and
- Any balance of disposal receipts, including where additional external funding has been identified, is available to support the overall capital programme.

3.12. The timing of new build and disposal may leave a financing gap, which will normally need to be met from short term borrowing, managed within the County Council's overall cash flows and within the Authorised Borrowing Limit. Where there is a contractual agreement for the future funding, MRP will not be charged. An annual assessment of the security of the contractual arrangement will be carried out and MRP made on any amounts at risk of non-payment, otherwise the future contractual funding is regarded as prudent provision. In all other cases, Minimum Revenue Provision will be chargeable if funding has not been received in the financial year after completion of the asset and will continue to be charged until the receipt is received. The project business case must take account of these capital costs. Where practicable, contemporaneous contracts for sale of land/construction of new asset provide a more secure means of funding such balances.

3.13. Should the forecast capital receipts or contributions not be received, any shortfall would need to be financed through borrowing, use of reserves or grant balances that would need to be diverted from future schemes. Any delays in receipt would increase the costs of financing.

Asset Management

3.14. To ensure that capital assets continue to be of long-term use, the County Council has the following plans and strategies in place:

- Property asset management plan: sets the strategic framework for managing the property portfolio of the County Council. It helps guide future strategic property decisions, ensuring the County Council optimises its property portfolio in a way that best supports its key organisational goals and objectives. A summarised version can be found in Appendix D.
- Transport asset management: The Asset Performance Report (APR) is the annual review of Highway Infrastructure Asset Management at Hertfordshire County Council including updates on performance, policy, strategy development and other related issues: https://www.hertfordshire.gov.uk/about-the-council/freedom-of-information-and-council-data/open-data-statistics-about-hertfordshire/what-our-priorities-are-and-how-were-doing/highways-plans-and-strategies.aspx

- Digital Strategy: Outlines how the County Council designs services around the customer, using technology to make things better and save money. This strategy will be reviewed and refreshed during 2021: https://www.hertfordshire.gov.uk/about-the-council/freedom-of-information-and-council-data/open-data-statistics-about-hertfordshire/what-our-priorities-are-and-how-were-doing/digital-strategy-2017-21/digital-strategy-2017-2021.aspx#intro

3.15. The County Council maintains a fleet of over 300 vehicles. While an indicative life is set for each vehicle type, the County Council's policy is to assess individual vehicles to determine the optimal economic replacement time. New vehicles are selected for suitability, sufficiency (providing capacity with regard to level of utilisation) and environmental impact.

4. Treasury Management

4.1. In applying the Prudential Code, the County Council is required to have regard to proper treasury management practices within the Council's Treasury Management Strategy and Governed by the CIPFA Treasury Management Code of Practice. This linkage is relevant because the borrowing limits laid down under the prudential code need to be consistent with the County Council's treasury management policy statement.

4.2. Treasury management is concerned with keeping sufficient but not excessive cash available to meet the County Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The County Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing. Treasury management links the borrowing strategy and investment strategy set out below.

4.3. Due to decisions taken in the past, the County Council currently has £274.89m borrowing at an average interest rate of 4.41% and approximately £158m treasury investments at an average rate of 1.35%.

4.4. The majority (86%) of the Council's loans were arranged prior to April 2008 and consequently interest rates for these long-term loans reflect historically higher rates than are currently available (in July 2007 the base rate was 5.75%).

Borrowing Strategy

4.5. The County Council's main objectives when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the County Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.05%) and long-term fixed rate loans where the future cost is known but higher (currently around 2.6%).

4.6. Projected levels of the County Council's total outstanding debt (which comprises borrowing, PFI liabilities and leases are shown below, compared with the capital financing requirement (see above).

Table 4: Debt and the Capital Financing Requirement

	2019/20 Actual £000	2020/21 Forecast £000	2021/22 Budget £000	2022/23 Budget £000	2023/24 Budget £000	2024/25 Budget £000
Projected External Borrowing	276,101	270,894	453,796	617,013	751,033	832,281
PFI & Leases	50,934	72,644	67,343	61,926	57,874	53,747
Gross Debt	**327,035**	**343,538**	**521,139**	**678,939**	**808,907**	**886,028**
Capital Financing Requirement	691,748	786,090	947,809	1,059,939	1,153,853	1,197,216

4.7. Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the County Council expects to comply with this in the medium term. This is monitored in Prudential Indicator 3 – for further information see Appendix A.

Liability Benchmark

4.8. To compare the County Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest possible level of borrowing to meet the Council's current and projected capital spending and use of reserves, and estimates the structure for this level of debt over time.

4.9. This benchmark shows the theoretical minimum level of external borrowing necessary, based on resources available for internal borrowing, and assuming that cash and investment balances are kept to a minimum level of £40m at each year-end. This benchmark is currently forecast to be £240m as at the end of 2020/21 and projected to rise to £660m over the next four years.

Table 5: Borrowing and the Liability Benchmark

	2019/20 Actual £000	2020/21 Forecast £000	2021/22 Budget £000	2022/23 Budget £000	2023/24 Budget £000	2024/25 Budget £000
Existing Loans	276,101	270,894	268,584	263,773	258,463	256,152
Liability benchmark	140,952	240,181	407,201	524,747	622,713	670,202

4.10. The table shows that the County Council's liability benchmark will increase, while existing loans will mature during the IP period.

4.11. The Liability Benchmark is useful as a guide to support risk management around borrowing decisions, based on the best information available at the time, but does not necessarily represent the lowest cost position for borrowing.

4.12. The Council has a long-standing strategy of using its own resources (known as internal borrowing) rather than taking external debt in the short-term. The Liability

Benchmark indicates that the County Council is nearing the limit of its capacity to use internal borrowing, and that further external debt within the envelope of the liability benchmark will be required during the IP period, reflecting the projection for external borrowing shown in Table 6 (above).

4.13. The County Council will seek to minimise risk by ensuring that the maturity profile of new borrowing is matched closely to the projected liability benchmark.

4.14. The Liability Benchmark is monitored under Prudential Indicator 4 – for further information see Appendix A.

Affordable Borrowing Limit

4.15. The County Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 6: Authorised Limit and Operational Boundary for External Debt

Authorised Limit for External Debt	**2020/21 Limit £000**	**2021/22 Limit £000**	**2022/23 Limit £000**	**2023/24 Limit £000**	**2024/25 Limit £000**
Borrowing	590,000	590,000	740,000	880,000	960,000
Other long term liabilities	90,000	90,000	90,000	80,000	80,000
Total	**680,000**	**680,000**	**830,000**	**960,000**	**1,040,000**
Operational Boundary for External Debt	**2020/21 Limit £000**	**2021/22 Limit £000**	**2022/23 Limit £000**	**2023/24 Limit £000**	**2024/25 Limit £000**
Borrowing	560,000	560,000	710,000	850,000	930,000
Other long term liabilities	90,000	90,000	90,000	80,000	80,000
Total	**650,000**	**650,000**	**800,000**	**930,000**	**1,010,000**

4.16. The Authorised Limit and Operational Boundary are monitored under Prudential Indicators 5 and 6 – for further information see Appendix A.

4.17. Further details on borrowing are in sections 3 and 4 of the Treasury Management strategy in IP Part D.

Treasury Investment strategy

4.18. Treasury Investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

4.19. The County Council's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the County Council may request its money back at short notice.

Table 7: Treasury Management Investments

	2019/20 Actual £000	2020/21 Forecast £000	2021/22 Budget £000	2022/23 Budget £000	2023/24 Budget £000	2024/25 Budget £000
Near-term investments	129,461	74,287	10,000	10,000	10,000	10,000
Longer-term investments	30,000	30,000	30,000	30,000	30,000	30,000
TOTAL	**159,461**	**104,287**	**40,000**	**40,000**	**40,000**	**40,000**

4.20. Further details on treasury investments are section 4 of the Treasury Management strategy in IP Part D.

Governance

4.21. Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Resources and staff, who must act in line with the treasury management strategy approved by the County Council. Half-yearly reports on treasury management activity are presented to Audit Committee. The Audit Committee is responsible for scrutinising treasury management decisions.

5. Investments for Service Purposes

5.1. The County Council makes investments to assist local public services, including making loans (including revolving credit facilities) to and buying shares in the County Council's subsidiaries and other service delivery vehicles that provide services and to promote economic growth. In light of the public service objective, the County Council is willing to take more risk than with treasury investments, however these plans must be supported by a robust business case and consider both financial and non-financial costs and benefits.

Governance

5.2. Decisions on service investments are made by the relevant service manager in consultation with the Director of Resources and must meet the criteria and limits laid down in the investment strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme.

5.3. Further details on service investments are in Section 3 of the Investment Strategy in Appendix E.

6. Investments in Herts Living Ltd

6.1. The County Council makes investments in Herts Living Ltd in order to meet a range of financial and non-financial objectives. The specific objectives of Herts Living Ltd include achieving enhanced capital disposal proceeds and new revenue streams for the County Council as well as supporting the wider strategy for local economic growth as set out in the countywide 'Hertfordshire Fit for the Future' publication[1]. This strategy highlighted the role of Herts Living Ltd in the wider multi-agency plan for growth and development in Hertfordshire in order to deliver the new homes and jobs planned by 2031 and onwards.

