**COUNCIL**
**19 September 2024**

***PART 1 – PUBLIC DOCUMENT**

**TITLE OF REPORT: FIRST QUARTER INVESTMENT STRATEGY (CAPITAL AND TREASURY) REVIEW 2024/25**

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 2024/25, as at the end of June 2024. Cabinet should note that the current capital programme will be subject to a detailed review in September as part of the budget setting process for 2025/26 onwards. Therefore this update is light touch, and the in-year impacts of the review will be reflected in the Quarter 2 update.

1.2 To update Cabinet on the impact upon the approved capital programme for 2024/25 – 2033/34. The current estimate is that there is no change in spend in 2024/25 on existing projects. However, there is a request for Cabinet to recommend to Council the approval of two new capital schemes, (1) requiring an investment of £0.080M, to replace the chiller at the Museum, and (2) an allocation for round 3 of the Local Authority Housing Fund.

1.3 To inform Cabinet of the Treasury Management activities in the first three months of 2024/25. The current forecast is that the amount of investment interest expected to be generated during the year is £2.50M. This is an increase of £1.35M on the original estimate.

## 2 RECOMMENDATIONS

2.1 That Council approves a capital budget of £0.080M to fund the purchase and installation of a new chiller at the museum, paragraph 8.4 refers.

2.2 That Council approves a capital budget of £1.920M (£0.96M in 24/25 and £0.96M in 25/26) for round 3 of the Local Authority Housing Fund. This will be fully funded from Government grants and housing provider contributions, paragraph 8.5 refers.

2.3 That Council approves bringing forward £0.008M of the backup and business continuity hardware capital budget (from 2025/26 to 2024/25) and reducing the 2025/26 budget to £0.057M.

## 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 does not contain a recommendation on a key Executive decision and has therefore not been referred to in the Forward Plan.

## 7. BACKGROUND

7.1 In February 2024, Council approved the Integrated Capital and Treasury Strategy for 2024/25 to 2033/34. To be consistent with the strategy, the monitoring reports for Capital and Treasury are also integrated.

7.2 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 £122.0M 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. An amendment was approved by Council on 11th July to change the Investment Strategy allowing investments to be placed on Lloyds Call Account so the combined total of Current Account and Call Account is up to £5M.

### Capital Programme 2024/25

8.2 The full capital programme is detailed in Appendix A and shows the revised costs to date, together with the expected spend from 2024/25 to 2033/34 and the funding source for each capital scheme.

8.3 Capital expenditure for 2024/25 is estimated to be **£30.415M**. This is an increase of **£7.792M** on the forecast in the Investment Strategy 2024/25 report (reported to Council 29th February 2024). Table 1 below details changes to capital programme.

**Table 1- Current Capital Estimates**

| | **2024/25 £M** | **2025/26 £M** | **2026/27 to 2033/34 £M** |
|---|---|---|---|
| **Original Estimates approved by Full Council February 2024** | **22.623** | **15.110** | **12.039** |
| **Changes approved by Cabinet in 3rd Qrt 2024/25** | 0.960 | 0 | 0 |
| **Changes approved by Cabinet in 2023/24 Capital Outturn report** | 2.654 | 0.193 | 0 |
| **Revised Capital estimates at start of 2022/23** | **26.237** | **15.303** | **12.039** |
| **Changes approved by Cabinet in March 2024:** | | | |
| Redistribution of Shared Prosperity Fund | -0.083 | | |
| Solar Together | 0.563 | | |
| **Changes approved by Full Council July 2024** | | | |
| Public Sector Decarbonisation Fund | 2.400 | | |
| Royston Leisure Centre Gym Extension | 0.250 | | |
| **Changes recommended at Q1 (including additional expenditure subject to Council approval)** | **1.048** | **0.948** | |
| **Current Capital Estimates** | **30.415** | **16.251** | **12.039** |

