CABINET
15 SEPTEMBER 2020

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: FIRST QUARTER INVESTMENT STRATEGY (CAPITAL AND TREASURY) REVIEW 2020/21

REPORT OF THE SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: FINANCE AND I.T.

CURRENT COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

NEW COUNCIL PRIORITY: ENABLE AN ENTERPRISING AND CO-OPERATIVE ECONOMY

1 EXECUTIVE SUMMARY

1.1 To update Cabinet on progress with delivering the capital and treasury strategy for 2020/21, as at the end of June 2020.

1.2 To update Cabinet on the impact upon the approved capital programme for 2020/21 – 2029/30. The current estimate is a decrease in spend in 2020/21 of £0.107million and an increase in spend in future years of £0.296million. The most significant individual changes relate to £0.084M Replacement of access road off Bury Mead Road Hitchin, £0.067M additional IT Equipment incurred due to Covid-19 and reprofiling the budgets for Green Infrastructure Implementation £0.185M and structural repairs to the Lairage Multi-Storey Car Parks £0.111M.

1.3 To inform Cabinet of the Treasury Management activities in the first three months of 2020/21. The current forecast is that the amount of investment interest expected to be generated during the year is £0.185million. This is a decrease of £0.115M on the working budget.

2 RECOMMENDATIONS

2.1 That Cabinet notes the forecast expenditure of **£10.519million** in 2020/21 on the capital programme, paragraph 8.3 refers.

2.2 That Cabinet approves the adjustments to the capital programme for 2020/21 onwards as a result of the revised timetable of schemes detailed in table 2, increasing the estimated spend in 2021/22 by **£0.296million.**

2.3 That Cabinet notes the position of the availability of capital resources, as detailed in table 3 paragraph 8.6 and the requirement to keep the capital programme under review for affordability.

2.4 Cabinet is asked to note the position of Treasury Management activity as at the end of June 2020.

3. REASONS FOR RECOMMENDATIONS

3.1 Cabinet is required to approve adjustments to the capital programme and ensure the capital programme is fully funded.

3.2 To ensure the Council's continued compliance with CIPFA's code of practice on Treasury Management and the Local Government Act 2003 and that the Council manages its exposure to interest and capital risk.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 Options for capital investment are considered as part of the Corporate Business Planning process.

4.2 The primary principles governing the Council's investment criteria are the security of its investments (ensuring that it gets the capital invested back) and liquidity of investments (being able to get the funds back when needed). After this the return (or yield) is then considered, which provides an income source for the Council. In relation to this the Council could take a different view on its appetite for risk, which would be reflected in the Investment Strategy. In general, greater returns can be achieved by taking on greater risk. Once the Strategy has been set for the year, there is limited scope for alternative options as Officers will seek the best return that is in accordance with the Investment Strategy.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

5.1 Consultation on the capital expenditure report is not required. Members will be aware that consultation is incorporated into project plans of individual capital schemes as they are progressed.

5.2 There are quarterly updates with the Authority's Cash Manager, Tradition and regular meetings with Treasury advisors (Link).

6. FORWARD PLAN

6.1 This report contains a recommendation on a key Executive decision that was first notified to the public in the Forward Plan on the 5th May 2020.

7. BACKGROUND

7.1 In February 2020, Council approved the Integrated Capital and Treasury Strategy for 2020/21 to 2029/30. To be consistent with the strategy, the monitoring reports for Capital and Treasury are also integrated.

7.2 The Medium Term Financial Strategy for 2020 to 2025 confirmed that the Council will seek opportunities to utilise capital funding (including set aside receipts) for 'invest to save' schemes and proposals that generate higher rates of return than standard treasury investments. This is one way the Council will allocate resources to support organisational transformation that will reduce revenue expenditure.

7.3 Link Asset Services Ltd were first contracted to provide Treasury advice for the financial year 2012/13 and this arrangement has been extended until 2022/23. The service includes:

- Regular updates on economic and political changes which may impact on the Council's borrowing and investment strategies
- Information on investment counterparty creditworthiness
- Technical updates
- Access to a Technical Advisory Group.

