

**CABINET**  
**19 September 2023**

**\*PART 1 – PUBLIC DOCUMENT**

**TITLE OF REPORT: FIRST QUARTER INVESTMENT STRATEGY (CAPITAL AND TREASURY) REVIEW 2023/24**

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 2023/24, as at the end of June 2023.
- 1.2 To update Cabinet on the impact upon the approved capital programme for 2023/24 – 2032/33. The current estimate is a decrease in spend in 2023/24 of £0.853M and an increase in spend in 2024/25 of £0.686M and £0.585M in the following years of the capital programme. The most significant individual changes to the spend in 2023/24 relate to an increase of £0.385M funding for addition social housing and decreases of £0.385M Property Improvements, £0.315M Grounds Maintenance Vehicles & Machinery and £0.300M Walsworth Common Pavilion which have been reprofiled into 2024/25 and beyond.
- 1.3 To inform Cabinet of the Treasury Management activities in the first three months of 2023/24. The current forecast is that the amount of investment interest expected to be generated during the year is £2.602M. This is an increase of £1.0M on the original estimate.

**2 RECOMMENDATIONS**

- 2.1 That Cabinet notes the forecast expenditure of £10.438M in 2023/24 on the capital programme, paragraph 8.3 refers.
- 2.2 That Cabinet approves the adjustments to the capital programme for 2023/24 onwards, as a result of the revised timetable of schemes detailed in table 2 and 3, increasing the overall estimated spend in 2024/25 and beyond by £1.271M.
- 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 2023.

### **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 18th August 2023.

### **7. BACKGROUND**

- 7.1 In February 2023, Council approved the Integrated Capital and Treasury Strategy for 2023/24 to 2032/33. To be consistent with the strategy, the monitoring reports for Capital and Treasury are also integrated.
- 7.2 The Medium Term Financial Strategy for 2023 to 2028 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 £125.0M 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 2023/24

8.2 The full capital programme is detailed in Appendix A and shows the revised costs to date, together with the expected spend from 2023/24 to 2032/33 and the funding source for each capital scheme.

8.3 Capital expenditure for 2023/24 is estimated to be **£10.438M**. This is a decrease of **£0.853M** on the forecast in the 2022/23 Investment Strategy (Capital and Treasury) End of Year Review report (presented to Cabinet on 27<sup>th</sup> June 2023). The decrease in spend in 2023/24 is largely due to the reprofiling of projects into 2024/25 and beyond. Table 1 below details changes to capital programme.

**Table 1- Current Capital Estimates**

	2023/24 £M	2024/25 £M	2025/26 to 2032/33 £M
<b>Original Estimates approved by Full Council February 2023</b>	<b>8.516</b>	<b>7.427</b>	<b>15.624</b>
<b>Changes approved by Cabinet in 3rd Qrt 2022/23</b>	1.554	0	0
<b>Changes approved by Cabinet in 2022/23 Capital Outturn report</b>	1.221	0	0
<b>Revised Capital estimates at start of 2022/23</b>	<b>11.291</b>	<b>7.427</b>	<b>15.624</b>
<b>Changes at Q1</b>	-0.853	0.686	0.585
<b>Current Capital Estimates</b>	<b>10.438</b>	<b>8.113</b>	<b>16.209</b>

8.4 Table 2 lists the schemes in the 2023/24 Capital Programme that will now start or continue in 2024/25 and onwards:

**Table 2: Scheme Timetable Revision:**

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

Scheme	2023/24 Working Budget £'000	2023/24 Forecast £'000	Difference £'000	Reason for Difference	Estimated impact on 2024/25 onwards £'000
Property Improvements	485	100	-385	Some works identified by previous surveys as being required in the future have found not to be necessary by our Building Surveyor and a variety of works that were previously funded from this capital budget do not meet the criteria to be capitalised and consequently are funded through the revenue budget. In addition a number of premises are in a state of flux awaiting longer term strategic decisions from Estates on their future. Our Building Surveyor plans to complete an estimated £100K of re-roofing works during this financial year.	385
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 24/25	315
Leased Vehicles	141	0	-141		141
Walsworth Common Pavilion	300	0	-300	As the development of the pavilion is in part due to be funded from S106 contributions associated with Highover Farm, this project has been delayed pending commencement of the Highover Farm development.	300
Lairage Stairwells Windows/Doors	75	0	-75	Due to more pressing projects our Building Surveyor will not be able to deliver this project during this financial year.	75

