

CABINET
21 June 2022

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: INVESTMENT STRATEGY (CAPITAL AND TREASURY) END OF YEAR REVIEW 2021/22

REPORT OF: SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: FINANCE AND I.T.

COUNCIL PRIORITY: SUSTAINABILITY

1 EXECUTIVE SUMMARY

- 1.1 As at the end of financial year 2021/22, there is a reduction in Capital spend compared to quarter 3 of **£0.990million**. The majority of this change is due to revisions to the profile of planned project spend, with **£0.979million** that will now instead be incurred in 2022/23.
- 1.2 During the year the Council has generated **£0.075million** of interest from its investments. This is more than the budgeted total of £0.066million.
- 1.3 The Council has repaid £0.018million of borrowing during the year as it has matured. The Council has £0.387million of remaining borrowing. This borrowing is at a fixed rate for a fixed period. The premium incurred from repaying this borrowing early means that it is not worthwhile to do so.
- 1.4 The Council complied with its legislative and regulatory requirements throughout the year.
- 1.5 The forecast for 2022/23 is that investment income will increase due to the recent increase in interest rates which is expected to rise again during the year.

2. RECOMMENDATIONS

- 2.1 That Cabinet notes expenditure of £1.434million in 2021/22 on the capital programme, paragraph 8.3 refers.
- 2.2 That Cabinet approves the adjustments to the capital programme for 2022/23 as a result of the revised timetable of schemes detailed in table 2, increasing the estimated spend in by £0.979million.

- 2.3 That Cabinet notes the position of the availability of capital resources, as detailed in table 3 paragraph 8.7 and the requirement to keep the capital programme under review for affordability.
- 2.4 That Cabinet approves the application of £1.225million of capital receipts/set aside towards the 2021/22 capital programme, paragraph 8.7 refers.
- 2.5 Cabinet is asked to note the position of Treasury Management activity as at the end of March 2022.
- 2.6 Cabinet is asked to recommend this report to Council and ask Council to:
 - 1) Approve the actual 2021/22 prudential and treasury indicators.
 - 2) Note the annual Treasury Report for 2021/22.

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 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 9th May 2022.

7. BACKGROUND

- 7.1 In February 2021, Council approved the Integrated Capital and Treasury Strategy for 2021/22 to 2030/31.
- 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 £128.0 million of capital assets that it currently owns (as at 31 March 2022). This has decreased from £129.0 million as at 31 March 2021. 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 actual spend from 2021/22 to 2031/32 and the funding source for each capital scheme.
- 8.3 The Outturn Capital expenditure for 2021/22 is **£1.434million**. This is a reduction of **£0.990million** on that reported at the end of the third quarter. The decrease in spend is largely due to re-profiling spend into future years. Table 1 below details the changes from what was reported at Quarter 3.

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
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
Changes since Q3 (as detailed in this report)	-0.990	0.979	
Outturn 2021/22	1.434	9.346	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 Outtrun £'000	Difference £'000	Reason for Difference	Estimated impact on 2022/23 onwards £'000
North Herts Leisure Centre Sauna/Steam room Refurbishment	150	0	-150	Design specification and cost of works pushed project start date into 2022/23. Work started onsite in April 2022.	150
Playground Renovation – District Wide	180	57	-123	Installation is still ongoing. Works are complete at Bancroft and in progress at Priory memorial gardens (Royston) and Holroyd (Baldock). Tenders received exceeded budget which has been covered using s106 allocations that were not previously allocated to any specific project.	123
Community Facilities Refurbishments	165	71	-94	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.	94
Private Sector Grants	91	22	-60	Due to staff shortages and the Covid restrictions we have not been able to visit the residents needing the assistance. The budget is needed to assist our vulnerable and elderly residents to ensure they are not left without heating or hot water as well as helping them to reduce their energy use.	60
Provide Housing at Market Rents	103	51	-52	The major refurbishment work has been completed, however, there are some external and internal finishes (these include paving, landscaping and internal flooring) that need to be undertaken to enable the	52

Scheme	2021/22 Working Budget £'000	2021/22 Outtrun £'000	Difference £'000	Reason for Difference	Estimated impact on 2022/23 onwards £'000
				Council to rent out the four flats. This work will be completed by the end of August 2022.	
Centros Integra Upgrade	82	31	-51	Project delayed due to the availability of the software provider's consultants. Implementation to take place in May / June with go live at the end of July.	51
Property Improvements	122	73	-49	Works to re-roof a flat roof at Letchworth Outdoor Pool and structural works to Thomas Bellamy House were delayed due to other work pressures.	49
Parking Charging Payments Management System	40	0	-40	Following a detailed procurement exercise, consultants were appointed in February to undertake a Feasibility Study on the Alternative Methods of Payment and are due to report late June 2022. This budget is required to take forward more detailed work following the outcomes of the above study.	40
Email Encryption Software	40	0	-40	There was due to a delay with selecting a suitable replacement software solution for the Laptops in line with PSN security. A solution was procured late March and the remaining budget is required to purchase additional modules once further testing has been completed on the new laptop build.	40
Hitchin Swim Centre Outdoor Boiler Replacement	40	2	-38	Procurement of the boiler took longer than expected which delayed the project start date to April 2022.	38
Letchworth Outdoor Pool Boiler Replacement	40	2	-38	Procurement of the boiler took longer than expected which delayed the project start date to April 2022.	38

