

CABINET
16 January 2024

***PART 1 – PUBLIC DOCUMENT**

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

REPORT OF: SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: FINANCE AND I.T – IAN ALBERT

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 September 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 £2.453M and an increase in spend in 2024/25 of £1.789M and £2.109M in the following years of the capital programme. The most significant individual changes to the forecast spend in 2023/24 relate to the reprofiling into future years of £2.000M Museum Storage unit and £1.096M Development of John Barker Place, and an increase of £1.424M Local Authority Housing Fund Round 2.
- 1.3 To inform Cabinet of the Treasury Management activities in the first six months of 2023/24. The current forecast is that the amount of investment interest expected to be generated during the year is £3.014M. This is an increase of £0.412M on the estimate reported in the 1st quarter report.

2 RECOMMENDATIONS

- 2.1 That Cabinet notes the forecast expenditure of £8.185M 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 £3.898M.
- 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 2023 including the new Capital items.

- 2.5 That Cabinet recommends to Council that it confirms the addition of the Local Authority Housing Fund Phase 2 to the capital programme for 2023/24 and approves the reprofiling of Bancroft & Priory Splash Pads from 2024/25 into 2023/24.

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 13 October 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 **£8.185M**. This is a decrease of **£2.453M** on the forecast in the 1st quarter report (reported to Cabinet on 19th September 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
Original Estimates approved by Full Council February 2023	8.516	7.427	15.624
Changes approved by Cabinet in 3rd Qrt 2022/23	1.554	0	0
Changes approved by Cabinet in 2022/23 Capital Outturn report	1.221	0	0
Revised Capital estimates at start of 2022/23	11.291	7.427	15.624
Changes at Q1	-0.853	0.686	0.585
New Financial System - Council Approved 28/09/23	0.200		
Changes at Q2	-2.453	1.789	2.109
Current Capital Estimates	8.185	9.902	18.318

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
Museum and Commercial Storage	2,000	0	-2,000	Options for a museum storage solution are currently being explored. Any capital works are not now expected to commence before the end of this financial year. It is therefore also recommended that the earmarked project allocation of £2m in 2024/25 is reprofiled to 2025/26.	2,000
John Barker Place Development	1,096	0	-1,096	Phase 1 was completed some time ago, but Cabinet approval is for payment on completion of phases 1 and 2 in accordance with the Development Agreement. Phase 2 was due to complete in December 2023, but the contractor Jarvis Construction went into administration earlier this year and this has caused a significant delay. Settle are in the process of tendering for another contractor to complete the works and are hoping to appoint someone by the end of this year. Completion of phase 2 is expected at the end of 2024/ beginning of 2025.	1,096
Resurfacing Lairage Car Park	346	30	-316	This project has been delayed due to the prioritisation of other projects.	316

Scheme	2023/24 Working Budget £'000	2023/24 Forecast £'000	Difference £'000	Reason for Difference	Estimated impact on 2024/25 onwards £'000
Off Street Car Parks Resurfacing	209	39	-170	Surveys undertaken of several open car parks found the surfaces to be in better condition than expected. The planned capital works are therefore not required at this time.	170
Letch Multi-Storey Parapet/Soffit/Decoration	129	15	-114	This project has been delayed due to the prioritisation of other projects. The current condition means that the work is not urgent.	114
Letchworth Multi Storey Structural Repairs	114	25	-89	This project has been delayed due to the prioritisation of other projects. The current condition means that the work is not urgent.	89
Avenue Park Splash Park	70	0	-70	This project has been deferred for a year pending the outcome of negotiations with the developers in Baldock, who might be willing to support a new facility as part of their proposals.	70
Museum Services Development	48	0	-48	This budget is earmarked for a possible weatherproof solution to allow all year-round use of the Terrace Gallery balcony space for events. Challenges remain regarding the structural engineering and planning considerations, but officers are hopeful of overcoming these.	48
Swinburne Recreation Ground Hitchin, Car Park	30	0	-30	This project has been deferred as there is no longer the same need to deliver it in this financial year. Visitor numbers to the adjacent play area built by Settle have significantly reduced, resulting in a much lower demand upon the car park.	30
Other minor changes			0		0
Total Revision to Budget Profile			-3,933		3,933