8. RELEVANT CONSIDERATIONS

8.1 The Council has £117.0 million of capital assets that it currently owns. The Investment Strategy set out the reasons for owning assets that are not for service delivery, including an assessment of Security, Liquidity, Yield and Fair Value. There have been no changes in relation to these since the Strategy was set.

Capital Programme 2020/21

8.2 The full capital programme is detailed in Appendix A and shows the revised costs to date, together with the expected spend from 2020/21 to 2029/30 and the funding source for each capital scheme.

8.3 Capital expenditure for 2020/21 is estimated to be **£10.519million**. This is a reduction of **£2.916million** on the forecast in the 2020/21 Investment Strategy (Capital and Treasury) Outturn report (reported to Cabinet on 23rd June 2020). The decrease in spend is largely due to re-profiling spend into future years. Table 1 below details the changes to the capital programme.

Table 1- Current Capital Estimates

	2020/21 £M	2021/22 £M	2022/23 to 2029/30 £M
Original Estimates approved by Full Council February 2020	**9.357**	**5.405**	**26.650**
Changes approved by Cabinet in 3rd Qrt 2019/20	3.801	0	**0**
Changes approved by Cabinet in 2019/20 Capital Outturn report	0.277	0	**0**
Revised Capital estimates at start of (2020/21)	**13.435**	**5.405**	**26.650**
Changes approved by Cabinet in Covid-19 Financial Impacts report 21/07/20	-2.809	1.713	1.096
Executive Member – Finance and I.T. approved additional Expenditure on 4 schemes	0.180	0	0
Changes at Q1	-0.287	0.296	0
Current Capital Estimates	**10.519**	**7.414**	**27.746**

8.4 Table 2 lists the schemes in the 2020/21 Capital Programme that will start or continue in 2021/22:

Table 2: Scheme Timetable Revision:
(Key: - = reduction in capital expenditure, + = increase in capital expenditure)

Scheme	2020/21 Working Budget £'000	2020/21 Forecast £'000	Difference £'000	Reason for Difference	Estimated impact on 2021/22 onwards £'000
Green Infrastructure Implementation	185	0	-185	Given the delays to the Local Plan and officer workload in responding to Covid-19, it is envisaged spend will be delayed to 21/22.	185
Lairage Multi-Storey Structural Repairs	121	10	-111	Remedial works will be delayed due to ongoing monitoring and investigations to ascertain the cause of movement cracks.	111
Total Revision to Budget Profile			**-296**		**296**

8.5 There is also one minor change to the overall forecast cost of schemes in 2020/21 with the revised estimate being an increase of £0.009million.

8.6 Table 3 below shows how the Council will fund the 2020/21 capital programme.

<u>Table 3: Funding the Capital Programme</u>:

	2020/21 Balance at start of year £M	**2020/21 Forecast Additions £M**	**2020/21 Forecast Funding Used £M**	**2020/21 Balance at end of year £M**
Useable Capital Receipts and Set-aside Receipts	7.455	1.264	(7.153)	1.566
S106 receipts	[redacted]	[redacted]	(0.148)	[redacted]
Other third party grants and contributions	[redacted]	[redacted]	(0.048)	[redacted]
Planned Borrowing			(3.170)	
Total			**(10.519)**	

8.7 The availability of third party contributions and grants to fund capital investment is continuously sought in order to reduce pressure on the Council's available capital receipts and allow for further investment. Additional capital receipts are dependent on selling surplus land and buildings. Ensuring that the Council gets best value from the disposal of land and buildings can take a long time and therefore the amounts that might be received could be subject to change. This will be kept under review throughout the year. No substantial funds from land sales are forecast until 2021/22.

