

CABINET
27 June 2023

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: INVESTMENT STRATEGY (CAPITAL AND TREASURY) END OF YEAR REVIEW 2022/23

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 2022/23, there is a reduction in Capital spend compared to quarter 3 of **£1.447million**. The majority of this change is due to revisions to the profile of planned project spend, with **£1.222million** that will now instead be incurred in 2023/24.
- 1.2 During the year the Council has generated **£1.310million** of interest from its investments. This is more than the budgeted total of £1.277million at Quarter 3, and significantly more than the original budget of £0.119million.
- 1.3 The Council has repaid £0.019million of borrowing during the year as it has matured. The Council has £0.367million 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.

2. RECOMMENDATIONS

- 2.1 That Cabinet notes expenditure of £6.923million in 2022/23 on the capital programme, paragraph 8.3 refers.
- 2.2 That Cabinet approves the adjustments to the capital programme for 2023/24 as a result of the revised timetable of schemes detailed in table 2, increasing the estimated spend in by £1.222million.
- 2.3 That Cabinet notes the position of the availability of capital resources, as detailed in table 4 paragraph 8.7 and the requirement to keep the capital programme under review for affordability.

- 2.4 That Cabinet approves the application of £6.300million of capital receipts/set aside towards the 2022/23 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 2023.
- 2.6 Cabinet is asked to recommend this report to Council and ask Council to:
 - 1) Approve the actual 2022/23 prudential and treasury indicators.
 - 2) Note the annual Treasury Report for 2022/23.

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 21st April 2023.

7. BACKGROUND

- 7.1 In February 2022, Council approved the Integrated Capital and Treasury Strategy for 2022/23 to 2031/32.

- 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 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 £124.5 million of capital assets that it currently owns (as at 31 March 2023). This has increased from £121.0 million as at 31 March 2022. 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. The significant change to this during 2022/23 was the acquisition of the leasehold of the Churchgate shopping centre in Hitchin. This was assessed as part of the 2023/33 Investment Strategy.

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 actual spend from 2022/23 to 2032/33 and the funding source for each capital scheme.
- 8.3 The Outturn Capital expenditure for 2022/23 is **£6.923million**. This is a reduction of **£1.447million** 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

	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
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
Changes since Q3 (as detailed in this report)	-1.447	1.222	
Outturn 2022/23	6.923	11.291	23.051

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	2022/22 Outturn £'000	Difference £'000	Reason for Difference	Estimated impact on 2023/24 onwards £'000
Property Improvements	300	119	-181	<p>The underspend is due to:</p> <p>1) Some works identified by previous surveys as being required in the future have found not to be necessary by our Building Surveyor when they have been reassessed.</p> <p>2) Some works do not meet the criteria to be capitalised and consequently are funded through the revenue budget.</p> <p>3) The precise long-term future of some buildings needs to be resolved, and it is not prudent for some works to take place until that happens.</p> <p>4) Works to re-roof a flat roof at Hitchin Outdoor pool were put back to ensure better weather conditions for the type of works being undertaken.</p>	181
Environmental Improvements	187	40	-148	Quotations and works still being carried out for individual project items	148
Community Facilities Refurbishment	194	100	-94	All the capital funding has been allocated but not drawn down by the applicants. The funding will be paid when the various criteria of each award are met	94
Home Repair Assistance	120	32	-88	Due to ongoing staffing issues and the confusion over the introduction by the Government of other home improvement targeted grants schemes, there has been a reduction in the demand for assistance. During 2023/24,	88

Scheme	2022/23 Working Budget £'000	2022/22 Outturn £'000	Difference £'000	Reason for Difference	Estimated impact on 2023/24 onwards £'000
				it is hoped to again raise the profile of this grant scheme and signpost more people towards this assistance	
NHLC Soft Play	288	202	-86	Works complete April 23	86
Playground Renovation – District Wide 22/23	194	111	-83	Works delayed due to supply issues - works currently in progress at Smithson's Rec and are due for completion in June.	83
Thomas Bellamy House Structure	65	1	-64	Procurement of a contractor to undertake the proposed project has been delayed due to other projects having a higher priority. Two tenders have recently been received and the project is now likely to be undertaken in the 2023-24.	64
Shared Prosperity Fund	60	0	-60	This funding is for outdoor gym equipment in Royston. The equipment has been ordered and will be installed by the end of June. The delay was due to the late agreement by Government of our SPF plan, and the lead-time for equipment. The budget in 2023/24 will cover outdoor gym equipment in our other towns.	60
Leisure Condition Survey	59	0	-59	Roof repairs at Letchworth Outdoor Pool - works commenced in April but have paused until the pool closes in September.	59
Upgrade 25 Parking Machines	56	0	-56	Project to be reviewed subject to outcome of Alternative Methods of Payment Review to be progressed in 2023-24 which will include the upgrade and replacement of pay & display machines across the car parks over a 2 year period.	56
Riverside walkway Biggin Lane	53	0	-53	Agreements not in place to permit project to proceed just	53