Scheme	2023/24 Working Budget £'000	2023/24 Forecast £'000	Difference £'000	Reason for Difference	Estimated impact on 2024/25 onwards £'000
Bancroft Lighting	45	0	-45	Due to the renovation of the play area and introduction of the kiosk at Bancroft Recreation Ground it was felt prudent to wait until these projects are complete and to allow time to identify the key areas of activity to inform the position of the lighting in the future.	45
<b>Other minor changes</b>			-10		10
<b>Total Revision to Budget Profile</b>			<b>-1,271</b>		<b>1,271</b>

8.5 There are also changes to the overall costs of schemes in 2023/24. These changes total a net increase of £0.418million and are detailed in Table 3

**Table 3: Changes to Capital Schemes Commencing in 2023/24:**

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

Scheme	2023/24 Working Budget £'000	2023/24 Forecast Spend £'000	Difference £'000	Comments
S106 Projects	0	31	+31	To date a total of £31K of S106 funds have been released for community schemes.
S016 Funding for additional social housing	0	385	+385	This is using commuted sums held/ received in lieu of affordable housing provision that could not be delivered on site by the developer. This contribution will enable the delivery of a 100% affordable housing scheme (on the Foundation House site in Letchworth) including 34 additional affordable homes on top of the 23 homes to meet the council's policy requirements. The scheme (and therefore this allocation) will also be dependent on Homes England grant funding.
North Herts Leisure Centre Soft Play	86	113	+27	Increased construction costs due to additional lighting and fire alarm alterations, soft play signage and internal branding. The overall variance is against a total budget for this scheme of £288k.

<b>Scheme</b>	<b>2023/24 Working Budget £'000</b>	<b>2023/24 Forecast Spend £'000</b>	<b>Difference £'000</b>	<b>Comments</b>
Back up Diesel 40 KVA Generator	25	0	-25	Following further consultation with the Landlord for Unit 3, we were unable to obtain permission to locate a diesel generator to serve the premises. We have a UPS Battery back-up system currently in place and are looking at green alternatives that fit within the acceptable conditions defined by the Landlord.
Solar PV and Solar Thermal projects at Leisure Centres	788	788	0	A bid is being developed for the Public Sector Decarbonisation Fund (PSDF). The bid will be supported by consultants, which are being fully funded from a separate grant fund. Subject to advice from the consultants we will include any relevant solar projects, as well as any other viable decarbonisation schemes. Match funding will be required, and some of this budget may be put forward to form that match funding. Overall, if we can achieve a successful PSDF bid then we will be able to achieve more decarbonisation projects with the same (or less) use of Council funding. The precise changes to the capital programme will be detailed in a future report.
<b>Other minor changes</b>			<b>0</b>	
<b>Total revision to scheme spend</b>			<b>+418</b>	

8.6 Table 4 below shows how the Council will fund the 2023/24 capital programme.

**Table 4: Funding the Capital Programme:**

	<b>2023/24 Balance at start of year £M</b>	<b>2023/24 Forecast Additions £M</b>	<b>2023/24 Forecast Funding Used £M</b>	<b>2023/24 Balance at end of year £M</b>
Useable Capital Receipts and Set-aside Receipts	5.552	9.579	(8.070)	7.061
S106 receipts			(0.786)	
Other third party grants and contributions			(1.582)	
IT Reserve / Revenue			0	
Planned Borrowing			0	
<b>Total</b>			<b>(10.438)</b>	

- 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 31<sup>st</sup> March 2023 was negative £2.72M. Based on current forecasts it will remain negative during 2023/24.

