

CABINET
13 September 2022

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: FIRST QUARTER INVESTMENT STRATEGY (CAPITAL AND TREASURY) REVIEW 2022/23

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 2022/23, as at the end of June 2022.
- 1.2 To update Cabinet on the impact upon the approved capital programme for 2022/23 – 2031/32. The current estimate is a decrease in spend in 2022/23 of £1.520M and an increase in spend in 2023/24 of £2.048M. The most significant individual changes increasing the spend in 2022/23 relate to, £0.341M Park Home Insulation and £0.110M Playground Renovation. The significant projects that have been reprofiled into 2023/24 are £1.096M Development of John Barker Place, £0.350M Resurface Lairage Car Park and £0.315M Grounds Maintenance Vehicles & Machinery.
- 1.3 To inform Cabinet of the Treasury Management activities in the first three months of 2022/23. The current forecast is that the amount of investment interest expected to be generated during the year is £0.708M. This is an increase of £0.589M on the original estimate.

2 RECOMMENDATIONS

- 2.1 That Cabinet notes the forecast expenditure of £12.252M in 2022/23 on the capital programme, paragraph 8.3 refers.
- 2.2 That Cabinet approves the adjustments to the capital programme for 2022/23 onwards, as a result of the revised timetable of schemes detailed in table 2 and 3, increasing the estimated spend in 2023/24 by £2.048M.
- 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 2022.

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 9th May 2022.

7. BACKGROUND

- 7.1 In February 2022, Council approved the Integrated Capital and Treasury Strategy for 2022/23 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 2022 to 2027 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 are contracted to provide Treasury advice. 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 £128.0M 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 2022/23

- 8.2 The full capital programme is detailed in Appendix A and shows the revised costs to date, together with the expected spend from 2022/23 to 2031/32 and the funding source for each capital scheme.
- 8.3 Capital expenditure for 2022/23 is estimated to be **£12.252M**. This is an increase of **£2.905M** on the forecast in the 2021/22 Investment Strategy (Capital and Treasury) Outturn report (reported to Cabinet on 21st June 2022). The increase in spend in 2022/23 is largely due to the acquisition of Churchgate, but this is partially offset by the reprofiling of projects into 2023/24. Table 1 below details changes to capital programme.

Table 1- Current Capital Estimates

	2022/23 £M	2023/24 £M	2024/25 to 2031/32 £M
Original Estimates approved by Full Council February 2022	7.546	5.522	17.311
Changes approved by Cabinet in 3rd Qrt 2021/22	0.821	0	0
Changes approved by Cabinet in 2021/22 Capital Outturn report	0.980	0	0
Revised Capital estimates at start of 2022/23	9.347	5.522	17.311
Full Council approved additional Expenditure – Acquisition of Churchgate	4.350	0	0
Executive Member – Finance and I.T. approved additional Expenditure – Installation of Electric Charging Points at DCO	0.015	0	0
Executive Member – Finance and I.T. approved additional Expenditure – Shared Prosperity	0.060	0	0

	2022/23 £M	2023/24 £M	2024/25 to 2031/32 £M
Fund Interventions (two separate projects at £50k and £10k each)			
Changes at Q1	-1.520	2.048	0
Current Capital Estimates	12.252	7.570	17.311

8.4 Table 2 lists the schemes in the 2022/23 Capital Programme that will start or continue in 2023/24:

Table 2: Scheme Timetable Revision:

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

Scheme	2022/23 Working Budget £'000	2022/23 Forecast £'000	Difference £'000	Reason for Difference	Estimated impact on 2023/24 onwards £'000
John Barker Place Development	1,096	0	-1,096	The Development Agreement in place for the JBP development says that the full payment will be made on completion of all the properties in phases 1 and 2. Phase 1 is complete but phase 2 is not expected to be completed until the autumn of 2023.	1,096
Grounds Maintenance Vehicles & Machinery	315	0	-315	IFRS16 accounting standard requires operating leases for all material assets with a duration of more than one year to be recorded on the Council's Balance Sheet. Implementation has however been deferred to 23/24	315
Council car Fleet	141	0	-141	IFRS16 accounting standard requires operating leases for all material assets with a duration of more than one year to be recorded on the Council's Balance Sheet. Implementation has however been deferred to 2023/24.	141
Newark Close Road Replacement	65	0	-65	The temporary repairs carried out last year are holding reasonably well and as such the work can be deferred until next year.	65