Scheme	2022/23 Working Budget £'000	2022/22 Outturn £'000	Difference £'000	Reason for Difference	Estimated impact on 2023/24 onwards £'000
				yet. Working to progress the legal issues and permissions to deliver the project.	
Bury Mead Road Transfer Facility	30	0	-30	Plans to design the proposed facility upgrades are still under negotiation with the tenant of the site and with Hertfordshire County Council who are a major stakeholder in the site. It is expected the plans will be finalised in 2023-24 and the budget spent in the same period.	30
Infrastructure Hardware	28	0	-28	Staff vacancies have meant resources were not available to complete tasks within the financial year	28
Howard Gardens Splashpad	35	5	-30	The original budget allowed for replacement of the filter vessels due to their construction being fibreglass. However, our contractors were able to remove the old filter medium and replaced it with new without damaging the filter vessels themselves – resulting in an underspend. Work was undertaken in preparation for the 23/24 season which meant that it over ran into the current financial year and are now complete.	17
Total Minor (under £25k) slippage on other projects	285	107	-178		175
Total Revision to Budget Profile			-1.238		1.222

8.5 There are also changes to the overall costs of schemes in 2022/23. These changes total a net decrease of £0.225million and are detailed in Table3.

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 Spend £'000	Difference £'000	Comments
Park Homes Insulation	341	243	-98	This was a grant funded scheme with any unspent funds to be returned. In addition to the £243K Capital spend there were £38K of Revenue costs funded from the £341K budget. The remaining £60K was returned to Government when the scheme closed.
Replacement Flood lights St Mary's	60	0	-60	Lighting repair works have been completed which restored lighting to St Mary's car park without the need to draw on this budget. A future upgrading scheme may be considered once the full extent of the Churchgate regeneration works are established.
Microsoft Enterprise Agreement	617	560	-57	Fluctuations in software costs resulted in the contract being cheaper than originally estimated a year ago.
Other minor changes			-10	
Total revision to scheme spend			-225	

8.6 The following capital schemes have been completed during 2022/23:

- Completion of all remaining works on the Playground Renovation projects for 21/22
- Gt Ashby District Park Safety
- Ramsoms Recreation Ground Footpaths and Gates
- Icknield Way Cemetery Paths
- Purchase of the Gum Cleaning Machine
- Centros Integra Upgrade
- Churchgate Acquisition
- NHLHC Sauna Steam Refurbishment
- Hitchin Swim Centre Outdoor Boiler Replacement
- Letchworth Outdoor Pool Boiler
- Replace Hot Water Calorifier at Hitchin Swim Centre
- Bancroft Kiosk
- Sprung Floor at Hitchin Town Hall
- Park Homes Insulation

Capital Programme 2022/23 Funding onwards

8.7 Table 4 below shows how the Council have funded the 2022/23 capital programme.

Table 4: Funding the Capital Programme:

	2022/23 Balance at start of year £M	2022/23 Additions £M	2022/23 Funding Used £M	2022/23 Balance at end of year £M
Useable Capital Receipts and Set-aside Receipts	7.643	4.209	(6.300)	5.552
S106 receipts			(0.316)	
Other third party grants and contributions			(0.306)	
Revenue Contributions / IT Reserve			(0.001)	
Planned Borrowing			0	
Total			(6.923)	

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 2023 was negative £2.719 million (negative £4.45 million 31st March 2022). 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 23/24 and 24/25 there will be a potential need to borrow £1.0M, which will have an impact on the General Fund by way of a Minimum Revenue Provision (MRP) and interest payments.

Treasury Management 2022/23

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.

8.11 The Council generated £1.310M of interest during 2022/23. The average interest rate agreed on new deals during the year was 2.89%. The average interest rate on all outstanding investments at the 31st March was 4.19%.

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 2022/23 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 £18M of outstanding investments to be invested for longer than 365 days at any one time. At the end of the year the Council had one investment for £2M invested for longer than 365 days (commencing 20/03/23). This reflects that interest rates have continued to rise during the year and not wanting to lock in to a longer term fixed rate that was too low.

8.17 **Interest (Yield)** – The Bank of England increased Bank Rate eight times during 2022/23 starting the year at 0.75% and ending at 4.25%. With investments being kept relatively short the yield on investments increased as the year went on. £1.310million of interest was received during the year compared to £0.075million in 2021/22.

8.18 The investments outstanding at the 31 March 2023 were £50.5million. This compares to a balance of £57.5million at 31 March 2022. Investment in capital projects will continue during 2023/24 and the estimated investment interest for 2023/24 was set at £1.602million. 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 £3.735million higher than the budgeted £34.342million.
- 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 £45k per year in interest (4.5%). 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 2023 was negative £2.719million. This may turn positive in 24/25 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 2022/23 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 2022/23 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://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>