8.8 The Council's Capital Financing Requirement (CFR) at 31st March 2020 was negative £5.60 million. Should the Capital programme be fully spent in 20/21 there will be a potential need to borrow £3.2M, which will have an impact on the General Fund by way of a Minimum Revenue Provision (MRP) and interest costs (unless internal borrowing i.e. borrowing against revenue reserves / provisions). This need to borrow will mainly be dependent on spend in line with the property acquisition and development strategy. It is expected that any such spend will generate income that will exceed the cost of capital (interest costs and Minimum Revenue Provision).

Treasury Management 2020/21

8.9 The Council invests its surplus cash in accordance with the Investment Strategy (see paragraph 4.2). This surplus cash is made up of capital funding balances, revenue general fund balance, revenue reserve balances and variations in cash due to the timing of receipts and payments. During the first quarter, the Council had an average investment balance of £41.2 million and invested this in accordance with the treasury and prudential indicators as set out in the Integrated Capital and Treasury Management Strategy and in compliance with the Treasury Management Practices. Officers can confirm that the approved investment limits within the Annual Investment Strategy were not breached during the quarter ended 30 June 2020. The £5 million limit on the Council's current account was exceeded during the quarter to ensure the Council had sufficient funds to pay Business Support Grants and to ensure that cash was available to respond more generally to the implications of Covid-19. The Chief Executive made an urgent decision on the 9th April to temporarily remove the limit on amounts held in the Council's current account to facilitate the grant payments. The current account limit of £5m has since been reinstated.

8.10 The Council generated £0.070M of interest during the first quarter of 2020/21. The average interest rate on all outstanding investments at the 30th June was 1.06%. Since a number of these investments were made, the Bank of England base rate has dropped to 0.1% and general market rates have followed. Therefore any new investments are yielding significantly less than this. The table in 8.12 shows one investment that was at 0.2% and rates have continued to decline since then with some banks offering 0% on deposits of up to 6 months. Based on current investments and forecasts of interest rates and cash balances for the remainder of the year, it is forecast that the Council will generate £0.185 million of interest over the whole of 2020/21.This is £0.115 million less than budgeted.

8.11 As at 30 June 2020 the split of investments was as shown in the table below. There were no investments with non-UK banks during the quarter:

Banks	5%
Building Societies	13%
Local Authorities	47%
Government	35%

8.12 The level of risk of any investment will be affected by the riskiness of the institution where it is invested and the period that it is invested for. Where an institution has a credit rating this can be used to measure its riskiness. This can be combined with the period remaining on the investment to give a historic risk of default percentage measure. The table below shows the Historic Risk of Default for outstanding investments at 30 June 2020. The most risky investment still has a historic risk of default of below 1%. It should also be noted that in general the interest rate received is correlated to the risk, so the interest income received would be less if it took on less risk. As stated in paragraph 8.9, all investments have been made in accordance with the Investment Strategy.

Borrower	**Principal Invested £M**	**Interest Rate %**	**Credit Rating**	**Days to Maturity at 30 June**	**Historic Risk of Default %**
DMO	15.0	0.01	AA-	10	0.001
London Borough of Barking & Dagenham	2.0	0.75	AA-	19	0.002
Liverpool City Council	2.0	0.83	AA-	20	0.002
Lloyds Bank	1.0	1.25	A+	33	0.005
Surrey Heath Borough Council	3.0	0.9	AA-	41	0.004
London Borough of Sutton	2.0	0.3	AA-	60	0.005
North Lanarkshire Council	3.0	0.9	AA-	61	0.005
Nationwide Bldg Soc	1.0	0.2	A	75	0.011
Cherwell District Council	2.0	0.87	AA-	78	0.005
Medway Council	2.0	1.25	AA-	119	0.009
Lloyds Bank	1.0	1.1	A+	126	0.018

Newcastle Bldg Soc	1.0	1.17	*	132	0.058
Slough Borough Council	1.0	0.4	AA-	141	0.010
Darlington Bldg Soc	1.0	1.2	*	177	0.078
Marsden Bldg Society	1.5	1.6	*	190	0.083
Fife Council	1.0	0.4	AA-	207	0.014
Monmouthshire Bldg Soc	1.0	1.5	*	315	0.380
Slough Borough Council	2.0	1	AA-	320	0.022
	42.5	1.06			

* Unrated Building Societies Historic Risk of Default is based on a Fitch (a credit rating agency) rating of BBB.