Scheme	2022/23 Working Budget £'000	2022/23 Forecast £'000	Difference £'000	Reason for Difference	Estimated impact on 2023/24 onwards £'000
Resurface Lairage Car Park	350	4	-346	The partnering authority assisting with architectural and professional contract management services are no longer able to provide this service due to staff shortages. This has delayed the commencement of the project whilst alternative professional services are sought. Whilst the surfacing works are required to ensure the longer term integrity of the building it is not urgent.	346
Lairage Stairwells redecoration and Window/door replacement	75	0	-75	This project will be incorporated into the Resurface Lairage Car Park project. The project will therefore commence once those issues described above have been resolved	75
Other minor changes			-10		10
Total Revision to Budget Profile			-2,048		2,048

8.5 There are also changes to the overall costs of schemes in 2022/23. These changes total a net increase of £0.528million and are detailed in Table 3

Table 3: Changes to Capital Schemes Commencing in 2022/23:

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

Scheme	2022/23 Working Budget £'000	2022/23 Forecast Spend £'000	Difference £'000	Comments
Park Homes Insulation	0	341	+341	Provision of external wall insulation to eligible Park Homes under the Council's Park Homes Insulation Scheme to improve energy efficiency and reduce fuel poverty. The expenditure is fully financed from government grant received from BEIS.
S106 Projects	0	169	+169	To date, a total of £169k of S106 funds have been released for community schemes.

Scheme	2022/23 Working Budget £'000	2022/23 Forecast Spend £'000	Difference £'000	Comments
Playground Renovation	303	413	+110	The original budget of £180K in 21/22 (£57K spend with £123K budget reprofiled into 22/23) was to fund installation of single interactive play items at Bancroft Hitchin, Serby Ave Royston, Holroyd Crescent Baldock and Jackman's Central Letchworth. However the costs of the works at Jackman's Central, Serby Avenue Royston and Holroyd Crescent cost £18K more due to unforeseen issues to obtain electrical connections. In addition the material costs for each item was higher than anticipated. Cabinet is asked to authorise the additional budget required to complete the original planned works. This approval is required by the Councils financial regulations. Section 106 funding has been identified that could mostly (£81k) off set the shortfall, but please bear in mind that this funding may also have been available to use on other similar projects.
Royston Leisure Centre Solar Thermal Installation	50	70	+20	Project is on hold as tender price received exceeded tolerance limit. The requested increase in budget is required to cover plant costs, strip out works, pipework modifications, pipework integration and contractor prelims as these costs were not included in the original budget.
Letchworth Outdoor Pool Boiler	38	57	+19	Original budget for this project was £40K to replace one boiler (£2K spent in 21/22). The tender price came within the tolerance limit for a budget of this size but, following commencement of the installation, additional works were identified that needed completing. This meant the agreed variation to the tender price exceeded the tolerance limit as. A £40K budget to replace the second boiler is programmed into the Capital program in 23/24 but Officers will request an increase to this budget as part of the Financial Planning process.

Scheme	2022/23 Working Budget £'000	2022/23 Forecast Spend £'000	Difference £'000	Comments
Hitchin Swim Centre Outdoor Boiler Replacement	38	55	+17	Original budget for this project was £40K to replace one boiler (£2K spent in 21/22). The tender price came within the tolerance limit for a budget of this size but, following commencement of the installation, additional works were identified that needed completing. This meant the agreed variation to the tender price exceeded the tolerance limit as. A £40K budget to replace the second boiler is programmed into the Capital program in 23/24 but Officers will submit a new bid within the Financial Planning process requesting an increase this budget.
Acquisition of Churchgate	4,350	4,214	-136	The price paid for the acquisition of Churchgate was split between capital and some revenue costs. As part of the due diligence process there were some reductions in the price paid, and of these £35k adjusted the capital element. Other adjustments affected the total price paid, which reduced some of the acquisition costs, especially Stamp Duty. The original budget also made prudent allowances for the total fees that may be incurred, and these were lower than estimated.
Other minor changes			-12	
Total revision to scheme spend			+528	