**New chiller at North Hertfordshire Museum**

8.4 Museums require a stable environment to best preserve and maintain artefacts. At North Herts Museum an issue has developed within the Chiller, which is an integral part of the air handling system that maintains the stable environment within the galleries. Whilst the Chiller has to date been patch repaired, it has become clear from professional advice received that the repair is temporary and the equipment will ultimately fail beyond repair. At this point, the museum will be left with an unstable environment for its artefacts. The North Herts Museum was also designed with Government Indemnity standards in mind, which has allowed it to attract travelling exhibitions of national and international significance in recent years (Rembrandt, Diane Arbus). Owners of such collections demand that environmental conditions are monitored closely and the data from galleries, collected over many months prior to the travelling exhibition arriving, are provided as proof of environmental stability. Waiting for this equipment to fail suddenly could therefore not only damage our own collection but could also result in scheduling issues with our exhibition programme and damage our reputation and trust within the museum sector. As a result, Officers propose a planned transition to a new chiller, programmed sensitively within our exhibitions calendar to ensure that the museum can continue to welcome nationally and internationally significant exhibitions in the years ahead. The new chiller will require a crane to lift it into position whilst the current chiller will also need to be decommissioned and removed from the roof of the museum. The inclusive cost of the chiller and the installation costs is estimated to be £80k. Cabinet is asked at recommendation 2.5 to recommend to Council that the £80k capital expenditure is added to the Capital Programme for 2024/25.

**Local Authority Housing Fund**

8.5 Settle have supported us in the delivery of 7 properties under rounds 1 and 2 of the Local Authority Housing Fund (LAHF). We were not initially given a specific allocation for round 3, but have now been notified that we can have up to £1.920M of capital funding to deliver 10 properties. The delivery of properties should be 8 for the Afghan Citizens Resettlement Scheme and 2 temporary accommodation properties for general use. Of the 10 properties, 5 should be completely new properties that increase overall housing supply. The properties should be delivered equally across 24/25 and 25/26, so the capital allocation is split equally across the two years. We will also receive revenue funding of just under £0.014M to support the delivery of the scheme.

8.6 We will talk to Registered Providers who are interested in owning and developing properties in North Herts about their capacity to deliver the 10 properties. We will provide the appropriate amount of grant for the type of property and how they will deliver it, and they will cover the remaining cost. Some properties may be delivered as capital refurbishment of existing properties (e.g. bringing unlettable properties back in to use). We will provide less funding for these, and the Ministry for Housing, Communities and Local Government expect us to deliver more properties for the same overall funding. We will choose how we allocate the overall funding based on capacity to deliver, ability to meet the terms of the grant and delivery of best value to the Council.

8.7 Cabinet (recommendation 2.5) are asked to approve that we sign a Memorandum of Understanding with MHCLG. This will enable them to pay us the initial allocation of funds. Subsequent funding will be released as costs are incurred and properties are delivered. The capital spend will need to be added to the capital programme, so Council (recommendation 2.7) are asked to approve this.

8.8 We have asked MHCLG if we can deliver more temporary accommodation properties rather than resettlement properties, as they would provide a more immediate local benefit. However, the MHCLG have said that there is a national need for resettlement accommodation so need us to deliver our allocation. As well as supporting the important scheme to resettle those affected by events in Afghanistan, the resettlement accommodation will also increase the long term housing supply in the District.

**IT Capital savings**

8.9 The capital programme for 2025/26 includes an allocation of £69k for backup and business continuity hardware. It has been identified that by bringing forward spend of up to £8k in to 2024/25, that the total spend can be reduced by at least £4k (and could be up to £7k). Recommendation 2.8 therefore proposes a change to the profile to the capital spend, to achieve the overall saving. The revised profile would be £8k in 2024/25 and £57k in 2025/26 (total of £65k).

8.10 Table 2 below shows how the Council will fund the 2024/25 capital programme.

**Table 2: Funding the Capital Programme**:

| | **2024/25 Balance at start of year £M** | **2024/25 Forecast Additions £M** | **2024/25 Forecast Funding Used £M** | **2024/25 Balance at end of year £M** |
|---|---|---|---|---|
| Useable Capital Receipts and Set-aside Receipts | 4.914 | 0.0 | (4.905) | 0.009 |
| S106 receipts | [redacted] | [redacted] | (0.542) | [redacted] |
| Other third party grants and contributions | [redacted] | [redacted] | (9.974) | [redacted] |
| Revenue Contribution | | | (0.030) | |
| Borrowing | | | (14.964) | |
| **Total** | | | **(30.415)** | |

8.11 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.

8.12 The Council's Capital Financing Requirement (CFR) at 31st March 2024 was negative £2.58M. Based on current forecasts it will become positive during 2024/25 as the Council does not have sufficient funding (eg Capital Receipts) to finance the Capital programme. This means the Council will have to borrow to fund the programme and also charge the General Fund MRP (Minimum Revenue Provision) in 2025/26.