8.5 There are also changes to the overall costs of schemes in 2023/24. These changes total a net increase of £1.480million 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
Local Authority Housing Fund Phase 2	0	1,424	+1,424	Funding from Government to support the provision of additional housing units for those that have settled in the UK from Ukraine or via the Afghan resettlement and relocation scheme. The properties will be delivered by two Registered Providers, who will fund the balance of the costs. Cabinet are asked to refer to Full Council for confirmation for this to be added to the capital programme.
Bancroft & Priory Splash Pads	0	35	+35	Budget approved by Council on 23/02/23 for spend in 2024/25. Contractors are now in a position to complete the works in 2023/24.
Provide Housing at Market Rents	2	35	+33	The Council has undertaken a conversion of Harkness Court into 4 residential flats. While the building work is complete, budget is requested for the remaining few items required to enable the flats to be lettable. This includes car park extension works to enable fire access and associated landscaping works.
			Other minor changes	
			-12	
			Total revision to scheme spend	
			+1,480	

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

Table 4: Funding the Capital Programme:

	2023/24 Balance at start of year £M	2023/24 Forecast Additions £M	2023/24 Forecast Funding Used £M	2023/24 Balance at end of year £M
Useable Capital Receipts and Set-aside Receipts	5.552	9.579	(4.711)	10.420
S106 receipts			(0.516)	
Other third party grants and contributions			(2.958)	
IT Reserve / Revenue			0	
Planned Borrowing			0	
Total			(8.185)	

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. The estimate of additional capital receipts in the table above has not been updated since Quarter 1, so slippage in to 2024/25 is likely.

8.8 The Council's Capital Financing Requirement (CFR) at 31 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 six months of 2023/24, the Council had an average investment balance of £54.7M 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 £1.302M of interest during the first six months of 2023/24. The average interest rate on all outstanding investments at the 30 September was 5.03%. (30th June it was 4.47%). 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 £3.014M of interest over the whole of 2023/24.

8.11 As at 30 September 2023, the split of investments was as shown in the table below.

Banks	33%
Building Societies	16%
Government	27%
Local Authorities	24%

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 September 2023. 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	4.758	AA-	18	0.001
DMO (Government)	2.0	5.17	AA-	18	0.001
Yorkshire Building Society	2.0	4.33	A-	19	0.002
DMO (Government)	3.0	5.275	AA-	19	0.001
DMO (Government)	1.0	5.315	AA-	44	0.003
Yorkshire Building Society	1.0	4.6	A-	45	0.006
Santander UK	2.0	4.46	A	47	0.006
DMO (Government)	3.0	5.28	AA-	47	0.003
Nat West	2.0	4.4	A+	51	0.006
DMO (Government)	2.0	5.195	AA-	51	0.003
Folkestone & Hythe District Council	2.0	4.4	AA-	61	0.004
Santander UK	1.0	4.74	A	72	0.009
Blackpoll Council	3.0	5.4	AA-	73	0.005
Nat West	1.0	4.42	A+	76	0.009
DMO (Government)	3.0	5.36	AA-	76	0.005
Australia & New Zealand Bank	1.0	4.58	A+	79	0.010
Oxford City Council	2.0	4.65	AA-	79	0.005
Santander UK	1.0	5.13	A	82	0.010
Leeds Building Society	3.0	5.48	A-	110	0.014
Lloyds	1.0	5.39	A+	110	0.014
Uttlesford District Council	2.0	5.2	AA-	111	0.007
Nat West	2.0	5.76	A+	139	0.017
Nationwide Building Society	3.0	5.43	A	142	0.018
Lloyds	1.0	4.84	A+	145	0.018
Lloyds	1.0	5.57	A+	149	0.018
Australia & New Zealand Bank	2.0	5.02	A+	170	0.021

Borrower	Principal Invested £M	Interest Rate %	Credit Rating	Days to Maturity at 30 Sept	Historic Risk of Default %
Australia & New Zealand Bank	2.0	4.4	A+	172	0.021
Lloyds	1.0	5.84	A+	179	0.022
Telford & Wrekin Council	2.0	5.7	AA-	198	0.012
North Lanarkshire Council	2.0	5.8	AA-	353	0.022
	55.0	5.03			

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 £4.0M higher than the budgeted £36.4M. 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 Good Risk Management supports and enhances the decision-making process, increasing the likelihood of the Council meeting its objectives and enabling it to respond quickly and effectively to change. When taking decisions, risks and opportunities must be considered.

- 11.2 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 Oversight Group (if applicable). The key risks arising from the project may be recorded on IdeaGen (the Council's Performance & Risk management software).

- 11.3 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

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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 \(north-herts.gov.uk\)](#)