8.6 Table 4 below shows how the Council will fund the 2022/23 capital programme.

Table 4: Funding the Capital Programme:

	2022/23 Balance at start of year £M	2022/23 Forecast Additions £M	2022/23 Forecast Funding Used £M	2022/23 Balance at end of year £M
Useable Capital Receipts and Set-aside Receipts	7.719	5.515	(10.527)	2.707
S106 receipts			(0.250)	
Other third party grants and contributions			(1.305)	
IT Reserve / Revenue			(0.170)	
Planned Borrowing			0	
Total			(12.252)	

- 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 2022 was negative £4.61M. Based on current forecasts it will remain negative during 2022/23

Treasury Management 2022/23

- 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 £58.2M 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 / individuals. Even though every effort has been made to pass the money on 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 reprofiling of capital spend in 2021/22.
- 8.11 The Council generated £0.094M of interest during the first three months of 2022/23. The average interest rate on all outstanding investments at the 30th June was 0.77%. (31st March it was 0.33%). Interest rates have continued to rise and are expected to increase further during the year. 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 £0.708M of interest over the whole of 2022/23.
- 8.12 As at 30th June 2022 the split of investments was as shown in the table below. 6% of total investments (and 23% of the total amount invested in banks) were non-UK banks:

Banks	24%
Building Societies	12%
Government	45%
Local Authorities	19%

- 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 2022. The most risky investment has a historic risk of default of 0.016%. 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 30 June	Historic Risk of Default %
DMO (Government)	4.5	1.05	AA-	1	0.000
Marsden Bldg Soc	1.5	0.25	*	11	0.011
DMO (Government)	2.0	1.035	AA-	19	0.001
Nationwide Bldg Soc	1.0	0.24	A	19	0.002
DMO (Government)	3.0	0.90	AA-	20	0.001
DMO (Government)	3.0	1.06	AA-	20	0.001
Leeds Bldg Soc	1.0	0.88	A-	20	0.003
Yorkshire Bldg Soc	2.0	0.93	A-	34	0.004
DMO (Government)	3.0	1.125	AA-	36	0.002
Australia & New Zealand Bank	1.0	1.34	A+	48	0.006
Australia & New Zealand Bank	2.0	1.41	A+	48	0.006
DMO (Government)	3.0	1.17	AA-	48	0.003
Leeds Bldg Soc	1.0	1.02	A-	48	0.006
Santander UK	1.0	1.10	A+	48	0.006
Santander UK	1.0	1.00	A+	49	0.006
Moray Council	3.0	0.20	AA-	53	0.003
North Norfolk Council	2.0	0.95	AA-	62	0.004
Blackpool Council	5.0	0.35	AA-	74	0.005
Nat West	1.0	0.39	A+	77	0.010
DMO (Government)	6.0	1.145	AA-	81	0.005
Nat West	2.0	1.28	A+	81	0.010
Nat West	2.0	1.35	A+	81	0.010
Santander UK	1.0	1.48	A+	82	0.010
Santander UK	1.0	1.20	A+	110	0.014
Santander UK	1.0	1.46	A+	123	0.016
	54.0	0.77			

* 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 Council 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 £37.1M. Indeed the current high inflation rates may make this situation worse than the tolerance limit of around 10%, particularly with the specific inflationary pressures on construction costs. This report includes one request to approve a variance that exceeded the general tolerance limit.

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 £18k 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 2022 was negative £4.61M.

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://srvmodgov01.north-herts.gov.uk/documents/s18463/INVESTMENT%20STRATEGY%20INTEGRATED%20CAPITAL%20AND%20TREASURY.pdf>

<https://srvmodgov01.north-herts.gov.uk/documents/s18464/Final2%20Cabinet%20Appendix%20A-%20Integrated%20Capital%20and%20Treasury%20Strategy.docx.pdf>