**Treasury Management 2024/25**

8.13 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 2024/25, the Council had an average investment balance of £51.3M 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.

8.14 The Council will generate £1.8M of interest in 2024/25 from investments made during the first quarter. The average interest rate on all outstanding investments at the 30th June was 5.42%. (31st March it was 5.57.%). 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 £2.5M of interest over the whole of 2024/25.

8.15 As at 30th June 2024, the split of investments was as shown in the table below.

| | |
|---|---:|
| Banks | 15% |
| Building Societies | 0% |
| Government | 8% |
| Local Authorities | 77% |

8.16 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 2024. The most risky investment has a historic risk of default of 0.018%. 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 % |
|---|---|---|---|---|---|
| Lloyds Call Account | 2.0 | 5.14 | A+ | 1 | 0.000 |
| Australia & New Zealand Bank | 1.0 | 5.51 | AA- | 1 | 0.000 |
| Nat West | 1.0 | 5.26 | A+ | 1 | 0.000 |
| Dorset Council | 2.0 | 5.51 | AA- | 7 | 0.000 |
| DMO | 2.0 | 5.205 | AA- | 18 | 0.001 |
| Lloyds Bank | 1.0 | 5.28 | A+ | 18 | 0.002 |
| DMO | 2.0 | 5.2 | AA- | 21 | 0.001 |
| Liverpool City Council | 2.0 | 5.55 | AA- | 29 | 0.002 |
| Blackpool Council | 1.0 | 5.9 | AA- | 52 | 0.003 |
| Highland Council | 1.0 | 5.35 | AA- | 52 | 0.003 |
| Luton Borough Council | 2.0 | 5.3 | AA- | 60 | 0.004 |
| North Lanarkshire Council | 2.0 | 5.8 | AA- | 78 | 0.005 |
| Blackpool Council | 3.0 | 5.3 | AA- | 85 | 0.005 |
| Northumberland County Council | 2.0 | 5.55 | AA- | 91 | 0.006 |
| Australia & New Zealand Bank | 2.0 | 5.34 | AA- | 108 | 0.007 |
| Cheshire East Council | 2.0 | 5.3 | AA- | 113 | 0.007 |
| Uttlesford District Council | 2.0 | 5.25 | AA- | 113 | 0.007 |
| City of Bradford MDC | 2.0 | 5.38 | AA- | 126 | 0.008 |
| Lancashire County Council | 1.0 | 5.37 | AA- | 129 | 0.008 |
| Great Yarmouth Borough Council | 1.0 | 5.6 | AA- | 135 | 0.008 |
| London Borough of Haringey | 2.0 | 5.2 | AA- | 151 | 0.009 |
| West Dunbartonshire Council | 2.0 | 5.7 | AA- | 168 | 0.010 |
| Great Yarmouth Borough Council | 2.0 | 5.2 | AA- | 176 | 0.011 |
| Stoke on Trent City Council | 1.0 | 5.75 | AA- | 211 | 0.013 |
| Liverpool City Council | 2.0 | 5.25 | AA- | 262 | 0.016 |
| Gravesham Borough Council | 1.0 | 5.2 | AA- | 298 | 0.018 |
| Lancashire County Council | 3.0 | 5.2 | AA- | 303 | 0.018 |
| | | | | | |
| | 47.0 | 5.42 | | | 0.007 |

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.

9.5 Section 5.7 of the Council's Financial Regulations covers unanticipated capital needs (i.e. where there is a need for capital spend that has not been approved as part of the annual budget setting process) and requires that these should be approved by Full Council.

## 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 £5.0M higher than the budgeted £58.725M.

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 2024 was negative £2.58M.

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.

11.4 Should Cabinet approve the LAHF3 proposal, the delivery of the units is wholly reliant on registered providers for delivery and there is a risk there is no appetite for the scheme. In that scenario we would need to return the funds to Government and there should not be any other consequences, other than not achieving the property increases.

## 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 2024/25 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 2024/25 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/s24164/INVESTMENT%20STRATEGY%20INTEGRATED%20CAPITAL%20AND%20TREASURY.pdf
https://srvmodgov01.north-herts.gov.uk/documents/s24165/FAR%20Appendix%20A-%20Integrated%20Capital%20and%20Treasury%20Strategy.docx.pdf