

CABINET
22 March 2022

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: THIRD 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 December 2021.
- 1.2 To update Cabinet on the impact upon the approved capital programme for 2021/22 – 2031/32. The current estimate is a decrease in spend in 2021/22 of £0.621M and an increase in spend in 2022/23 of £0.821M. The most significant individual changes relate to £0.195M Parking Charging Payments Management System, £0.100M Match Funding for Electric Vehicle Charging and £0.100M Community Facilities Refurbishments. These are being reprofiled into 2022/23.
- 1.3 To inform Cabinet of the Treasury Management activities in the first nine months of 2021/22. The current forecast is that the amount of investment interest expected to be generated during the year is £0.066M. This is an increase of £0.016M on the working estimate reported at 2nd quarter.

2 RECOMMENDATIONS

- 2.1 That Cabinet notes the forecast expenditure of £2.424M in 2021/22 on the capital programme, paragraph 8.3 refers.
- 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 and 3, increasing the estimated spend in 2022/23 by £0.821M.
- 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 December 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 14th January 2022.

7. BACKGROUND

- 7.1 In February 2021, Council approved the Integrated Capital and Treasury Strategy for 2021/22 to 2031/32. 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 £129.0M 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. The main changes will be sales of surplus land for capital receipts as referenced in table 4.

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 2031/32 and the funding source for each capital scheme.

8.3 Capital expenditure for 2021/22 is estimated to be **£2.424M**. This is a reduction of **£0.621M** on the forecast in the 2nd quarter report (reported to Cabinet on 21st December 2021). The decrease in spend in 2021/22 is largely due to 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 2031/32 £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

	2021/22 £M	2022/23 £M	2023/24 to 2031/32 £M
Executive Member – Finance and I.T. approved additional Expenditure on Careline Servers	0.015	0	0
Changes at Q2	-13.139	-2.661	-8.000
Full Council 22/23 Budget	0.150	1.439	9.719
Changes at Q3	-0.771	0.821	0
Current Capital Estimates	2.424	8.367	22.833

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
Parking Charging Payments Management System	235	40	-195	Tenders have been received and are currently being assessed.	195
Community Facilities Refurbishment	265	165	-100	This budget is demand led and the pandemic has severely impacted on the ability of community and voluntary sector organisations to consider small or large scale capital projects. Their usual activity has been diverted to supporting those vulnerable individuals in the community so has affected their capacity to apply at the present time.	100
Match Funding Electric Vehicle charging Points	100	0	-100	In the process of working up a Government grant application which will take the next couple of months, including finding out whether we have been successful.	100

Scheme	2021/22 Working Budget £'000	2021/22 Forecast £'000	Difference £'000	Reason for Difference	Estimated impact on 2022/23 onwards £'000
Mrs Howard Hall Boiler/windows	63	0	-63	Whilst negotiations to agree and complete a full repairing lease with the current tenant of Mrs Howard Memorial Hall have progressed well in 2021, those negotiations continue. Until the lease is completed and NHDC has some certainty as to the property's precise future use, it is not considered prudent to spend the capital as this may result in the money not being put to its optimum use. The lease is anticipated to be agreed and completed in Quarter 3 or Quarter 4 of 2022-23, although this timescale is an estimate and cannot be guaranteed at this point in time.	63
Replacement Floodlights St Marys	60	0	-60	Due to having to prioritise other works this project has been delayed in to 2022/23.	60
Leisure Condition Survey- Letchworth Outdoor Pool	82	24	-58	The Letchworth Outdoor Pool re-roofing project has been delayed by Covid. The works is now scheduled to take place in Sept/Oct 2022	58
Icknield Way Cemetery Paths	50	0	-50	Initial procurement exercises did not result in a suitable contractor being identified for the works – therefore this exercise will have to be repeated with the view of potentially undertaking the works in the summer when weather conditions are more favourable	50
Install On Street Charging	50	0	-50	This project has been put on hold while we are undertaking a feasibility study on alternative methods of payment which links in with the Parking Charging Payments Management System	50

Scheme	2021/22 Working Budget £'000	2021/22 Forecast £'000	Difference £'000	Reason for Difference	Estimated impact on 2022/23 onwards £'000
Royston Leisure Centre Solar Thermal Installation	50	0	-50	Project delayed due to pre investigation works required which include detailed feasibility and specification of the system to ensure compatibility with existing system.	50
Museums Services Development- Canopy over the terrace	48	0	-48	Structural issues with the design of the building mean this is proving difficult to achieve, with no obvious anchor points for a canopy type structure. We await investigations into the cause of a recent leak in the terrace area to see whether this might present an opportunity for this to be achieved through a slight redesign of the kitchen roof and terrace area.	48
North Herts Museum Platform Lift	40	0	-40	The providers of the original lift have tried a number of changes to the lift which appear to have worked for now and averted the need for this spend, but this has not been tested for long enough to conclusively state that a replacement lift is not needed.	40
Other minor changes			-7		7
Total Revision to Budget Profile			-821		821