6.2. As such, the strategy for investing in Herts Living Ltd is focused on the delivery of housing and regeneration developments across the County whilst also providing additional revenue streams to support council budgets to deliver key services for residents.

6.3. The Council's investments finance service and housing development activity on surplus Council sites, either by using Herts Living Limited, or by way of joint venture with the private sector*.* This activity allows the County Council to generate capital receipts from site disposals, as well as access an element of the development surplus from this activity which have been historically retained by the private sector.

6.4. The County Council's investment strategy has previously included commercial property investments undertaken for financial yield. An investment property transaction financed by the Council was undertaken by Herts Living Ltd in December 2019.

6.5. In November 2020, HMT published their response to a consultation on the future lending terms for PWLB financing. The HMT publication stated that the aim of this consultation was to develop a proportionate and equitable way to prevent local authorities from using PWLB loans to buy commercial assets primarily for yield, without impeding their ability to pursue service delivery, housing, and regeneration under the prudential regime as they do now. It was clear that the consultation was about how HMT stopped commercial investment, rather than whether they stopped it.

6.6. The consultation was used to introduce revised lending terms and guidance from 26 November 2020 for Local Authorities to determine if a proposed project is an appropriate use of the PWLB loans.

6.7. The application of the revised guidance means the County Council can no longer use PWLB borrowing to buy investment assets primarily for yield anywhere in the capital programme. As a result, no further commercial investments primarily for yield are included in the Council's Integrated Plan.

6.8. It is expected that the guidance will not apply retrospectively and as a result there will be no impact on the existing commercial investment made through Herts Living Ltd.

6.9. The guidance permits the direct investment in companies and other assets for the purposes of delivering housing and regeneration. For the County Council, this

[1] https://www.hertfordshirelep.com/media/6881/hertfordshire-fit-for-the-future-brochure.pdf

includes the investment in Herts Living Ltd and its Joint Venture for property development.

6.10. In line with this guidance, the County Council will increase its investment in Herts Living Ltd with capital loans of £13.895m forecast in 2021/22 to enable acquisition of County Council owned land for development, as well as in some cases the development cost itself. Further details on this can be found in Section 4 of the Investment Strategy which is in Appendix E.

6.11. The principal risk exposure of these investments include changes in the market value of land and property and the rate of sales which will influence the certainty and timing of income flowing back to the County Council. Risks around the existing investment property include changes in the capital value of these investments due to market fluctuations, as well as specific risks around occupancy, voids and lease events. These risks are managed through ongoing monitoring of performance. Further detail on risk management is included within the Investment Strategy in Appendix E.

6.12. In order that the housing development investments remain proportionate to the size of the authority, these are subject to an overall maximum investment limit of £50m to cover residential development plans (originally approved by County Council in March 2018). The £100m limit for commercial investment property approved by the County Council in November 2019 has been removed from the Investment Strategy in line with the revised HMT guidance on the use of PWLB loans. Further detail is included in section 4 of the Investment Strategy in Appendix E.

Governance

6.13. Decisions on housing development loans are made by the Director of Resources and Executive Member for Resources and Performance under delegated authority from Cabinet and in line with the criteria and limits approved by the County Council in the investment strategy.

6.14. Housing development loans are also capital expenditure and purchases will therefore also be approved as part of the capital programme.

6.15. Further details on housing development loans and limits on their use are in Section 3 of the Investment Strategy, in Appendix E to the Capital Strategy.

6.16. Details on the risk management of housing development loans are set out in the Councils non-treasury management investment practices.

7. Liabilities

7.1. In addition to debt of £276.101m at 31 March 2020, as detailed above, the County Council has also set aside £35.559m (as at 31 March 2020) to cover risks including those relating to insurance liabilities and the County Council's share of potential backdated appeals on National Non Domestic Rating values. The County Council is also at risk of having to pay for liabilities that may arise but currently there is uncertainty over the likelihood and amount of these. Further information is contained in Note 42 of the Statement of Accounts (https://www.hertfordshire.gov.uk/about-the-council/freedom-of-information-and-council-data/open-data-statistics-about-hertfordshire/what-we-spend-and-how-we-spend-it/what-we-spend-and-how-we-spend-it.aspx)

Governance

7.2. Decisions on incurring new discretionary liabilities are taken in accordance with the County Council's Financial Regulations. The risk of liabilities crystallising and requiring payment is monitored by budget holders and the overall debt position is reported quarterly as part of the Corporate monitor to Cabinet.

8. Revenue Budget Implications

8.1. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 8: Proportion of Financing Costs to Net Revenue Stream

	2019/20 Actual £000	2020/21 Forecast £000	2021/22 Budget £000	2022/23 Budget £000	2023/24 Budget £000	2024/25 Budget £000
Net Revenue Stream	818,743	858,568	871,648	897,200	918,953	942,644
Financing costs	18,285	28,116	30,066	38,698	48,756	55,188
Proportion of net revenue stream	**2.23%**	**3.27%**	**3.45%**	**4.31%**	**5.31%**	**5.85%**

8.2. The Proportion of Financing Costs to Net Revenue Stream is monitored under Prudential Indicators 7 – for further information see Appendix A.

Financial Sustainability

8.3. Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Director of Resources is satisfied that the proposed capital programme is prudent, affordable and sustainable. The revenue implications are included in those forecasts moving forwards. The capital programme does however require an increased level of borrowing compared to previous years, and future capital programmes will need to be developed carefully to ensure that the revenue costs do not become unmanageable.

9. Knowledge and Skills

9.1. The County Council employs professionally qualified and experienced staff with responsibility for making capital expenditure, borrowing and investment decisions, who follow continuous professional development and attend courses on an ongoing basis to keep abreast of new developments and skills.

9.2. Where required, use is made of external advisers and consultants that are specialists in their field. The County Council currently employs Arlingclose Limited as treasury management advisers and Carter Jonas as property consultants. This ensures that the County Council has access to knowledge and skills commensurate with its risk appetite.

APPENDIX A – PRUDENTIAL INDICATORS

1. Background

1.1. The 2017 CIPFA Prudential Code specifies a number of Prudential Indicators which the Council is required to report. These indicators set limits for Prudence and Affordability.

1.2. The Code recommends the use of appropriate local indicators to be set. One local indicator, the Liability Benchmark, will be used by the Council during 2021/22.

1.3. The Prudential Indicators are reported within the quarterly budget monitor to cabinet, and semi-annually to audit committee, within the Treasury Management reporting framework.

1.4. Further information, and a summary of all indicators, can be found in Appendix 4 to IP Part D – Treasury Management Strategy

2. Indicators for Prudence

2.1. Indicator PI1: Estimates of Capital Expenditure

2.1.1. This indicator monitors the delivery of the budgeted capital programme. Forecast expenditure will be reported against the original budget each quarter.

PI1: Estimates of Capital Expenditure	2021/22 Budget £000	2022/23 Budget £000	2023/24 Budget £000	2024/25 Budget £000
General fund services	352,809	361,074	279,812	204,568
Housing development investments	13,895	-	-	-
Commercial investments	-	-	-	-
TOTAL	**366,703**	**361,074**	**279,812**	**204,568**

2.2. Indicator PI2: Estimates of Capital Financing Requirement

2.2.1. This indicator monitors changes in the forecast Capital Financing Requirement against the CFR forecast calculated when the budget is set. Forecast CFR will be reported against original budget each year.

PI2: Estimates of Capital Financing Requirement	2021/22 Budget £000	2022/23 Budget £000	2023/24 Budget £000	2024/25 Budget £000

Budget	947,809	1,059,939	1,153,853	1,197,216

2.3. Indicator PI3: Gross Debt and the Capital Financing Requirement

2.3.1. According to statutory guidance, the Council should not ordinarily have external borrowing greater than its Capital Financing Requirement, except in the short-term. This indicator monitors the level of external debt against the CFR.

PI3: Gross Debt and the Capital Financing Requirement	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
CFR	947,809	1,059,939	1,153,853	1,197,216
Gross Debt (Inc. PFI & Finance Leases)	516,490	671,842	801,650	875,523
Gross Debt less than CFR	**Yes**	**Yes**	**Yes**	**Yes**

2.4. Indicator PI4: The Liability Benchmark [LB]

2.4.1. This indicator monitors the lowest level of external borrowing required to support the County Council's Capital Financing Requirement. Where the Liability Benchmark exceeds current levels of external borrowing in future years this indicates a requirement for additional external borrowing. This has therefore been planned for within the current IP period as set out below to ensure that the liability benchmark is met.

PI4: The Liability Benchmark	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Gross Borrowing (Loans)	449,147	609,915	743,776	821,776
Liability Benchmark	407,201	524,747	622,713	670,202

2.5. Indicator PI5: Authorised Limit for External Debt

2.5.1. This indicator sets a limit for the maximum amount that the council may borrow in a year. This limit is set by the County Council and may only be amended by a decision of the Council, following the preparation of an amended Capital Strategy.

PI5: Authorised Limit for External Debt	2021/22 Limit £000	2022/23 Limit £000	2023/24 Limit £000	2024/25 Limit £000
Borrowing	590,000	740,000	880,000	960,000
Other long term liabilities	90,000	90,000	80,000	80,000
Total	**680,000**	**830,000**	**960,000**	**1,040,000**

2.6. Indicator PI6: Operational Boundary or External Debt

2.6.1. This indicator sets a maximum limit for the amount that the council is likely to borrow during the year. It is set lower than the Authorised Limit, to allow flexibility around the timing of cash flows, for example replacement borrowing may be taken shortly before the maturity of an existing loan.

