

CABINET
21 September 2021

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: FIRST QUARTER INVESTMENT STRATEGY (CAPITAL AND TREASURY) REVIEW 2021/22

REPORT OF: SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: FINANCE AND I.T.

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 2021/22, as at the end of June 2021.
- 1.2 To update Cabinet on the impact upon the approved capital programme for 2021/22 – 2030/31. The current estimate is a decrease in spend in 2021/22 of £0.124million and an increase in spend in future years of £0.312million. The most significant individual changes relate to £0.130M Car Park Resurfacing and £0.107M Lairage Car Park Structural Repairs. These are being reprofiled into 2022/23.
- 1.3 To inform Cabinet of the Treasury Management activities in the first three months of 2021/22. The current forecast is that the amount of investment interest expected to be generated during the year is £0.040million. This is a reduction of £0.063million on the original estimate.

2 RECOMMENDATIONS

- 2.1 That Cabinet notes the forecast expenditure of £16.169million in 2021/22 on the capital programme, paragraph 8.3 refers. This includes approval of the additional spend for laptop purchases and drainage at Coombes Community Centre.
- 2.2 That Cabinet approves the adjustments to the capital programme for 2021/22 onwards as a result of the revised timetable of schemes detailed in table 2, increasing the estimated spend in 2022/23 by £0.312million.
- 2.3 That Cabinet notes the position of the availability of capital resources, as detailed in table 4 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 2021.

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 22nd June 2021.

7. BACKGROUND

- 7.1 In February 2021, Council approved the Integrated Capital and Treasury Strategy for 2021/22 to 2030/31. To be consistent with the strategy, the monitoring reports for Capital and Treasury are also integrated.
- 7.2 The Medium Term Financial Strategy for 2021 to 2026 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 £129.0 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 significant changes in relation to these since the Strategy was set.

Capital Programme 2021/22

- 8.2 The full capital programme is detailed in Appendix A and shows the revised costs to date, together with the expected spend from 2021/22 to 2030/31 and the funding source for each capital scheme.
- 8.3 Capital expenditure for 2021/22 is estimated to be **£16.169million**. This is a reduction of **£0.124million** on the forecast in the 2021/22 Investment Strategy (Capital and Treasury) Outturn report (reported to Cabinet on 29th June 2021). The decrease in spend in 2021/22 is largely due to the reprofiling of projects into 2022/23. Table 1 below details changes to capital programme.

Table 1- Current Capital Estimates

	2021/22 £M	2022/23 £M	2023/24 to 2030/31 £M
Original Estimates approved by Full Council February 2021	14.718	7.919	21.114
Changes approved by Cabinet in 3rd Qrt 2020/21	1.102	0.537	0
Changes approved by Cabinet in 2020/21 Capital Outturn report	0.473	0	0
Revised Capital estimates at start of 2021/22	16.293	8.456	21.114
Executive Member – Finance and I.T. approved additional Expenditure – Financial System upgrade	0.082	0	0
Executive Member – Finance and I.T. approved additional Expenditure – Installation of high-definition cameras in the Council Chamber	0.018	0	0
Changes at Q1	-0.224	0.312	0
Current Capital Estimates	16.169	8.768	21.114

8.4 Table 2 lists the schemes in the 2021/22 Capital Programme that will start or continue in 2022/23:

Table 2: Scheme Timetable Revision:

(Key: - = reduction in capital expenditure, + = increase in capital expenditure)

Scheme	2021/22 Working Budget £'000	2021/22 Forecast £'000	Difference £'000	Reason for Difference	Estimated impact on 2022/23 onwards £'000
Off Street Car Park Resurfacing	180	50	-130	Not all the original proposed projects will be completed this financial year due to an assessment of need and prioritising other work.	130
Lairage Multi Storey Structural Repairs	117	10	-107	The building is being monitored following drainage repairs and as a result structural repairs will not be undertaken this financial year.	107
Lairage Multi Storey Decorate and Replace windows and doors in stairwells	75	0	-75	Due to reprioritising of workloads this project will be deferred to next year.	75
Total Revision to Budget Profile			-312		312

8.5 There are also changes to the overall costs of schemes in 2021/22. These changes total a net increase of £0.088million and are detailed in Table 3

Table 3: Changes to Capital Schemes Commencing in 2021/22:

(Key: - = reduction in capital expenditure, + = increase in capital expenditure)

Scheme	2021/22 Working Budget £'000	2021/22 Forecast Spend £'000	Difference £'000	Comments
Laptops for Officers	55	90	+35	Due to the high numbers of interest shown from the staff surveys, Cabinet are requested to approve an increase in budget to purchase more devices than first expected. This is combined with an increase in costs for Laptops, Monitors, Docking Stations from vendors due to the pandemic and so many businesses going down the laptop route to support home workers the demand has certainly seen a large increase in costs for the hardware mentioned above.