8.5 There are also changes to the overall costs of schemes in 2021/22. These changes total a net increase of £0.050million 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
North Herts Leisure Centre Sauna Refurbishment	0	150	150	The Sauna has been closed since January. Full Council approved the reprofiling of this budget into 21/22 from 22/23 to enable a full refurbishment to be undertaken.

Scheme	2021/22 Working Budget £'000	2021/22 Forecast Spend £'000	Difference £'000	Comments
S106 Projects	75	115	+40	To date, a total of £114k of S106 funds have been released for community schemes.
Other minor changes			+10	
Total revision to scheme spend			+200	

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	2.910	(2.203)	6.936
S106 receipts			(0.150)	
Other third party grants and contributions			(0.036)	
IT Reserve / Revenue			(0.035)	
Planned Borrowing			0	
Total			(2.424)	

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.

8.8 The Council's Capital Financing Requirement (CFR) at 31st March 2021 was negative £5.18M. Based on current forecasts it will remain negative during 2021/22

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 nine months, the Council had an average investment balance of £58.5M 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. However, the £5M limit on the Council's Current Account was exceeded on 9th December for one day. The balance was £15M. This happened because the whole of the Council's IT systems were down for the majority of the day. When the systems were operational in the afternoon, the cut off times for placing investments had passed. As we

thought that the unavailability would only be for a short period, we did not look at alternative options for moving the funds.

- 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 2021/22. 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 £0.036M of interest during the nine months of 2021/22. The average interest rate on all outstanding investments at the 31st December was 0.12%. 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 (which have started to rise) and cash balances for the remainder of the year, it is forecast that the Council will generate £0.066M of interest over the whole of 2021/22.
- 8.12 As at 31st December 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 for international investments.

Banks	21%
Building Societies	21%
Government	26%
Local Authorities	27%
Money Market Fund (MMF)	5%

- 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 31 December 2021. The most risky investment has a historic risk of default of 0.074%. 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 the Council took on less risk.

Borrower	Principal Invested £M	Interest Rate %	Credit Rating	Days to Maturity at 31 Dec	Historic Risk of Default %
Public Sector Deposit Fund (MMF)	3.0	0.04	AAAmmf	Call	0
Principality Building Society	2.0	0.07	BBB+	18	0.007

Borrower	Principal Invested £M	Interest Rate %	Credit Rating	Days to Maturity at 31 Dec	Historic Risk of Default %
Leeds Building Society	2.0	0.07	A-	18	0.002
Bank of Scotland	2.0	0.03	A+	18	0.004
North Lanarkshire Council	2.0	0.03	AA-	19	0.001
Nationwide Building Society	1.0	0.07	A	19	0.002
Principality Building Society	1.0	0.08	BBB+	28	0.011
DMO (Government)	3.0	0.06	AA-	28	0.002
Suffolk County Council	5.0	0.03	AA-	32	0.002
Santander UK	1.0	0.08	A+	47	0.006
Barclays	2.0	0.02	A+	52	0.007
Santander UK	1.0	0.08	A+	52	0.007
DMO (Government)	11.0	0.05	AA-	54	0.003
DMO (Government)	3.0	0.05	AA-	56	0.004
Leeds Building Society	1.0	0.06	A-	59	0.008
Newcastle Building Society	1.0	0.11	*	59	0.023
Slough Borough Council	2.0	0.1	AA-	60	0.004
Slough Borough Council	1.0	0.1	AA-	60	0.004
Nationwide Building Society	1.5	0.05	A	76	0.010
Lloyds	3.0	0.05	A+	80	0.012
Barclays	1.0	0.29	A+	118	0.015
Santander UK	1.0	0.34	A+	119	0.015
Nat West	2.0	0.46	A	151	0.020
Yorkshire Building Society	3.0	0.22	A-	152	0.020
West Dunbartonshire Council	5.0	0.05	AA-	168	0.011
Marsden Building Society	1.5	0.25	*	192	0.074
Moray Council	3.0	0.2	AA-	234	0.015
Nat West	1.0	0.39	A	258	0.033
	66.0	0.12			

* 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 £3.8M higher than the budgeted £33.6M.

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. £1.0M 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 £5.18M.

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>