PI6: Operational Boundary for External Debt	2021/22 Limit £000	2022/23 Limit £000	2023/24 Limit £000	2024/25 Limit £000
Borrowing	560,000	710,000	850,000	930,000
Other long term liabilities	90,000	90,000	80,000	80,000
Total	**650,000**	**800,000**	**930,000**	**1,010,000**

3. Indicators for Affordability

3.1. Indicator PI7: Estimates of Financing Costs to Net Revenue Stream

3.1.1. This indicator monitors the revenue cost impact of funding capital expenditure and sets a limit on the proportion of financing costs to net revenue stream.

PI7: Estimates of Financing Costs to Net Revenue Stream	2021/22 Budget	2022/23 Budget	2023/24 Budget	2024/25 Budget
Net Revenue Stream (£000)	871,648	897,200	918,953	942,644
Financing costs (£000)	30,066	38,698	48,756	55,188
Proportion of net revenue stream	3.45%	4.31%	5.31%	5.85%
Limit	**3.85%**	**4.70%**	**5.70%**	**6.20%**

APPENDIX B: CAPITAL PROGRAMME & CAPITAL FINANCING

Ref	Description	Portfolio	Total cost of Scheme	Cost 2021/22	Cost 2022/23	Cost 2023/24	Cost 2024/25	Total cost over IP period
				£'000	**£'000**	**£'000**	**£'000**	**£'000**
A1	Older People Care Homes	Adult Care & Health	46,150	8,273	13,134	10,380	4,800	**36,587**
A2	Extra Care Housing Development	Adult Care & Health	33,000	4,065	4,505	6,827	3,097	**18,494**
A3	Day Service Places Transformation	Adult Care & Health	1,045	945	-	-	-	**945**
A4	South Oxhey Day Service	Adult Care & Health	3,000	500	2,350	100	-	**2,950**
A5	Stevenage Day Service	Adult Care & Health	3,500	550	2,850	100	-	**3,500**
A6	Hertfordshire Partnership Foundation Trust Property Re-provision	Adult Care & Health	3,500	1,500	-	-	-	**1,500**
A7	ADS Accommodation Development	Adult Care & Health	Annual programme	880	1,050	1,050	1,050	**4,030**
A8	ACS Minor Capital Works	Adult Care & Health	Annual programme	250	250	250	250	**1,000**
A9	Fire Safety project works	Adult Care & Health	Annual programme	239	-	-	-	**239**
A10	Hertfordshire Home Improvement agency (HHIA)	Adult Care & Health	Annual programme	4,672	4,672	4,672	4,672	**18,688**
A11	Disabled Facilities Grant	Adult Care & Health	Annual programme	3,596	3,596	3,596	3,596	**14,384**
A12	Telecare	Adult Care & Health	Annual programme	1,876	1,998	1,754	1,229	**6,857**
A13	Dial a ride vehicle replacement programme	Adult Care & Health	Annual programme	41	-	-	522	**563**
A14	Community transport	Adult Care & Health	Annual programme	60	60	60	60	**240**
A15	Day Services Vehicle Replacement Programme	Adult Care & Health	Annual programme	497	799	2,192	820	**4,308**

Ref	Description	Portfolio	Total cost of Scheme	Cost 2021/22	Cost 2022/23	Cost 2023/24	Cost 2024/25	Total cost over IP period
				£'000	**£'000**	**£'000**	**£'000**	**£'000**
A16	Herts Equipment Services Vehicle Replacement Programme	Adult Care & Health	Annual programme	238	171	53	-	**462**
A17	Gypsy & Traveller Section Vehicle Replacement Programme	Adult Care & Health	Annual programme	-	20	20	50	**90**
Adult Care & Health subtotal				**28,182**	**35,455**	**31,054**	**20,146**	**114,837**
G1	Harlow Gilston Garden Town	Growth, Infrastructure, Planning & the Economy	171,000	45,000	64,000	28,000	29,000	**166,000**
G2	Intalink Enhanced Partnership Highways Scheme	Growth, Infrastructure, Planning & the Economy	Annual programme	2,000	3,000	3,000	3,000	**11,000**
G3	Rail Improvement project	Growth, Infrastructure, Planning & the Economy	Annual programme	395	560	485	260	**1,700**
Growth, Infrastructure, Planning & the Economy subtotal				**47,395**	**67,560**	**31,485**	**32,260**	**178,700**
H1	Sustainable Hertfordshire Fund	Highways & Environment	10,000	2,000	1,000	3,500	3,500	**10,000**
H2	20 mph areas	Highways & Environment	7,000	1,000	1,000	2,000	3,000	**7,000**
H3	Active Travel	Highways & Environment	3,000	2,000	1,000	-	-	**3,000**
H4	Climate Change Response	Highways & Environment	10,000	1,500	2,500	3,000	3,000	**10,000**
H5	Highways Maintenance Covid pressure	Highways & Environment	1,260	1,260	-	-	-	**1,260**

Ref	Description	Portfolio	Total cost of Scheme	Cost 2021/22	Cost 2022/23	Cost 2023/24	Cost 2024/25	Total cost over IP period
				£'000	**£'000**	**£'000**	**£'000**	**£'000**
H6	Highways maintenance	Highways & Environment	Annual programme	42,760	44,483	45,818	47,193	**180,254**
H7	Street Lighting Refurbishment/Replacement Programme	Highways & Environment	Annual programme	5,469	5,469	5,469	5,469	**21,876**
H8	Traffic Signals Refurbishment/Replacement Programme	Highways & Environment	Annual programme	2,030	2,030	2,030	2,030	**8,120**
H9	Safety Barriers refurbishment/replacement programme	Highways & Environment	Annual programme	1,050	1,050	1,050	1,050	**4,200**
H10	Street Lighting Private Cable Network Refurbishment	Highways & Environment	Annual programme	332	332	332	332	**1,328**
H11	Bridge Asset management and maintenance service	Highways & Environment	Annual programme	6,080	6,262	6,450	6,644	**25,436**
H12	Highways ITP Budget	Highways & Environment	Annual programme	6,885	7,324	4,743	4,743	**23,695**
H13	Highways Locality Budgets	Highways & Environment	Annual programme	6,006	6,006	6,006	6,006	**24,024**
H14	A602 Improvements Stevenage to/from Ware	Highways & Environment	33,559	6,280	665	-	-	**6,945**
H15	A120 Bypass (Little Hadham) and Flood Alleviation Scheme	Highways & Environment	46 ,230	2,496	86	72	-	**2,654**
H16	New River Bridge Scheme	Highways & Environment	10,198	278	80	25	-	**383**
H17	A414 Scheme development (London Colney Roundabout)	Highways & Environment	13,537	805	4,992	5,104	2,000	**12,901**
H18	Carriageway maintenance - improving local roads	Highways & Environment	29,000	4,000	4,000	-	-	**8,000**
H19	A10 Buntingford South Roundabout	Highways & Environment	2,771	2,065	651	45	10	**2,771**

Ref	Description	Portfolio	Total cost of Scheme	Cost 2021/22	Cost 2022/23	Cost 2023/24	Cost 2024/25	Total cost over IP period
				£'000	**£'000**	**£'000**	**£'000**	**£'000**
H20	Management & Improvement of the Access & Rights of Way (RoW) Network	Highways & Environment	Annual programme	601	650	700	700	**2,651**
H21	Countryside and Rights of Way (RoW) Vehicle Replacement Programme	Highways & Environment	Annual programme	-	-	64	14	**78**
Highways & Environment Subtotal				**94,897**	**89,580**	**86,408**	**85,691**	**356,576**
W1	Eastern Transfer Station	Community Safety & Waste Management	10,000	4,000	3,000	3,000	-	**10,000**
W2	Redevelopment of the Stevenage Household Waste Recycling Centre	Community Safety & Waste Management	6,300	300	5,800	-	-	**6,100**
W3	Welwyn Garden City Household Waste Recycling Centre	Community Safety & Waste Management	6,500	6,000	-	-	-	**6,000**
W4	Household Waste Recycling Centres Compaction Equipment	Community Safety & Waste Management	1,889	400	-	-	-	**400**
W5	Waste Management System Development	Community Safety & Waste Management	250	128	-	-	-	**128**
W6	Bulky Waste Shredding	Community Safety & Waste Management	1,300	1,300	-	-	-	**1,300**
W7	Infrastructure Improvements & Energy Saving at Recycling Centres	Community Safety & Waste Management	495	310	110	75	-	**495**
F1	Joint Emergency Services Academy	Community Safety & Waste Management	34,400	2,639	7,124	18,370	6,124	**34,257**
F2	New Hertford Fire & Ambulance Station	Community Safety & Waste Management	3,310	2,810	-	-	-	**2,810**
F3	Digital Services capital programme to support emergency response requirements	Community Safety & Waste Management	Annual programme	988	2,105	890	745	**4,728**
F4	East Coast & Humberside Control Room Consortium	Community Safety & Waste Management	6,000	2,800	3,200	-	-	**6,000**

