

CABINET
14 March 2023

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: THIRD 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 December 2022.
- 1.2 To update Cabinet on the impact upon the approved capital programme for 2022/23 – 2032/33. The current estimate is a decrease in spend in 2022/23 of £1.490M and an increase in spend in 2023/24 of £1.554M. The most significant individual changes decreasing the spend in 2022/23 relate to £0.278M Cycle Strategy Implementation, £0.250M Transport Plans Implementation, £0.235M Parking Charging Payments Management and £0.201M Off-street Parking Resurfacing which have been reprofiled into 2023/24.
- 1.3 To inform Cabinet of the Treasury Management activities in the first nine months of 2022/23. The current forecast is that the amount of investment interest expected to be generated during the year is £1.277M. This is an increase of £0.151M on the estimate reported in the 2nd quarter report.

2 RECOMMENDATIONS

- 2.1 That Cabinet notes the forecast expenditure of £8.370M 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 £1.554M.
- 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 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 13th February 2023.

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 2032/33 and the funding source for each capital scheme.
- 8.3 Capital expenditure for 2022/23 is estimated to be **£8.370M**. This is a decrease of **£1.490M** on the forecast in the 2nd quarter report (reported to Cabinet on 13th December 2022). The decrease in spend in 2022/23 is largely due to 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 2032/33 £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 2032/33 £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	0	0
Changes at Q2	-2.725	0.861	2.000
Full Council 23/24 Budget	0.045	0.184	3.740
Executive Member – Finance and I.T. approved additional Expenditure – Bancroft Café Kiosk	0.020	0	0
Executive Member – Finance and I.T. approved additional Expenditure – Careline Laptops	0.030	0	0
Changes at Q3	-1.540	1.554	0
Current Capital Estimates	8.370	10.069	23.051

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
Cycle Strategy Implementation	278	0	-278	Currently working in partnership with HCC in preparing a Local Cycling Walking & Infrastructure Plan (LCWIP) which was due for completion this financial year. However due to the high number of consultation responses, further work is required by HCC in reviewing them. Adoption of the LCWIP will not be until autumn 2023. The LCWIP should identify possible schemes that could be part funded from this budget, but these are not likely to occur until late 2023/24.	278

Scheme	2022/23 Working Budget £'000	2022/23 Forecast £'000	Difference £'000	Reason for Difference	Estimated impact on 2023/24 onwards £'000
Transport Plans Implementation	250	0	-250	Following the prolonged Examination process, adoption of the Local Plan only occurred in Nov 2022, as such, work has only recently commenced on the preparation of Supplementary Planning Documents including sustainable transport measures. These are to be completed in 2023/24 which may identify possible schemes that could be part funded from this budget.	250
Parking Charging Payments Management	235	0	-235	This year a detailed feasibility study on alternative methods of payment options has been undertaken. Officers will now be progressing with a detailed procurement exercise to undertake a trial/phasing exercise for new parking machines/technologies to be installed within various car parks commencing in the next financial year.	235
Off Street Car Parks Resurfacing	209	8	-201	Following a resurvey of the car parks some re-profiling of the required planned works has enabled some works to be carried out later than previously expected.	201
Green Infrastructure Implementation	185	0	-185	Following the prolonged Examination process, adoption of the Local Plan only occurred in Nov 2022, as such, work has only recently commenced on the preparation of a Green Infrastructure Supplementary Planning Documents to be completed in 2023/24 which may identify possible schemes that could be part funded from this budget.	185

Scheme	2022/23 Working Budget £'000	2022/23 Forecast £'000	Difference £'000	Reason for Difference	Estimated impact on 2023/24 onwards £'000
Lairage Multistorey Car Park Structural Repairs	114	0	-114	Due to resourcing issues experienced by a third party engaged to tender and manage the works, it's been necessary to find an alternative supplier. A new Quantity Surveyor has been engaged to manage this project and the works will be completed in 2023/24.	114
Match Funding Electric Vehicle Charging	100	0	-100	The procurement exercise in appointing an EV ChargePoint supplier is near completion as is the submission for Govt grant funding. Subject to a successful bid and grant funding still being available the implementation of EV Charge points across NHC car parks will commence next financial year.	100
Royston Leisure Centre Solar Thermal Installation	70	3	-67	Revised project completion date of June 2023 (original due date was 31 March 2023). This is due to undertaking a second procurement exercise. The actual date will be dependent on lead in time for solar panels and project plan from appointed contractor	67
Install On-Street Charging	50	0	-50	This project has been put on hold while undertaking a detailed feasibility study on alternative methods of payment which links in with the overall Parking Charging Payments Management System.	50