9. LEGAL IMPLICATIONS

9.1 Cabinet's terms of reference under 5.6.7 specifically includes "to monitor expenditure on the capital programme and agree adjustments within the overall budgetary framework". The Cabinet also has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council. By considering monitoring reports throughout the financial year Cabinet is able to make informed recommendations on the budget to Council. The Council is under a duty to maintain a balanced budget.

9.2 Section 151 of the Local Government Act 1972 states that:
"every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs."

9.3 Asset disposals must be handled in accordance with the Council's Contract Procurement Rules.

9.4 The Prudential Indicators comply with the Local Government Act 2003.

10. FINANCIAL IMPLICATIONS

10.1 The main financial implications are covered in section 8 of the report.

10.2 The Authority operates a tolerance limit on capital projects that depends on the value of the scheme and on this basis over the next ten-year programme it should be anticipated that the total spend over the period could be £4.058million higher than the originally budgeted £45.679million.

10.3 The capital programme will need to remain under close review due to the limited availability of capital resources and the affordability in the general fund of the cost of using the Council's capital receipts. When capital receipts are used and not replaced the availability of cash for investment reduces. Consequently interest income from investments reduces. £1.0million currently earns the Authority approximately £1.0k a year in interest. The general fund estimates are routinely updated to reflect the reduced income from investments. When the Capital Financing Requirement (CFR) reaches zero the Council will need to start charging a minimum revenue provision to the general fund for the cost of capital and will need to consider external borrowing for further capital spend. The CFR at the 31 March 2020 was negative £5.6million. This may turn positive during this year if the capital programme is fully spent.

10.4 The Council also aims to ensure that the level of planned capital spending in any one year matches the capacity of the organisation to deliver the schemes to ensure that the impact on the revenue budget of loss of cash-flow investment income is minimised.

11. RISK IMPLICATIONS

11.1 The inherent risks in undertaking a capital project are managed by the project manager of each individual scheme. These are recorded on a project risk log which will be considered by the Project Board (if applicable). The key risks arising from the project may be recorded on Pentana (the Council's Performance & Risk management software). Some of the major capital projects have been included in the Council's Corporate Risks (such as the new North Hertfordshire Museum). The Corporate Risks are monitored by the Finance, Audit and Risk Committee and Cabinet.

11.2 Risks associated with treasury management and procedures to minimise risk are outlined in the Treasury Management Practices document, TMP1, which was adopted by Cabinet in July 2003 and is revisited annually as part of the Treasury Strategy review. The risk on the General Fund of a fall of investment interest below the budgeted level is dependent on banks and building societies need for borrowing.

12. EQUALITIES IMPLICATIONS

12.1. In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.

12.2 There are no direct equalities implications directly arising from the adoption of the Capital Programme for 2020/21 onwards. For any individual new capital investment proposal of £50k or more, or affecting more than two wards, an equality analysis is required to be carried out. This will take place following agreement of the investment proposal.

13. SOCIAL VALUE IMPLICATIONS

13.1. The Social Value Act and "go local" requirements do not apply to this report.

14. ENVIRONMENTAL IMPLICATIONS

14.1. There are no known Environmental impacts or requirements that apply to recommendations of this report. The projects at section 8.4 may have impacts that contribute to an adverse impact. As these projects go forward, an assessment will be made where necessary.

15. HUMAN RESOURCE IMPLICATIONS

15.1 There are no direct human resource implications.

16. APPENDICES

16.1 Appendix A - Capital Programme Detail including Funding 2020/21 onwards.
16.2 Appendix B - Treasury Management Update.

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18. BACKGROUND PAPERS

18.1 Investment Strategy (Integrated Capital and Treasury Strategy)
https://democracy.north-herts.gov.uk/documents/s9835/Appendix%20A%20-%20Investment%20Strategy.pdf