

CABINET
19 March 2024

***PART 1 – PUBLIC DOCUMENT**

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

REPORT OF: SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: FINANCE AND I.T.

COUNCIL PRIORITY: SUSTAINABILTY

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 December 2023.
- 1.2 To update Cabinet on the impact upon the approved capital programme for 2023/24 – 2033/34. The current estimate is a decrease in spend in 2023/24 of £0.969M and an increase in spend in 2024/25 of £0.960M. The most significant individual changes to the forecast spend in 2023/24 relate to the reprofiling into 2024/25 of £0.320M Oughtonhead Common Weir and £0.249M Renovate Skate Park King George V.
- 1.3 To inform Cabinet of the Treasury Management activities in the first nine months of 2023/24. The current forecast is that the amount of investment interest expected to be generated during the year is £2.940M. This is a decrease of £0.074M on the estimate reported in the 2nd quarter report.

2 RECOMMENDATIONS

- 2.1 That Cabinet notes the forecast expenditure of £6.521M 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 estimated spend in 2024/25 by £0.960M.
- 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 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 15th December 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 2033/34 and the funding source for each capital scheme.
- 8.3 Capital expenditure for 2023/24 is estimated to be **£6.521M**. This is a decrease of **£0.969M** on the forecast in the Investment Strategy 2024/25 report (reported to Council 29th February 2024). The decrease in spend in 2023/24 is largely due to the reprofiling of projects into 2024/25. Table 1 below details changes to capital programme.

Table 1- Current Capital Estimates

	2023/24 £M	2024/25 £M	2025/26 to 2033/34 £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	0	0
Changes at Q2	-2.413	1.789	2.109
Executive Member – Finance and I.T. approved additional Expenditure EV Charging Point at the DCO	0.023	0	0
Executive Member – Finance and I.T. approved additional Expenditure NHLC Gym Platform Lift Replacement	0.030	0	0

	2023/24 £M	2024/25 £M	2025/26 to 2033/34 £M
Changes approved by Full Council 29/02/2024 - Investment Strategy 2024-34	-0.788	12.731	8.832
Changes recommended at Q3	-0.969	0.960	0
Current Capital Estimates	6.521	23.593	27.150

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

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 £'000
Oughtonhead Common Weir	400	80	-320	The development of the detailed specification is nearing completion. The procurement process will entail a period of 3 – 4 months before delivery of the works can commence.	320
Renovate Skate Park King George V	250	1	-249	The contracts have now been tendered and as part of the evaluation process the users are being consulted. Once the evaluation process is complete the design process will continue. This extended consultation process has increased the timescales anticipated to deliver the projects.	249
Newmarket Road Skatepark & Access	76	0	-76		76
Home Repair Assistance	148	30	-118	Due to ongoing staffing issues we have been unable to promote the Home Repair Assistance Grant scheme. It is intended to again raise the profile of this grant scheme during 2024/25 and signpost more people towards this assistance.	118

Scheme	2023/24 Working Budget £'000	2023/24 Forecast £'000	Difference £'000	Reason for Difference	Estimated impact on 2024/25 £'000
Timber Access Bridge Norton Common	75	0	-75	Due to wet on-site ground conditions and the delicate nature of the habitat at Norton Common the works have been delayed until ground conditions improve. Initial works to clear the area around the bridge have been completed, so the bird nesting season should not be a factor in the progress of the works.	75
Riverside walkway Biggin Lane	53	0	-53	Agreements are not yet in place with regard to the adoption of the individual pieces of land to connect either end of the footpath, which are necessary for the project to proceed. Work is ongoing to progress the legal issues and obtain the permissions required to deliver the project.	53
Norton Common Tennis Courts	25	0	-25	Procurement processes have only identified 2 quotations and work is ongoing to identify a third. It is preferable in any case for works to be undertaken in a period of warm dry weather to ensure acceptable results.	25
Former Public Conveniences Portmill Lane - works to make available for letting	25	0	-25	Due to limited officer resource within Estates, this project has had to be placed on hold for this financial year.	25
Other minor changes			-50		50
Total Revision to Budget Profile			-991		991