Scheme	2022/23 Working Budget £'000	2022/23 Forecast £'000	Difference £'000	Reason for Difference	Estimated impact on 2023/24 onwards £'000
Museum Services Development	48	0	-48	The remaining budget remains earmarked for the introduction of year round use of one of the external spaces of the museum. The exact design has yet to be settled upon due to complexities with the design of the area and the fabric of the structure surrounding this space, however Officers remain optimistic of finding a suitable solution to this in 2023/24	48
Other minor changes			-35		34
Total Revision to Budget Profile			-1.563		1.563

8.5 There are also changes to the overall costs of schemes in 2022/23. These changes total a net increase of £0.023million 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
S106 Projects	177	220	+43	To date, a total of £220k of S106 funds have been released for community schemes.
North Herts Museum Platform Lift	40	0	-40	Due to various more minor works conducted to address the defects of the existing lifts, these now appear to be running more reliably and therefore the budget identified to fully replace these lifts is deemed to no longer be required
Other minor changes			+20	
Total revision to scheme spend			+23	

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	(7.626)	5.595
S106 receipts			(0.301)	
Other third party grants and contributions			(0.443)	
IT Reserve / Revenue			0	
Planned Borrowing			0	
Total			(8.370)	

- 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 £4.45M. 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 nine months, the Council had an average investment balance of £60.0M 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.
- 8.11 The Council generated £0.743M of interest during the first nine months of 2022/23. The average interest rate on all outstanding investments at the 31st December was 3.21%. (30th September it was 2.16%). 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 £1.277M of interest over the whole of 2022/23.

8.12 As at 31st December 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	25%
Building Societies	18%
Government	49%
Local Authorities	8%

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 31st December 2022. The most risky investment has a historic risk of default of 0.017%. 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 %
DMO (Government)	1.0	3.185	AA-	3	0.000
DMO (Government)	3.0	3.04	AA-	13	0.001
DMO (Government)	2.0	2.33	AA-	18	0.001
DMO (Government)	6.0	2.815	AA-	18	0.001
Nat West	2.0	2.8	A+	20	0.003
Yorkshire Bldg Soc	2.0	2.2	A-	34	0.004
Leeds Bldg Soc	3.0	2.98	A-	37	0.005
DMO (Government)	3.0	3.13	AA-	47	0.003
DMO (Government)	6.0	3.025	AA-	47	0.003
Australia & New Zealand Bank	1.0	2.72	A+	48	0.006
Nat West	2.0	3.0	A+	51	0.006
Coventry Bldg Soc	1.0	3.07	A-	65	0.008
DMO (Government)	2.0	3.4	AA-	65	0.004
Leeds Bldg Soc	1.0	3.16	A-	67	0.008
Leeds Bldg Soc	1.0	3.16	A-	74	0.009
Nat West	1.0	3.2	A+	74	0.009
DMO (Government)	7.0	3.19	AA-	76	0.005
Santander UK	1.0	3.53	A	76	0.010
Australia & New Zealand Bank	2.0	3.43	A+	79	0.010
Santander UK	1.0	3.74	A	79	0.010
Santander UK	1.0	3.52	A	79	0.010
Santander UK	1.0	3.59	A	86	0.011
Santander UK	1.0	3.62	A	90	0.011
Yorkshire Bldg Soc	3.0	3.6	A-	107	0.014

Borrower	Principal Invested £M	Interest Rate %	Credit Rating	Days to Maturity at 31 Dec	Historic Risk of Default %
Australia & New Zealand Bank	2.0	4.14	A+	135	0.017
Worcestershire County Council	5.0	3.85	AA-	173	0.011
	61.0	3.21			

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 £4.4M higher than the budgeted £41.5M. 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.
- 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 £40k 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 £4.45M.

- 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>