

CABINET
13 December 2022

***PART 1 – PUBLIC DOCUMENT**

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

REPORT OF: SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: FINANCE AND I.T.

COUNCIL PRIORITY: SUSTAINABILITY

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 September 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 £2.437M and an increase in spend in 2023/24 of £0.861M and £2.0M in 2024/25. The most significant individual changes decreasing the spend in 2022/23 relate to £2.0M Museum and Commercial Storage, £0.3M Property Improvements and £0.25M New Mausoleum which have been reprofiled into future years.
- 1.3 To inform Cabinet of the Treasury Management activities in the first six months of 2022/23. The current forecast is that the amount of investment interest expected to be generated during the year is £1.126M. This is an increase of £0.418M on the estimate reported in the 1st quarter report.

2 RECOMMENDATIONS

- 2.1 That Cabinet notes the forecast expenditure of £9.815M 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 £0.861M and £2.0M in 2024/25.
- 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 That Cabinet recommends to Council that it notes the position of Treasury Management activity as at the end of September 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 regular updates and 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 **£9.815M**. This is a decrease of **£2.437M** on the forecast in the 1st quarter report (reported to Cabinet on 13th September 2022). The decrease in spend in 2022/23 is largely due to the reprofiling of projects into 2023/24 and 2024/25. 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 Fund Interventions (two separate projects at £50k and £10k each)	0.060	0	0
Changes at Q1	-1.520	2.048	0

	2022/23 £M	2023/24 £M	2024/25 to 2031/32 £M
Full Council approved additional Expenditure – NHLC Soft Play	0.250	-0.100	0
Executive Member – Finance and I.T. approved additional Expenditure - Gum Gun	0.038		
Changes at Q2	-2.725	0.861	2.000
Current Capital Estimates	9.815	8.331	19.311

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

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
Museum and Commercial Storage	2,000	0	-2,000	Further work towards identifying the best route forwards, in terms of the appointment of a consultancy team and procurement of a principal contractor, have identified that the probable start date for construction is more likely to fall within 2023/24 and therefore reprofiling the capital budget accordingly is prudent at this time. Total budget for this project is £4M. Originally £2M in 2022/23 and £2M in 2023/24. This will now be profiled as £2M in 2023/24 and £2M in 2024/25	2,000
Property Improvements	604	300	-304	Whilst it's anticipated that a number of capital projects will be delivered during 2022/23, it's clear the entire budget allocation will not be used. Works will still be progressed for all higher priority improvements. The remainder will be delivered in later years, dependent on urgency and available resources.	304

Scheme	2022/23 Working Budget £'000	2022/23 Forecast £'000	Difference £'000	Reason for Difference	Estimated impact on 2023/24 onwards £'000
New Mausoleum Wilbury Hills	250	0	-250	This project has been reviewed by the Executive Member for Environment and Leisure, who has considered the commercial and community benefits from this project. Increasing costs and the need to clarify future demand has interrupted the progress of the project, with completion now expected in the next financial year.	250
Letch Multi-Storey Parapet/Soffit/Decoration	129	1	-128	The project management of these works was outsourced to Stevenage Borough Council who have struggled to recruit to posts that became vacant. As a result this project has been delayed until 2023/24 whilst alternative arrangements can be put in place.	128
Timber Access Bridge Norton Co	75	0	-75	Due to limited resources this project has not commenced but is now within the work program moving forward for 2023/24, using Countryside Management Services to project manage the project as part of their delivery program.	75
Mrs Howard Hall Boiler/Windows	63	0	-63	Ongoing lease negotiations are at a very advanced stage, with the aim of agreeing a full repairing lease with the tenant. Currently waiting for the tenant to sign the lease agreement but anticipate this won't happen until towards the end of this financial year.	63
Former Public Conveniences, Portmill Lane- works to make available for letting	25	0	-25	Due to other more pressing priorities and limited officer resource within Estates, this project has had to be placed on hold for this financial year.	25
Other minor changes			-16		16
Total Revision to Budget Profile			-2,861		2,861