Scheme	2021/22 Working Budget £'000	2021/22 Forecast Spend £'000	Difference £'000	Comments
Alteration & improvement to underground drainage at Coombes Community Centre, Royston	25	50	+25	The works carried out so far have improved the situation but have not completely removed the foul water flooding issue. A drainage specialist has advised further works estimated to cost an additional £25k. Cabinet are asked to approve this additional spend.
S106 Projects	0	30	+30	To date, a total of £30k of S106 funds have been released for community schemes.
Other minor changes			-2	
Total revision to scheme spend			88	

8.6 Table 4 below shows how the Council will fund the 2020/21 capital programme.

Table 4: Funding the Capital Programme:

	2021/22 Balance at start of year £M	2021/22 Forecast Additions £M	2021/22 Forecast Funding Used £M	2021/22 Balance at end of year £M
Useable Capital Receipts and Set-aside Receipts	6.229	4.973	(9.934)	1.268
S106 receipts			(0.030)	
Other third party grants and contributions			(0.897)	
IT Reserve			(0.035)	
Planned Borrowing			(5.273)	
Total			(16.169)	

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.

8.8 The Council's Capital Financing Requirement (CFR) at 31st March 2021 was negative £5.18 million. Based on current forecasts it will turn positive during 2021/22 if the Capital Programme is fully spent. This means that the Council will have to borrow to fund capital expenditure and will result in a Minimum Revenue Provision (MRP) being charged to Revenue. Of the £16.1m of planned capital spend, £8m relates to the property acquisition and development strategy and £2.75m relates to the development of housing for market rental. The progress on these is dependent on there being opportunities available and general economic conditions. If/ when it becomes clear that a specific opportunity will be progressed then a borrowing strategy will be developed.

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 and provisions balances and variations in cash due to the timing of receipts and payments. During the first three months, the Council had an average investment balance of £52.9 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.
- 8.10 During the quarter the Council has had higher than usual cash balances due to the various grant funding that it has been given by Government to pass on to businesses. Even though every effort has been made to pass the money on to businesses as quickly as possible, there has inevitably been a delay between receipt and payment. There have also been tranches of grant where the amount received has exceeded the amounts eligible for payment. Balances have also been higher due to the delays in capital spend in 2020/21. These have both been partially off-set by revenue costs and reduced income related to Covid-19. It has been necessary to keep the business grant funding very liquid, and therefore the level in short-term investments with the Debt Management Office has remained high.
- 8.11 The Council generated £0.015M of interest during the first three months of 2021/22. The average interest rate on all outstanding investments at the 30th June was 0.13%. Interest rates have continued to remain low so consequently any new investments are yielding significantly less than the average interest rate on all outstanding investments at the 31st March which was 0.41%. 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 £0.040 million of interest over the whole of 2021/22. The investment strategy allows for investments in a Property Fund and Multi-Asset Fund. In July, Cabinet approved the use of a procurement waiver in relation to the selection of these funds. This selection process is now progressing with our treasury advisers.
- 8.12 As at 30 June 2021 the split of investments was as shown in the table below. There were no investments with non-UK banks during the quarter due to the high Country rating that we have set international investments.

Banks	13%
Building Societies	21%
Government	26%
Local Authorities	34%
Money Market Fund (MMF)	6%

- 8.13 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 2021. The most risky investment has a historic risk of default of 0.031%. 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.

Borrower	Principal Invested £M	Interest Rate %	Credit Rating	Days to Maturity at 30 June	Historic Risk of Default %
DMO (Government)	4.0	0.01	AA-	1	0
Bank of Scotland	1.0	0.03	A+	Call	0.004
Lloyds	1.0	0.05	A+	Call	0.012
Public Sector Deposit Fund (MMF)	3.0	0.13	AAA	Call	0
Derbyshire County Council	3.0	0.10	AA-	5	0
DMO (Government)	10.0	0.01	AA-	6	0
Darlington Building Society	1.0	0.35	*	8	0.010
Leeds Building Society	2.0	0.07	A-	13	0.002
Barclays Bank	2.0	0.01	A	14	0.002
Nationwide Building Society	1.0	0.05	A	19	0.002
North Lanarkshire Council	3.0	0.30	AA-	19	0.001
Marsden Building Society	1.5	0.30	*	21	0.008
London Borough of Southwark	2.0	0.20	AA-	36	0.002
Santander UK	1.0	0.06	A+	37	0.005
Santander UK	1.0	0.06	A+	49	0.006
Newcastle Building Society	1.0	0.2	*	58	0.022
Surrey Heath Borough Council	2.0	0.04	AA-	62	0.004
Principality Building Society	2.0	0.07	BBB+	79	0.031
Santander UK	1.0	0.09	A+	121	0.016
Nationwide Building Society	2.0	0.07	A	139	0.018
Ashford Borough Council	3.0	0.04	AA-	147	0.009
Leeds Building Society	1.0	0.14	A-	153	0.020
Blackpool Council	2.0	0.32	AA-	166	0.011
Slough Borough Council	2.0	0.1	AA-	244	0.016
Slough Borough Council	1.0	0.1	AA-	244	0.016
	53.5	0.13			

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

DMO and Local Authority credit ratings are the UK credit rating.

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 around £4 million higher than the budgeted £46 million.

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 £1k per 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 2021 was negative £5.18million. This will turn positive 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 2021/22 onwards.
16.2 Appendix B, Treasury Management Update.

17. CONTACT OFFICERS

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18. BACKGROUND PAPERS

- 18.1 Investment Strategy (Integrated Capital and Treasury Strategy)
<https://democracy.north-herts.gov.uk/documents/b8344/Items%20Referred%20from%20Other%20Committees%20-%206b%20-%20Investment%20Strategy%20Capital%20and%20Treasury%2011th-Feb-202.pdf?T=9>