8.5 There are also changes to the overall costs of schemes in 2023/24. These changes total a net increase of £0.022million 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
Howard Park Kiosk	0	30	30	This scheme relates to bringing Howard Park kiosk in house and generating a revenue return for the Council from doing so. Initial investment is required as the kiosk is very much in need of refurbishment. The investment was originally identified in the Capital Programme for 24/25 but it was agreed by Council that it would be brought forward to 23/24 to ensure the Kiosk is ready to welcome visitors this summer.
Other minor changes			-8	
Total revision to scheme spend			+22	

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	5.477	0.694	(3.123)	3.048
S106 receipts			(0.440)	
Other third party grants and contributions			(2.958)	
Total			(6.521)	

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 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 nine months of 2023/24, the Council had an average investment balance of £56.8M 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 £2.123M of interest during the first nine months of 2023/24. The average interest rate on all outstanding investments at the 31st December was 5.43%. (30th June it was 4.47%, 30th September it was 5.03%). 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 £2.94M of interest over the whole of 2023/24. This is a reduction of £0.074M on the estimate quoted at the 2nd quarter due to lower cash balances available for investment during the quarter compared with those estimated in the previous forecast.

8.11 As at 31st December 2023, the split of investments was as shown in the table below.

Banks	16%
Building Societies	13%
Government	7%
Local Authorities	64%

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 31st December 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 %
Dudley Metropolitan Borough Council	1.0	5.7	AA-	5	0.000
DMO	2.0	5.19	AA-	17	0.001
Leeds Building Society	3.0	5.48	A-	18	0.002
Lloyds	1.0	5.39	A+	18	0.002
DMO	2.0	5.235	AA-	18	0.001
Uttlesford District Council	2.0	5.2	AA-	19	0.001
Central Beds Council	2.0	5.4	AA-	22	0.001
Barnsley Metropolitan Borough Council	3.0	5.45	AA-	30	0.002
Nat West	2.0	5.76	A+	47	0.006
Nationwide Building Society	3.0	5.43	A	50	0.006
Lloyds	1.0	4.84	A+	53	0.007
Lloyds	1.0	5.57	A+	57	0.007
LB of Barking & Dagenham	2.0	5.45	AA-	60	0.004
Australia & New Zealand Bank	2.0	5.02	A+	78	0.010
Leeds Building Society	2.0	5.39	A-	78	0.010
Lancashire County Council	2.0	5.45	AA-	78	0.005

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+	80	0.010
Blackpool Council	1.0	5.5	AA-	81	0.005
Lloyds	1.0	5.84	A+	87	0.011
Telford & Wrekin Council	2.0	5.7	AA-	106	0.007
Cheshire East Council	2.0	5.5	AA-	113	0.007
Central Beds Council	2.0	5.45	AA-	114	0.007
Central Beds Council	2.0	5.5	AA-	134	0.008
North Lanarkshire Council	2.0	5.55	AA-	145	0.009
Aberdeen City Council	2.0	5.55	AA-	151	0.009
Leeds City Council	5.0	5.5	AA-	155	0.010
Cheshire East Council	2.0	5.5	AA-	155	0.010
Canterbury Council	2.0	5.65	AA-	169	0.010
North Lanarkshire Council	2.0	5.8	AA-	261	0.016
Great Yarmouth Borough Council	1.0	5.6	AA-	318	0.020
West Dunbartonshire Council	2.0	5.7	AA-	351	0.022
	61.0	5.43			0.007

DMO credit rating is the UK credit rating.

9. LEGAL IMPLICATIONS

- 9.1 Cabinet's terms of reference under 5.7.7 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 £5.4M higher than the budgeted £57.3M.
- 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 £54k 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 \(north-herts.gov.uk\)](#)