8.5 There are also changes to the overall costs of schemes in 2022/23. These changes total a net increase of £0.098million 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
Environmental Improvements to Leisure Centres	115	186	+71	<p>3 projects totalling £40K within the original budget of £115K are not viable and will not proceed.</p> <p>Following a full review of the existing Building Management Systems at each leisure facility, costs to upgrade the software and move to desktop access are over the original estimated budget included in the 2020 North Herts Greenhouse Gas Reduction Report. The project remains viable due to the energy saving measures that can be realised onsite by staff following this work. An increase of £59K is required for the project to progress.</p> <p>Cavity wall insulation remains a viable project at NHLC due to the impact on loss of heat / cooling it will have on the centre. In addition it will benefit the soft play project which is located on the same wall as the insulation works. Quotations have been received for the insulation at NHLC and are over the estimated original budget of £10k, therefore an increase of £52k is required for the project to progress.</p>
North Herts Leisure Centre Soft Play	250	288	+38	<p>Following approval of the soft play project a detailed scope has been developed. This has identified additional elements not included in the original scope resulting in an increase in costs. The additional elements include: increasing the size of the soft play structure, introducing air conditioning/ heating, relocating the entrance/access gate, accessible toilet/ baby change area and seating provision. In addition, there has been a general increase in build costs since the original scope was developed</p>

Scheme	2022/23 Working Budget £'000	2022/23 Forecast Spend £'000	Difference £'000	Comments
Laptop Refresh Programme	24	49	+25	The need for laptops is going through a period of growth based on new ways of working. Each user needs a device. So things like long term sick, temporary replacements, maternity cover and job share introductions lead to technology growth even though there's no staff growth.
Other minor changes			+2	
Total revision to scheme spend			+136	

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	7.643	5.578	(8.302)	4.919
S106 receipts			(0.258)	
Other third party grants and contributions			(1.255)	
IT Reserve / Revenue			0	
Planned Borrowing			0	
Total			(9.815)	

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 six months, the Council had an average investment balance of £59.0M 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 £0.315M of interest during the first six months of 2022/23. The average interest rate on all outstanding investments at the 30th September was 2.16%. (30th June it was 0.77%). 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 £1.126M of interest over the whole of 2022/23.
- 8.12 As at 30th September 2022 the split of investments was as shown in the table below. The high level of balances with the Debt Management Office (DMO) reflects the higher rates they paid during the quarter compared to Building Societies and other Local Authorities.

Banks	26%
Building Societies	9%
Government	65%
Local Authorities	0%

- 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 30th September 2022. The most risky investment has a historic risk of default of 0.022%. 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 Sept	Historic Risk of Default %
DMO (Government)	1.0	1.97	AA-	1	0.000
DMO (Government)	5.0	1.405	AA-	18	0.001
Santander UK	1.0	1.2	A	18	0.002
DMO (Government)	2.0	1.75	AA-	19	0.001
Santander UK	1.0	1.46	A	31	0.004
DMO (Government)	8.0	2.0	AA-	35	0.002
DMO (Government)	3.0	1.81	AA-	38	0.002
DMO (Government)	6.0	1.845	AA-	47	0.003

Borrower	Principal Invested £M	Interest Rate %	Credit Rating	Days to Maturity at 30 Sept	Historic Risk of Default %
Santander UK	1.0	2.06	A	48	0.006
Santander UK	1.0	2.22	A	56	0.006
Australia & New Zealand Bank	2.0	2.11	A+	76	0.010
DMO (Government)	5.0	2.405	AA-	76	0.005
Yorkshire Bldg Soc	3.0	1.79	A-	76	0.010
DMO (Government)	2.0	2.145	AA-	77	0.005
DMO (Government)	3.0	1.95	AA-	80	0.005
Santander UK	1.0	2.48	A	81	0.010
DMO (Government)	2.0	2.33	AA-	110	0.007
Nat West	2.0	2.8	A+	112	0.014
Yorkshire Bldg Soc	2.0	2.2	A-	126	0.016
Australia & New Zealand Bank	1.0	2.72	A+	140	0.018
Nat West	2.0	3.0	A+	143	0.018
Nat West	1.0	3.2	A+	166	0.021
Australia & New Zealand Bank	2.0	3.43	A+	171	0.022
	57.0	2.16			

DMO credit rating is 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 £3.9M higher than the budgeted £37.5M. 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 due to construction costs.

- 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 £22k 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).
- 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

17.1 Report Writer – Dean Fury, Corporate Support Accountant, Tel 474509,
Dean.fury@north-herts.gov.uk

Ian Couper, Service Director: Resources, Tel 474243, email
ian.couper@north-herts.gov.uk

Antonio Ciampa, Accountancy Manager, Tel 474566, email,
Antonio.ciampa@north-herts.gov.uk

Reuben Ayavoo, Policy and Communities Manager, Tel 474212, email,
Reuben.ayavoo@north-herts.gov.uk

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>