Ref	Description	Portfolio	Total cost of Scheme	Cost 2021/22	Cost 2022/23	Cost 2023/24	Cost 2024/25	Total cost over IP period
				£'000	**£'000**	**£'000**	**£'000**	**£'000**
F5	Community protection vehicle replacement programme	Community Safety & Waste Management	Annual programme	2,185	2,075	1,860	1,950	**8,070**
F6	Community protection Equipment Replacement Programme	Community Safety & Waste Management	Annual programme	488	319	417	179	**1,403**
F7	Telemetry-Breathing Apparatus	Community Safety & Waste Management	300	-	-	300	-	**300**
Community Safety & Waste Management subtotal				**24,348**	**23,733**	**24,912**	**8,998**	**81,991**
R1	Farnham House Essential Works	Resources & Performance	9,831	7,171	2,660	-	-	**9,831**
R2	Future Workplace - Farnham House	Resources & Performance	1716	1,676	40	-	-	**1,716**
R3	County Wide Touchdowns	Resources & Performance	1,000	250	250	250	-	**750**
R4	25 by 20	Resources & Performance	1,250	394	-	-	-	**394**
R5	Non-school capital maintenance and minor works	Resources & Performance	Annual programme	2,000	1,750	1,750	1,750	**7,250**
R6	Reinforced Autoclaved Aerated Concrete (RAAC) Monitoring and Replacement	Resources & Performance	14,075	3,025	2,945	2,945	2,945	**11,860**
R7	Health & Safety, EA 2010 Intervention & Compliance	Resources & Performance	818	331	221	198	68	**818**
R8	Salix funded projects	Resources & Performance	Annual programme	375	375	375	375	**1,500**
R9	Energy Generation Project	Resources & Performance	26,500	15,795	9,469	1,161	-	**26,425**
R10	Baldock urban extension	Resources & Performance	400	200	-	-	-	**200**
R11	Delivery of infrastructure for the Brookfield Riverside and Garden Village developments	Resources & Performance	5,100	500	4,600	-	-	**5,100**

Ref	Description	Portfolio	Total cost of Scheme	Cost 2021/22	Cost 2022/23	Cost 2023/24	Cost 2024/25	Total cost over IP period
				£'000	**£'000**	**£'000**	**£'000**	**£'000**
R12	Broadband Delivery Project Phase 3	Resources & Performance	2,200	1,300	-	-	-	**1,300**
R13	Rural Estate – annual capital programme	Resources & Performance	Annual programme	1,100	650	600	600	**2,950**
R14	Rural Estate - Burlew Farm	Resources & Performance	600	600	-	-	-	**600**
R15	ICT hardware provision and refresh programme	Resources & Performance	Annual programme	3,540	3,724	3,724	3,724	**14,712**
R16	Wide area network	Resources & Performance	2,100	2,100	-	-	-	**2,100**
R17	Replacement of thin client laptops	Resources & Performance	319	319	-	-	-	**319**
R18	IT equipment and services to support SMART additional touchdown programme	Resources & Performance	530	106	106	106	-	**318**
R19	Herts Fullstop Vehicle Replacement Programme	Resources & Performance	Annual programme	112	208	60	96	**476**
R20	HBS - ICT Infrastructure Investment	Resources & Performance	1,967	585	-	-	-	**585**
R21	Modernisation of the Coroner's Court	Resources & Performance	120	120	-	-	-	**120**
R22	Spend to Achieve	Resources & Performance	Annual programme	7,089	3,052	700	300	**11,141**
Resources & Performance subtotal				**48,688**	**30,050**	**11,869**	**9,858**	**100,465**
L1	New Hertfordshire Archive and Heritage Centre	Education, Libraries & Localism	12,858	1,450	7,572	3,786	-	**12,808**
L2	Relocation of Central Stocks Unit (CSU)	Education, Libraries & Localism	3,000	-	2,000	1,000	-	**3,000**

Ref	Description	Portfolio	Total cost of Scheme	Cost 2021/22	Cost 2022/23	Cost 2023/24	Cost 2024/25	Total cost over IP period
				£'000	**£'000**	**£'000**	**£'000**	**£'000**
L3	New Ware Library	Education, Libraries & Localism	2,145	500	1,645	-	-	**2,145**
L4	Delivering Inspiring Libraries	Education, Libraries & Localism	6,000	1,060	125	75	233	**1,493**
L5	Libraries public IT	Education, Libraries & Localism	Annual programme	156	156	156	156	**624**
L6	HALS Public IT	Education, Libraries & Localism	Annual programme	40	40	40	40	**160**
L7	Libraries vehicle replacement	Education, Libraries & Localism	Annual programme	50	-	-	75	**125**
E1	Primary Expansions Programme 9	Education, Libraries & Localism	4,754	3,500	813	-	-	**4,313**
E2	Future Primary Expansions Projects	Education, Libraries & Localism	15,800	362	4,987	7,649	2,932	**15,930**
E3	Temporary school places and ongoing provision	Education, Libraries & Localism	2,500	2,300	1,000	-	-	**3,300**
E4	Secondary School Expansion Programme - SEC 3	Education, Libraries & Localism	7,217	2,170	-	-	-	**2,170**
E5	Secondary School Expansion Programme - Sec 3.5/Sec 4	Education, Libraries & Localism	7,990	5,291	825	-	-	**6,116**
E6	Secondary School Expansion Programme - Sec 5	Education, Libraries & Localism	6,130	500	2,400	2,500	730	**6,130**
E7	New School Developments	Education, Libraries & Localism	223,526	49,250	43,506	34,825	20,071	**147,652**
E8	Land Acquisitions	Education, Libraries & Localism	11,641	2,660	2,404	-	700	**5,764**
E9	School's Repairs & Maintenance: Schools Condition Allocation Grant	Education, Libraries & Localism	Annual Programme	23,641	16,141	16,141	16,141	**72,064**

Ref	Description	Portfolio	Total cost of Scheme	Cost 2021/22	Cost 2022/23	Cost 2023/24	Cost 2024/25	Total cost over IP period
				£'000	£'000	£'000	£'000	£'000
E10	SEND Projects	Education, Libraries & Localism	8,091	1,050	-	-	-	**1,050**
E11	The Valley School	Education, Libraries & Localism	13,600	7,000	6,000	-	-	**13,000**
E12	Severe Learning Disabilities & Profound Neurological Impairment (SLD/PNI) Special School: West	Education, Libraries & Localism	17,972	660	6,037	11,275	-	**17,972**
E13	Severe Learning Disabilities & Profound Neurological Impairment (SLD/PNI) Special School: East	Education, Libraries & Localism	10,185	-	1,530	3,018	5,637	**10,185**
E14	Communication & Autism (N)	Education, Libraries & Localism	7,973	293	2,683	4,997	-	**7,973**
E15	Short term provision, Special Schools	Education, Libraries & Localism	3,000	1,250	1,250	500	-	**3,000**
E16	Specialist Resource Provision (SRP)	Education, Libraries & Localism	8,900	2,000	3,050	3,050	800	**8,900**
E17	North Herts Education Support Centre (ESC)	Education, Libraries & Localism	4,968	556	3,530	882	-	**4,968**
E18	Barnwell re-provision	Education, Libraries & Localism	8,790	700	4,000	4,090	-	**8,790**
Education, Libraries & Localism subtotal				**106,439**	**111,694**	**93,984**	**47,515**	**359,632**
C1	Children Looked After (CLA) Placements	Children, Young People and Families	5,430	2,000	2,782	-	-	**4,782**
C2	Housing families in need	Children, Young People and Families	300	150	-	-	-	**150**
C3	Young Peoples Centre Refurbishment Works	Children, Young People and Families	Annual programme	390	-	-	-	**390**
C4	Liquidlogic Children's System (LCS)	Children, Young People and Families	Annual programme	100	100	100	100	**400**

Ref	Description	Portfolio	Total cost of Scheme	Cost 2021/22	Cost 2022/23	Cost 2023/24	Cost 2024/25	Total cost over IP period
				£'000	**£'000**	**£'000**	**£'000**	**£'000**
C5	Liquidlogic Phase 2 Implementation (Early Years & Education System)	Children, Young People and Families	525	90	-	-	-	**90**
C6	Liquidlogic Phase 3 Case Management Consolidation	Children, Young People and Families	250	130	120	-	-	**250**
Children, Young People and Families sub total				**2,860**	**3,002**	**100**	**100**	**6,062**
D1	Housing development investments	Investments in Herts Living Ltd		13,895	-	-	-	**13,895**
TOTAL				**366,703**	**361,074**	**279,812**	**204,568**	**1,212,157**

APPENDIX C: MINIMUM REVENUE PROVISION STATEMENT

Where the County Council finances capital expenditure by taking out borrowing, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the future repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the County Council to have regard to the Ministry of Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the "MHCLG Guidance") most recently issued in 2018.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, commensurate with the period implicit in the determination of that grant.
The MHCLG Guidance requires the County Council to approve an Annual MRP Statement each year. The following statement incorporates options set out in the Guidance as well as locally determined prudent methods.