Scheme	2021/22 Working Budget £'000	2021/22 Outtrun £'000	Difference £'000	Reason for Difference	Estimated impact on 2022/23 onwards £'000
Upgrade 25 Parking Machines	36	0	-36	This project has been delayed due to other key projects and lack of staff resources within the Parking Enforcement Team due to retirements and resignations and Covid affecting a large number of the team. Quotations for the upgrade work have been sought and officers are currently fulfilling the procurement requirements in order for the work to commence during the 1st Quarter of 2022/23.	36
Total Minor (under £25k) slippage on other projects	957	740	-208		208
Total Revision to Budget Profile			-979		979

8.5 There are also changes to the overall costs of schemes in 2021/22. These minor changes total a net decrease of £0.017million.

8.6 The following capital schemes have been completed during 2021/22:

- Renovate Howard Park Play Area, Letchworth
- Replace Play Equipment at Holroyd, Baldock
- Replace Play Equipment at Wilbury Recreation Ground, Letchworth
- New combined Recycling / Litter Bins in Parks across the District
- Voice Recorders at Careline
- New light-weight Elections Polling Booths and Screens
- Energy Efficiency Measures
- Various IT Projects

Capital Programme 2021/22 Funding onwards

8.7 Table 3 below shows how the Council will fund the 2021/22 capital programme.

Table 3: Funding the Capital Programme:

	2021/22 Balance at start of year £M	2021/22 Additions £M	2021/22 Funding Used £M	2021/22 Balance at end of year £M
Useable Capital Receipts and Set-aside Receipts	6.229	2.715	(1.225)	7.719
S106 receipts			(0.133)	
Other third party grants and contributions			0	
Revenue Contributions / IT Reserve			(0.076)	
Planned Borrowing			0	
Total			(1.434)	

- 8.8 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.
- 8.9 The Council's Capital Financing Requirement (CFR) at 31st March 2022 was negative £4.61 million (negative £5.255 million 31st March 2021). As the CFR is negative the Council does not have a need to borrow to fund capital spend. However, should the Capital programme be fully spent in 25/26 there will be a potential need to borrow £2.8M, which will have an impact on the General Fund by way of a Minimum Revenue Provision (MRP) and interest payments. 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.

Treasury Management 2021/22

- 8.10 The Council has operated both within the treasury and prudential indicators set out in the Treasury Management Strategy Statement 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. This has already been reported as part of the Quarter 3 Investment Strategy update.
- 8.11 The Council generated £0.075M of interest during 2021/22. The average interest rate agreed on new deals during the year was 0.15%. The average interest rate on all outstanding investments at the 31st March was 0.33%.

8.12 The Council's activities expose it to a variety of risks (credit, liquidity and market). The Treasury Strategy sets out the Authority's appetite for the level of exposure to these risks.

8.13 **Security Risk** – The possibility that other parties fail to pay amounts due to the Authority.

The Council's counterparty list for 2021/22 comprised UK building societies and UK banks with a Fitch (a credit rating agency) credit rating greater than BBB, non-UK banks with a credit rating greater than AA- with a AAA Country rating, other Local Authorities and Public Corporations. It also includes smaller Building Societies that do not have a credit rating.

8.14 **Liquidity Risk** – the possibility that the Authority may not have funds available to meet its commitments to make payments.

8.15 **Market Risk** - the possibility that financial loss might arise as a result of changes in interest rates.

Investing long term (greater than one year) currently achieves higher interest rates than short term deals. The risks of long term deals are:

- (i) The longer the time period the longer the investment is exposed to default.
- (ii) If the investment has a fixed interest rate, interest rates could rise and the potential to invest at a higher rate will be lost until the investment matures.

8.16 Members have indicated that they are prepared to accept this risk within the limits expressed in the Treasury Strategy, which allows no more than £12M of outstanding investments to be invested for longer than 365 days at any one time. At the end of the year the Council didn't have any investments invested for longer than 365 days.

8.17 **Interest (Yield)** - This year has continued to prove challenging to find counterparties willing to pay a reasonable return on cash investments, either long or short term. The uncertainty around interest rate changes continued in 21/22, with the latest predictions indicating that there will be further increases in the Bank Rate during 2022/23. Even if there are increases in the Bank of England base rate and these flow through to the investments that the Council makes, it is still likely that the value of the Council's money will be eroded by high levels of inflation.

8.18 The investments outstanding at the 31 March 2022 were £57.5million. This compares to a balance of £42.5million at 31 March 2021. Investment in capital projects will continue during 2022/23 and the estimated investment interest for 2022/23 was set at £0.119million. This estimate will be revised in the 1st quarter monitoring report due to the recent increases to Bank Rate and a higher level of balances available to invest due to capital slippage.

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 £3.511million higher than the budgeted £32.179million.
- 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 £10k per year in interest (1.0%). 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 £4.61million. This may turn positive in 25/26 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).

- 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 2021/22 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.
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>