**Treasury Management 2023/24**

- 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 provision balances and variations in cash due to the timing of receipts and payments. During the first three months of 2023/24, the Council had an average investment balance of £53.4M 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 The Council generated £0.595M of interest during the first three months of 2023/24. The average interest rate on all outstanding investments at the 30th June was 4.47%. (31st March it was 4.19%). 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 £2.602M of interest over the whole of 2023/24.
- 8.11 As at 30th June 2023, the split of investments was as shown in the table below.

Banks	36%
Building Societies	12%
Government	16%
Local Authorities	36%

- 8.12 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 June 2023. The most risky investment has a historic risk of default of 0.034%. 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.

<b>Borrower</b>	<b>Principal Invested £M</b>	<b>Interest Rate %</b>	<b>Credit Rating</b>	<b>Days to Maturity at 31 Dec</b>	<b>Historic Risk of Default %</b>
DMO (Government)	2.0	4.88	AA-	19	0.001
Nat West	2.0	4.15	A+	20	0.002
North Lanarkshire Council	2.0	3.99	AA-	31	0.002
Sterling Council	1.0	3.95	AA-	31	0.002
Leeds Building Society	3.0	4.00	A-	38	0.005
Worthing Borough Council	5.0	3.9	AA-	48	0.003
DMO (Government)	3.0	4.765	AA-	52	0.003
Lloyds	1.0	4.55	A+	56	0.007
Dorset Council	2.0	4.5	AA-	68	0.004
Lloyds	1.0	4.28	A+	77	0.010
London Borough of Newham	2.0	3.4	AA-	77	0.005
DMO (Government)	2.0	4.77	AA-	80	0.005
Blackpool Council	2.0	5.0	AA-	84	0.005
DMO (Government)	1.0	4.75	AA-	110	0.007
Yorkshire Building Society	2.0	4.33	A-	111	0.014
Yorkshire Building Society	1.0	4.6	A-	137	0.017
Santander UK	2.0	4.46	A	139	0.017
Nat West	2.0	4.4	A+	143	0.018
Folkestone & Hythe District Council	2.0	4.4	AA-	153	0.009
Santander UK	1.0	4.74	A	164	0.020
Nat West	1.0	4.42	A+	168	0.020
Australia & New Zealand Bank	1.0	4.58	A+	171	0.021
Oxford City Council	2.0	4.65	AA-	171	0.011
Santander UK	1.0	5.13	A	174	0.022
Lloyds	1.0	4.84	A+	237	0.029
Australia & New Zealand Bank	2.0	5.02	A+	262	0.032
Australia & New Zealand Bank	2.0	4.4	A+	264	0.033
Lloyds	1.0	4.4	A+	271	0.034
	50.0	4.47			

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 £3.8M higher than the budgeted £34.8M. 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 £50k per year in interest. The general fund estimates are routinely updated to reflect changes in 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 £2.72M.

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 2023/24 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 2023/24 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](mailto:Dean.fury@north-herts.gov.uk)

Ian Couper, Service Director: Resources, Tel 474243, email  
[ian.couper@north-herts.gov.uk](mailto:ian.couper@north-herts.gov.uk)

Antonio Ciampa, Accountancy Manager, Tel 474566, email,  
[Antonio.ciampa@north-herts.gov.uk](mailto:Antonio.ciampa@north-herts.gov.uk)

Reuben Ayavoo, Policy and Communities Manager, Tel 474212, email,  
[Reuben.ayavoo@north-herts.gov.uk](mailto: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/s21271/INVESTMENT%20STRATEGY%20INTEGRATED%20CAPITAL%20AND%20TREASURY.pdf>

[Uploaded Appendix A- Integrated Capital and Treasury Strategy.docx.pdf \(north-herts.gov.uk\)](#)