- For capital expenditure incurred before 1 April 2008 MRP will be calculated on an annuity basis[2], linked to the 2008 PWLB borrowing rate.
- For unsupported capital expenditure incurred after 31 March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity with an annual interest rate equal to the average relevant PWLB rate for the year of expenditure.
- For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

Capital expenditure financed by borrowing will not incur an MRP charge until the year after the capital expenditure occurs. Therefore, capital expenditure incurred during 2020/21 will not be subject to a MRP charge until 2021/22. For significant assets, MRP may be delayed until the asset is available for service use, as permitted under MHCLG Guidance. This may include land purchased for the construction of an asset for a specific service use.

For capital expenditure incurred in relation to self-financing schemes where funding for the scheme is anticipated to be received in later years where there is a contractual agreement for this funding (e.g. S106), MRP will not be charged. An annual assessment of the security of the contractual arrangement will be carried out, and MRP would be made on any amounts at risk of non-payment, otherwise the future contractual funding is regarded as prudent provision.

MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over a period not exceeding 20 years, in accordance with the MHCLG Guidance. The useful life on assets will normally be charged over a period not exceeding 50 years, except where the County Council has an opinion from an appropriately qualified professional adviser that an asset will deliver service functionality for more than 50 years.

[2] Annuity basis: annual repayment over the life of the asset, linked to PWLB borrowing rates, to reflect the time value of money. This produces an MRP that starts low in the early years of the repayment profile and then increases over the life of the asset.

For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the County Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. For capital expenditure loans to third parties that will be repaid on maturity, or for instalment loans where there is no repayment in a financial year, the County Council will make an annual assessment of the security of these loans and the risk of non-repayment. Where the loan is deemed secure, the capital receipt arising from the future repayment will be regarded as prudent provision, and when received will be applied to reducing the County Council's CFR. Where the loan is assessed as having a reasonable risk of non-repayment, an impairment provision will be identified and MRP will be charged on that amount in accordance with the MRP policy for the assets funded by the loan. This may include where appropriate, delaying MRP until the year after the assets become operational.

Prior to 2017/18, the repayment for pre-2008 expenditure was calculated on a 4% reducing balance. The revised MRP policy as outlined above, which came in effect in 2017/18, has been backdated and the resulting savings relating to the pre-2008 expenditure spread across the remaining years, reducing the charge for future taxpayers across the life of the assets.

The total "overpayment" that has arisen from the change in policy and amount that will be released in 2021/22 is shown in the table below. The drawdown of the overpayment has been used to reduce the MRP in 2021/22 from £18.4m to £15.7m:

MRP Overpayments	**£'000**
Expected balance 31/03/2021	100,570
Planned drawdown 2021/22	(2,718)
Forecast balance 31/03/2022	97,852

The Council's latest estimate of its Capital Financing Requirement (CFR) on 31 March 2021 and budget for MRP is set out in section 3.4 of the Capital Strategy.

APPENDIX D: ASSET MANAGEMENT STRATEGY

Introduction

The Asset Management Plan sets the strategic framework for managing the property portfolio of Hertfordshire County Council (the County Council) over the next four years. It will help guide future strategic property decisions, ensuring we optimise our property portfolio in a way that best supports our key organizational goals and objectives.

The County Council's corporate plan is to make Hertfordshire a place where residents have the opportunity to:

Thrive

- We want every Hertfordshire resident to have the opportunity to maximise their potential and live full lives as confident citizens.

Prosper

- We want Hertfordshire's economy to be strong, with resilient and successful businesses that offer employment opportunities to residents, helping them to maintain a high standard of living.

Be healthy and safe

- We want Hertfordshire residents to have the opportunity to live as healthy lives as possible and to live safely in their communities.

Take part

- We want to enable all Hertfordshire residents to make a more active contribution to their local areas, working with elected representatives and other community activists to tackle local issues and ensure that council services are more responsive to their priorities and ambitions

This vision is underpinned by our Values and Behaviours: Citizen Focused, Every Penny Counts, Integrity, Getting it Right and Innovation.

The Asset Management plan aims to align the Hertfordshire County Council's property resources to support these objectives.

Context

The County Council owns a substantial estate of land and buildings which is primarily held to support the delivery of services and the council's corporate priorities. The portfolio includes four main office sites, assets delivering services, assets let to third parties to deliver services, our rural estates and a number of assets that are currently non-operational.

Challenges and opportunities

The County Council operates in an environment which presents both challenges and opportunities. This drives forward change in how we use our property to meet organizational objectives and support service delivery.

Financial pressures:

- The County Council continues to face increasing financial pressures and will need to make the best use of its assets, including maximising savings and income generation opportunities.
- For a number of service areas, getting property right is essential to delivering financial sustainability.
- Property can support the organization to meet these challenges by working with services to ensure our assets are delivering financial sustainability and value for money and identify opportunities to generate additional income.

Demographic pressures:

- A growing and ageing population puts additional pressure on areas such as school provision, and care services for older people.
- Responding to these challenges requires a transformation in the design and delivery of services, involving working collaboratively with both public and private sector partners, and intervening earlier to help people stay healthy and safe.
- Property has a role in working with our service departments to optimise our property to support new models of service delivery.

Local Plans:

- District and borough councils in Hertfordshire are in different stages of updating their Local Plans, which will include proposals for housing growth over the next 10 to 15 years. As a major landowner in Hertfordshire the Property team are promoting a number of our properties for development purposes in these Local Plans.
- These growth proposals may have an impact on future service delivery, and it therefore may be necessary for service strategies to be able to react to the growth proposals contained in emerging local plan documents.

Health and social care integration:

- The agenda for improved integration between health and social care services and provides opportunities for the shared use of premises and the co-location of health and social care staff.
- Property will work with our colleague and partners to support the hosting of integrated teams at County Council sites and encourage shared use of the local NHS estate.

Property Principles

Our aim is to manage County Council property to enable our staff, and those of our partners, to deliver high quality services to residents. This involves ensuring our assets are strategically located to promote accessibility, and suitably designed to fit the needs of both staff and service users. We also want to ensure that our property is sustainable and represents value for money.

Property has developed a set of principles that guide how we will manage our property assets:

Enable Service Delivery

- Enable and support service delivery by providing operational properties that are fit for purpose, in the right location and well maintained.

Optimise The Estate

- Drive effective use of the estate through asset review and management, capitalising on rationalisation and income generation opportunities

Achieve Value For Money

- Procure services through the most appropriate route and maximise contractor performance

Operate Sustainably

- Deliver a sustainable estate by making strategic decisions informed by whole life costs, future needs, and environmental impact

Partner To Progress

- Engage with partners to deliver and support positive outcomes for communities, economic growth and regeneration through property solutions

Corporate Landlord Model

The corporate landlord model is used to describe the approach of centralizing the management of property assets within an organisation. The County Council already adopts elements of the corporate landlord model, and this holistic approach enables property to be used to deliver better value for money and the delivery of corporate objectives.

A key objective of the Asset Management Plan is to re-define and strengthen this model, embedding it fully into the way property is managed across the organisation. This will help to ensure the property portfolio is managed efficiently, resulting in a fit-for-purpose estate that is sustainable in the long-term. Embedding this model requires a collective agreement to view property assets as Corporate, rather than being the responsibility of the individual services or teams.

To assist with the embedding of a corporate landlord approach, a Strategic Asset Board has been created. This Board comprises senior managers from across the County Council with the purpose of providing advice and guidance on proposed use of property assets to meet corporate objectives. However, the advisory function of the Board means that it will not have a decision-making remit. Any decisions on the use of property by services will still need to go through existing governance and decision-making processes.

Major initiatives

Ways of Working -

The *Ways of working* vision addresses how many of us will work going forward; working at home or in the community combined with using office spaces when we need them.

Future workplaces is the Property department's contribution to the Ways of Working vision and will seek to:

- Optimise the estate portfolio to support business needs
- Provide flexible working spaces that are affordable, effective and support services to deliver
- Deliver accessible modern touchdown space across the county
- Support the implementation of a County Council Travel Plan

Herts Living and the Joint Venture Vehicle

Traditionally, when land is identified as surplus to requirement the County Council has worked to generate uplift in its value through the planning process before disposing of it for best consideration.

The County Council has identified that additional value could be gained from this process if it were to retain a stake in the scheme as a Joint Venture Partner, in order to generate a greater financial return over a longer period of time. To facilitate this, the County Council has created a wholly owned subsidiary of the County Council, Herts Living Limited. This company is working independently as well as in partnership with a Joint Venture Vehicle (known as Chalkdene), to develop surplus Council sites to generate developer proceeds.

Herts Living Limited and Chalkdene have 5 key objectives:

- To optimise opportunities from a portfolio of property assets that will generate new long term financial returns (both capital and revenue)
- To deliver a greater total financial return to the County Council than the return which could be achieved through its current approach
- To drive the pace of development
- To develop a quality brand for the developments, aimed at safeguarding the long-term financial prosperity of the partnership
- To build a long-term relationship with aligned objectives/visions

Property will continue to work with colleagues in County Council service directorates to identify opportunities for Herts Living and Chalkdene to redevelop property to better meet service needs and deliver on the 5 objectives above.

Hertfordshire Property Partnership

The Hertfordshire Property Partnership is designed to promote coordination between local public sector partners to gain full value from the public sector's estate portfolio. It aims to unlock public sector assets for major urban development to meet local plan targets as well as for economic growth schemes to generate jobs and future revenue. Public sector organisations will operate from fewer, larger sites delivering integrated and customer focused services across the spectrum of council activities, including housing, health and social care, at lower cost to the public purse.

CAPITAL STRATEGY: APPENDIX E – INVESTMENT STRATEGY 2021/22

1. Introduction

1.1. This investment strategy is a requirement of the updated Ministry of Housing, Communities and Local Government (MHCLG) *Statutory Guidance on Local Government Investments*, issued in 2018.

1.2. The County Council invests its money for three broad purposes:

- **Treasury Management**
  Because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure
- **Service Investments**
  Supporting local public services by lending to or buying shares in other organisations
- **Investments in Herts Living Ltd**
  Supporting Herts Living Ltd and its Joint Venture Partner to deliver strategic housing and regeneration development across the County whilst also providing additional revenue streams for the Council.

1.3. Investments for Treasury Management purposes are included within the Treasury Management Strategy Statement (TMSS) in IP Part D and managed under this mandate. This strategy focuses on service and commercial investments.

2. Treasury Management Investments

2.1. The County Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). The County Council has also set aside funding for a variety of purposes in the form of reserves and provisions. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA). The balance of treasury management investments is expected to fluctuate between £40m and £125m during the 2021/22 financial year.

2.2. The contribution that these investments make to the objectives of the Council is to support effective treasury management activities prioritising security, liquidity and yield of funds, in that order.

2.3. Full details of the County Council's policies and its plan for 2021/22 for treasury management investments are covered in the TMSS set out in IP Part D.

3. Service Investments

3.1. Service Loans

3.1.1. The County Council lends money to its subsidiaries, schools and local residents to support local public services and stimulate local economic growth. The types of loan the County Council makes, or may make, and the contribution they make to objectives of the council are shown in the following table:

Table 1 - Contribution of Service Loans

Type of Loan	Contribution
'Soft' Loans to local Residents	Enabling adaptions to the homes of service users to provide suitable accommodation and enabling independent living in the community.
Season Ticket Loan to Employees	To assist employees with financing their journey to and from work via Bus, Train or Underground and promoting sustainable travel within the organisation.
Car Loans to Employees	To support service delivery, providing employees who undertake business mileage with a way of obtaining a vehicle.
'Revolving Credit Facility' liquidity loans to subsidiaries and other service delivery vehicles.	Ensuring that County Council subsidiaries and other service delivery vehicles that are delivering County Council service outcomes can manage short-term liquidity pressures and can maintain delivery of service outcomes.
Key Worker Housing	Supports employees classified as 'key workers' to access housing within the County Council. This scheme is now closed.
Loans to Local Charities	There is one loan to a local charity which acts as the County Council's agent and was made in respect of start-up costs.

3.2. **Security of Service Loans**

3.2.1. The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the County Council, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 2: Loans for Service Purposes

Category of borrower	Values as at 31 March 2020			2021/22
	Balance owing £000	Loss allowance £000	Net figure in accounts £000	Approved Limit £000
Subsidiaries / Service Delivery Vehicles	-	-	-	5,000
Local Charity	68	-	68	70
Local residents	4,499	(45)	4,454	6,000
Employees - KWH	36.34	(0.36)	36	40
Employees – Car Loans	7	-	7	100
Employees –Season Tickets	2	-	2	25
TOTAL	**4,612**	**(45)**	**4,567**	**11,635**

3.2.2. Accounting standards require the County Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the County Council's statement of accounts from 2019/20 onwards will be shown net of this loss allowance. However, the County Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

3.2.3. Prior to the introduction of this requirement under IFRS 9 accounting standard, loss allowances were assessed individually according to the level of security for each loan and there was no mandatory requirement to make a provision for future loss.

3.2.4. A new limit has been included for loans to subsidiaries. This is to enable credit facilities if those companies need them to support them in responding to the impacts of COVID on their trading operations.

3.3. **Risk assessment**

3.3.1. The County Council assesses the risk of loss before entering into and whilst holding service loans by considering the purpose and nature of the loans, as follows:

3.3.2. <u>Loans to Local Residents:</u>

- Loans for property adaptation are considered on the basis of service user need.
- Loans are made only where other sources of funding, including self-funding, have been eliminated following financial assessment. Loans will not proceed where the service user doesn't consent to financial assessment.
- Loans are provided where adaptation plans have been approved as appropriate and necessary based on the needs of the service user.
- Loans are secured by way of a legal charge on the property, and based on sufficient equity being available to provide adequate security
- Professional advice is obtained from the appropriate agencies responsible for social care, building control and planning
- Risks include the possibility that property values will fall, meaning there will be insufficient equity to repay the value of the loan. This risk is mitigated by the long-term nature of the loans and the assessment of equity available to provide security.
- Credit Ratings are not applicable to this type of loan.

3.3.3. <u>Loans to Employees</u>

- Loans to employees for public transport season tickets are considered to be low risk due to the short term (up to 1 year) nature of the advances.
- Employee car loans are subject to strict eligibility criteria, which include the requirement for the employee to travel for business purposes, and the type of vehicle acquired. The value advanced is restricted to the lower of £10k or 40% of the employee's gross salary.
- Employee loans are repaid by salary deductions. In the event that an employee's employment ends with a balance remaining unpaid, deductions will be made from the employee's final payment of salary. Where this is insufficient to cover the outstanding amount, the County Council's debt

recovery procedures will be enforced – a payment plan will be agreed, and the council has recourse to legal action if the former employee defaults on this agreement.

- Key Worker housing loans are secured on the property and limited to £10k. This scheme is closed to new applicants
- Credit Ratings are not applicable to this type of loan.

3.3.4. Loans to subsidiaries and other service delivery vehicles

- Loans to subsidiaries and other service delivery vehicles, in the form of a revolving credit facility are assessed based on the likely liquidity and are proportionate to the subsidiary's/vehicles expected turnover.
- Revolving credit facility loans are classified as Service Investments where the key priorities of the entity are to support or deliver service objectives. This is in contrast to credit facilities for non-service purposes, where the principal aim is to support the entities in delivering wider priorities whilst generating revenue streams for the Council.
- The competitive market is assessed as part of the approval process to create subsidiaries.
- The County Council recognises that loans to its subsidiaries and other vehicles entail higher risk than the minimum credit criteria set for treasury management purposes, but considers this risk justified given the opportunity to transform service delivery. The potential for loss from such a loan is considered in the business planning and investment approval process.
- Credit Ratings are not applicable to this type of loan.

3.4. Equity Investments for Service Purposes

3.4.1. The County Council invests in the shares of its subsidiaries, associates and the UK Municipal Bonds Agency (UK MBA), as set out in the Table 3, overleaf.

3.4.2. These equity investments are classified as Service Investments where the key priorities of the entity are to support or deliver service objectives. This is in contrast to equity investments in subsidiaries for non-services purposes where the principal aim is to support the entities in delivering wider priorities whilst generating revenue streams for the Council.

3.5. Contribution – Equity Investments for Service Purposes

3.5.1. The County Council invests in the shares of its subsidiaries to enable those businesses to be set up with the objective of supporting local public services and stimulate local economic growth.

3.5.2. The County Council invests in shares of the UK MBA in order to stimulate competition and develop the market for long term lending to Local Authorities.

3.6. **Security – Equity Investments for Service Purposes**

3.6.1. One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Table 3: Equity Investments for Service Purposes

	Values as at 31 March 2020			2020/21	2021/22
Type of Company	**Amounts invested £000**	**Gains or losses £000**	**Value in accounts £000**	**Approved Limit £000**	**Approved Limit £000**
Subsidiaries	250	4,011	4,261	250	250
Associates	15	627	642	15	15
UK MBA	300	0	300	300	300
TOTAL	565	4,638	5,203	565	565

3.7. **Risk assessment – Equity Investments for Service Purposes**

3.7.1. The County Council assesses the risk of loss before entering into and whilst holding shares by undertaking market analysis and seeking advice from expert officers and internal legal officers. External advisors may be engaged where the subject matter is deemed to be outside the knowledge base of Officers.

3.7.2. The County Council researches and engages specialist advisors depending upon the nature of the investment being considered.

3.7.3. Credit ratings where available will be monitored. If the credit rating of an investment were to be placed on negative watch for downgrade, the County Council would consider the rating as if it had been downgraded one notch. In the event that a credit rating fell below an acceptable level, this would be considered as part of the overall assessment process but would not necessarily trigger an immediate disposal of the asset.

3.8. **Liquidity**

3.8.1. The liquidity impact of County Council funds committed to all service investments is not considered to be significant when viewed in the context of the overall revenue budget (£859m 2020/21) or the Council's Investment and Useable Reserve balances (£159m and £300m respectively, as at 31 March 2020). Any liquidity impact that may result will be managed in line with the TMSS.

3.9. **Non-specified Investments**

3.9.1. Shares are the only investment type that the County Council has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the County Council's upper limits on non-specified investments. The County Council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

4. Investments in Herts Living Ltd

4.1. The County Council makes investments in Herts Living Ltd in order to meet a range of financial and non-financial objectives. The specific objectives of Herts Living Ltd include achieving enhanced capital disposal proceeds and new revenue streams for the County Council as well as supporting the wider strategy for local economic growth as set out in the countywide 'Hertfordshire Fit for the Future' publication[3]. This strategy highlighted the role of Herts Living Ltd in the wider multi-agency plan for growth and development in Hertfordshire in order to deliver the new homes and jobs planned by 2031 and onwards.

4.2. The priority of security, liquidity and yield is not applied in the same way as with investments that are purely focussed on availability and security of cash. Wider considerations of risk, duration and benefit are instead undertaken, bases on the specific characteristics of each investment.

4.3. The Council will take robust measures to not expose itself to undue financial risk when undertaking these investments – these measures are outlined in the Risk Assessment section below.

4.4. **Overview of the Investments in Herts Living Ltd**

4.5. The County Council makes investments in Herts Living Ltd in order to meet a range of financial and non-financial objectives. The specific objectives of Herts Living Ltd include achieving enhanced capital disposal proceeds and new revenue streams for the County Council as well as supporting the wider strategy for local economic growth as set out in the countywide 'Hertfordshire Fit for the Future' publication[4]. This strategy highlighted the role of Herts Living Ltd in the wider multi-agency plan for growth and development in Hertfordshire in order to deliver the new homes and jobs planned by 2031 and onwards.

4.6. As such, the strategy for investing in Herts Living Ltd is focused on the delivery of housing and regeneration developments across the County whilst also providing additional revenue streams to support council budgets to deliver key services for residents.

4.7. The Council's investments finance service and housing development activity on surplus Council sites, either by using Herts Living Limited, or by way of joint venture with the private sector. This activity allows the County Council to generate capital receipts from site disposals, as well as access an element of the development surplus from this activity which have been historically retained by the private sector.

4.8. The County Council's investment strategy has previously included commercial property investments undertaken for financial yield. An investment property transaction financed by the Council was undertaken by Herts Living Ltd in December 2019.

4.9. In November 2020, HMT published their response to a consultation on the future lending terms for PWLB financing. The HMT publication stated that the aim of this

[3] https://www.hertfordshirelep.com/media/6881/hertfordshire-fit-for-the-future-brochure.pdf
[4] https://www.hertfordshirelep.com/media/6881/hertfordshire-fit-for-the-future-brochure.pdf

consultation was to develop a proportionate and equitable way to prevent local authorities from using PWLB loans to buy commercial assets primarily for yield, without impeding their ability to pursue service delivery, housing, and regeneration under the prudential regime as they do now. It was clear that the consultation was about how HMT stopped commercial investment, rather than whether they stopped it.

4.10. The consultation was used to introduce revised lending terms and guidance from 26 November 2020 for Local Authorities to determine if a proposed project is an appropriate use of the PWLB loans.

4.11. The application of the revised guidance means the County Council can no longer use PWLB borrowing to buy investment assets primarily for yield anywhere in the capital programme. As a result, no further commercial investments primarily for yield are included in the Council's Integrated Plan.

4.12. The revised HMT guidance states that the guidance does not apply retrospectively and as a result there is no impact on the existing commercial investment made through Herts Living Ltd.

4.13. **Limit on Investments in Herts Living Ltd**

4.14. The County Council had previously established an overall limit on commercial investments of £150m. This included £100m for commercial investment property as set out in Table 4. Following the revised guidance in the HMT consultation on the use of PWLB borrowing to investment wholly for yield, this has been removed from our strategy. The affordability, prudence and proportionality of the remaining £50m limit will continue to be appraised and monitored.

4.15. **Categories of Investment in Herts Living Ltd**

4.16. The County Council makes a number of different types of investments in Herts Living Limited and its other subsidiary companies:

- Investment in Subsidiaries: Equity Investments;
- Investment in Subsidiaries: Revenue Loans;
- Investment in Herts Living Ltd: Housing Development Loans; and
- Investment in Herts Living Ltd: Investment Property Loans.

4.17. Further detail of the nature and objectives of each of these types of investment are outlined below.

4.18. An investment property loan was made to Herts Living Ltd in December 2019 but, in line with the revised HMT guidance on the use of PWLB borrowing, future activity of this nature has ceased, and no further investments will be made.

4.19. **Powers for Entering into Investments in Herts Living Ltd**

4.20. The 2003 Local Government Act[5] provides authorities with 'general powers to invest for any purpose relevant to the authority's functions, and for the purposes of

[5] Section 12: http://www.legislation.gov.uk/ukpga/2003/26/pdfs/ukpga_20030026_en.pdf

the prudential management of its financial affairs'. Other key documents that make up the 'prudential framework' are:

- 2017 CIPFA Prudential Code for Capital Finance in Local Authorities;
- 2018 MHCLG[6] Statutory Guidance on Local Government Investments; and
- 2018 MHCLG Statutory Guidance on Minimum Revenue Provision.

The County Council is utilising the powers available within the 2003 Act, within the parameters of the 2017 CIPFA Prudential Code for Capital Finance and wider prudential framework, to undertake investments with the objective of prudently managing its financial affairs.

Process for Entering into Investments in Herts Living Ltd

4.21. Proposals for new categories of investment into Herts Living Ltd, not defined within this Strategy will be developed by officers, experts and advisors, before being submitted for Member approval processes. Material changes to this Strategy introducing new categories of investment will require approval by Council.

4.22. Within established and approved workstreams, individual investments will be approved subject to officer and member consideration of the specific investment against delegations established when the category of investments was approved. This process will ensure consideration of all relevant criteria such as affordability, financing implications, returns etc.

4.23. **Investments in Subsidiaries: Equity Investments**

4.24. Basis: The County Council makes equity investments into subsidiaries established with a commercial focus, such as Herts Living Ltd. These equity investments predominantly take the form of purchases of share capital, but potential future arms-length vehicles may require alternate forms of initial capital. The equity investment into Herts Living Ltd currently totals £175k.

4.25. Contribution: These investments provide and underpin the support infrastructure required to provide the County Council with the structure, means and/or expertise to ensure the financial sustainability of its subsidiary entities. As such, equity investments themselves will not have a significant financial return.

4.26. Financing Implications: Equity investments are financed from specific reserves, therefore do not require borrowing to undertake a them though they will be recognised on the County Council's balance sheet and accounted for in accordance with IFRS 9.

4.27. **Investments in Subsidiaries: Revenue Loans**

4.28. Basis: The County Council will make a Revolving Credit Facility (RCF) available to its subsidiaries in order to provide initial cashflow support before their operations develop enough to become self-financing. The Council currently has two RCFs established for Herts Living Ltd (facility limit £1m) and Herts at Home Ltd (facility limit £260k). To date £655k has been drawn down with regards to Herts Living Ltd

[6] Ministry of Housing, Communities and Local Government

and nothing has been drawn down for Herts at Home Ltd. Extensions to these facilities, or the establishment of similar facilities for additional companies can be undertaken within this strategy subject to the overall limits on commercial investments set out.

4.29. Contribution: These investments support the operational start up cashflows required for commercial ventures to unlock the wider contributions from these.

4.30. Financing Implications: These investments are intended to be temporary start-up loans, with a less than five year duration (depending on the entity) and temporarily fund revenue expenditure (salaries, overheads etc), as such, they will be temporarily financed from cash balances, recognised on the County Council's balance sheet and accounted for in accordance with IFRS 9 until repaid. These loans will be paid down once the entities concerned become profitable.

4.31. **Investment in Herts Living Ltd: Housing Development Loans**

4.32. Basis: These represent capital loans that the County Council will make to its subsidiary Herts Living Ltd on a commercial basis to finance the purchase and development of housing within Hertfordshire. Principally this will take the form of residential development but could also take the form of mixed use or other developments.

4.33. The Capital Loans enable Herts Living Ltd (either directly, or via its joint venture vehicle, Chalkdene) to purchase surplus land from the County Council - resulting in a capital receipt to the County Council which provides financing for the loans issued. Interest is charged at commercial rates, and the loans are ultimately repaid by Herts Living Ltd from the profits of its housing development activity.

4.34. Contribution: This workstream will have the potential to yield contribution to the service delivery objectives and placemaking role of the council in multiple ways:

- Enables release of capital receipts where surplus sites are sold, which can be applied to financing serviced based elements of the capital programme (i.e. Highways, Adults, Children's Services etc) and reduces borrowing requirement, and thereby revenue pressures, to deliver these.
- Maximises capital receipts by enabling the council to access an element (or all) of the developer proceeds on projects via HLL.
- Supports the placemaking role of the authority in developing housing and or other property in line with local plans (such as the Hertfordshire Fit for the Future agenda) to boost housing and the economy within Hertfordshire.
- Can yield innovative partnership developments which (for example) could mix service and residential buildings to maximise efficiency.

4.35. Financial Implications: The revised HMT guidance states that the direct investment in companies and other assets for the purposes of delivering housing and regeneration is permitted. For the County Council, this includes the investment in Herts Living Ltd and its Joint Venture for property development.

4.36. In line with this guidance, the County Council will increase its investment in Herts Living Ltd with capital loans of £13.895m forecast in 2021/22 to enable acquisition of County Council owned land for development, as well as in some cases the development cost itself.

- This workstream will be financed by capital receipts realised either initially from sales of surplus land, or once loans are repaid when proceeds are realised from developments undertaken. In some cases, such as direct delivery, these may be deferred, but the principle of these loans is such that interest will be charged to HLL on commercial terms, and will more than offset any temporary borrowing costs that the County Council may incur during this time.

- Loans advanced by the County Council to HLL to undertake housing development will be recognised on the council's balance sheet and accounted for in accordance with IFRS 9.

4.37. **Investment in Herts Living Ltd: Investment Property Loans**

4.38. County Council's investment strategy has previously included commercial property investments to Herts Living Ltd (HLL) undertaken purely for financial yield. An investment property transaction financed by the Council was undertaken by Herts Living Ltd in December 2019.

4.39. In November 2020, HMT published their response to a consultation on the future lending terms for PWLB financing. The aim of this consultation was to develop a proportionate and equitable way to prevent local authorities from using PWLB loans to buy commercial assets primarily for yield, without impeding their ability to pursue service delivery, housing, and regeneration under the prudential regime as they do now.

4.40. The response to the consultation introduced revised lending terms and guidance from 26 November 2020 for Local Authorities to determine if a proposed project is an appropriate use of the PWLB loans.

4.41. The impact of the consultation for the County Council is that PWLB borrowing can no longer be used to buy investment assets primarily for yield anywhere in the capital programme. As a result, no further commercial investments are included in the Council's Integrated Plan. It is expected that the guidance will not be applied retrospectively and therefore there is no impact on the existing commercial investment made through Herts Living Ltd.

4.42. The £100m limit for commercial investment property approved by the County Council in November 2019 has been removed from the Investment Strategy in line with the revised HMT guidance on the use of PWLB loans.

4.43. **Overview of Limits on Non-service Investment**

4.44. In order that the housing development investments remain proportionate to the size of the authority, these are subject to an overall maximum investment limit of £50m to cover residential development plans (originally approved by County Council in March 2018). The £100m limit for commercial investment property approved by the County Council in November 2019 has been removed from the Investment Strategy in line with the revised HMT guidance on the use of PWLB loans.

4.45. The following table provides an analysis of exposure of investments made to the Council's subsidiaries at 31 March 2020 along with limits for the next two years.

Table 4: Investments for Commercial Purposes[7]

Purpose	Values as at 31 March 2020 Amounts invested £000	Loss Allowance/ revaluation £000	Value in accounts £000	2020/21 Approved Limit £000	2021/22 Approved Limit £000
Equity shares in HLL	175	19,007	19,182	175	175
Revenue - Cashflow Loans	655	(30)	625	1,000	1,000
Housing Development Loans	849	(41)	808	48,825	48,825
Commercial Investments	14,324	(154)	14,170	100,000	-
TOTAL	**16,003**	**18,782**	**34,785**	**150,000**	**50,000**

4.46. **Affordability, Prudence and Proportionality**

Table 5: Proportionality of Investments

	2019/20 Actual £000	2020/21 Forecast £000	2021/22 Budget £000	2022/23 Budget £000	2023/24 Budget £000	2024/25 Budget £000
Net service expenditure	818,743	858,568	871,648	897,200	918,953	942,644
Commercial Investment Income	210	728	2,252	1,787	631	526
Proportion	**0.03%**	**0.08%**	**0.26%**	**0.20%**	**0.07%**	**0.06%**

4.47. **Risk Assessment**

4.48. Investments in the Council's subsidiaries face specific risks depending on the nature of each investment. Presently, much of the council's investments are focussed on property and property development. Principal risk areas for property development include changes in the market value of land and property, and the pace of development and ultimate sales, all of which will influence the certainty and timing of income flowing back to the County Council. These risks are managed by controlling the overall exposure and through the funding mechanism in place for loans made to Herts Living Ltd as well as sound governance arrangements that will ensure robust financial forecasting and delivery obligations are adhered to.

4.49. Investments will be evaluated and appraised on an individual basis following development of a robust business case which will be subject to established Officer and Member sign off protocols[8].

[7] This table includes all investments for Herts Living Ltd. Housing development loans are in accordance with the Government's revised PWLB lending terms. Further information is in paragraph 4.31.
[8] This process ensures compliance with relevant statutory guidance issued by the Ministry of Housing, Communities and Local Government – Statutory Guidance on Local Government Investments (3rd edition).

4.50. Business cases developed for new investments will consider all aspects of the investment required, including risk analysis, competition, knowledge of the relevant market and barriers to entry and exit.

4.51. The County Council will ensure it possesses relevant skills and experience to develop and deliver on business cases through a combination of upskilling existing staff, recruitment to new positions, and drawing on relevant professional advisors.

4.52. The County Council will determine whether it already has access to appropriate professional advice through existing contracts, such as the retained treasury advisors, Arlingclose, or whether additional specialist expertise is required given the nature of a particular investment. The quality of prospective and historic advice will be based on the provider's track record and contract management processes in order to inform decisions about advisor selection.

4.53. The majority of investments are capital expenditure, therefore will be subject to further scrutiny and approval as part of the capital programme.

4.54. Credit ratings where available will be monitored, however currently the County Council has no rated investments. If credit rated investments are entered into, these will be appraised along the same principles as for service investments.

4.55. Ongoing risk monitoring is provided by internal reporting against agreed business plans and/or budget monitors as appropriate depending on the nature of the investment.

5. Loan Commitments and Financial Guarantees

5.1. Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness.

5.2. The Council has a credit facility agreement in place with a UK Registered Housing Provider. Drawdowns against this facility are limited to £5m. The borrower (Housing Provider) may draw down and make repayments against the facility by providing appropriate notice. The Council earns a % fee from the undrawn facility, and a higher rate of interest when the facility is used. This facility is provided in compliance with the Council's Treasury Management Strategy and falls within the £50m approved limit for investments over 12 months.

6. Non- Financial Property

6.1. The County Council holds a portfolio of properties for current or future service use. Prior to bringing those properties into use existing leases are honoured and generate income for the County Council but the business model for holding these properties is not to generate a surplus.

7. Capacity, Skills and Culture

7.1. Elected members and statutory officers

7.1.1. The County Council's Statutory Officers have the relevant professional qualifications, expertise and experience required to undertake their roles. Continuing Professional Development (CPD) activities are undertaken by those officers to ensure that their knowledge remains current and allows them to take informed decisions and assess individual investments in the context of the County Council's strategic objectives and risk profile. This enables them to understand the impact of decisions on the County Council's overall risk profile.

7.1.2. Elected Members receive training relevant to the responsibilities of their roles. This is provided by Officers, and external bodies including but not limited to the County Council's Treasury Advisors, Arlingclose. Officers ensure that technical matters presented to members are expressed in a clear and understandable manner.

7.1.3. Regulatory considerations are detailed in the relevant annual strategy documents approved by County Council and are presented as part of the decision-making process for any investment.

7.1.4. These measures allow them to take informed decisions and assess individual investments in the context of the County Council's strategic objectives and risk profile. This enables them to understand the impact of decisions on the County Council's overall risk profile.

7.2. Commercial Deals

7.2.1. Under the County Council's procedures for developing business cases, commercial deals are proposed and negotiated by service managers, who receive the support of the Council's financial and legal professionals, and other technical specialists where relevant.

7.2.2. This multi-disciplinary approach ensures that the prudential framework and regulatory regime applying to the County Council is incorporated as a key element of the business planning process, and that those responsible for negotiating the County Council's commercial deals have the required awareness of them.

7.3. Corporate governance

7.3.1. As a proportion of the County Council's net revenue budget, the County Council's non-treasury investment activities and associated risk exposures are relatively modest. The County Council therefore considers that its non-treasury investment activities are best managed in line with its standard practices for business planning and approval, and delegations and has not adopted any specific additional governance arrangements for decision making on investment activities.

8. Investment Indicators

8.1. The County Council has set the following quantitative indicators to allow elected members and the public to assess the County Council's total risk exposure as a result of its investment decisions.

8.2. The first indicator shows the County Council's total exposure to potential investment losses. This includes amounts the County Council is contractually committed to lend but have yet to be drawn down and guarantees the County Council has issued over third party loans.

Table 6: Total Investment Exposure

Category	2019/20 Actual £000	2020/21 Forecast £000	2021/22 Forecast £000
Treasury management investments	160,062	104,287	40,000
Service Investments: Loans	-	-	-
Service Investments: Equity	565	565	565
Commercial Investments: Equity	175	175	175
Commercial Investments: Revenue Loans	655	-	-
Housing Development Loans	849	17,622	13,895
Investment Property Loans	14,324	-	-
TOTAL INVESTMENTS	**175,337**	**95,598**	**104,296**

8.3. **Rate of return received**

8.3.1. This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 7: Investment Rate of Return (net of all costs)

Investments Net Rate of Return	2019/20 Actual	2020/21 Forecast	2021/22 Forecast
Treasury management investments	1.53%	1.02%	2.25%
Service Investments: Loans	0.00%	0.00%	0.00%
Service Investments: Equity	176.93%	0.00%	152.34%
Commercial Investments: Equity	0.00%	0.00%	0.00%
Commercial Investments: Revenue Loans	7.50%	7.05%	6.80%
Housing Development Loans	7.00%	7.00%	7.00%
Investment Property Loans	3.67%	3.67%	3.67%
ALL INVESTMENTS	**2.10%**	**1.46%**	**4.29%**