

CABINET
18 March 2025

***PART 1 – PUBLIC DOCUMENT**

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

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 2024/25, as at the end of December 2024.
- 1.2 To update Cabinet on the impact upon the approved capital programme for 2024/25 – 2033/34. The current estimate is a decrease in spend in 2024/25 of £0.583M and an increase in spend in 2025/26 of £0.627M. The most significant individual changes to the forecast spend in 2024/25 relate to the reprofiling into future years of £0.300M Hitchin Fitness Member Change and Relaxation Area Refurbishment and £0.150M Royston Leisure Centre Changing Village Refurbishment.
- 1.3 To inform Cabinet of the Treasury Management activities in the first nine months of 2024/25. The current forecast is that the amount of investment interest expected to be generated during the year is £2.955M. This is an increase of £0.155M on the estimate reported in the 2nd quarter report.

2 RECOMMENDATIONS

- 2.1 That Cabinet notes the forecast expenditure of £16.816M in 2024/25 on the capital programme, paragraph 8.3 refers.
- 2.2 That Cabinet approves the adjustments to the capital programme for 2024/25 onwards, as a result of the revised timetable of schemes detailed in table 2 and 3, increasing the estimated spend in 2025/26 by £0.627M.
- 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 2024.

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 (MUFG, previously known as 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 November 2024.

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 MUFG 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 last quarter.

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 2034/35 and the funding source for each capital scheme.
- 8.3 Capital expenditure for 2024/25 is estimated to be **£16.816M**. This is a decrease of **£0.583M** on the forecast in the 2nd quarter report (reported to Cabinet on 14th January 2025). Table 1 below details changes to capital programme.

Table 1- Current Capital Estimates

	2024/25 £M	2025/26 £M	2026/27 to 2034/35 £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		
Changes approved by Cabinet in 2023/24 Capital Outturn report	2.654	0.193	
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 at Q1	1.048	0.948	
Changes approved by Full Council Sept 2024	0.672	-0.672	
Executive Member – Finance and I.T. approved additional Expenditure Hitchin Fitness Gym Lift	0.020		
Reprofile Leisure Budgets		0.550	-0.400
Changes at Q2	-13.708	9.810	2.000

	2024/25 £M	2025/26 £M	2026/27 to 2034/35 £M
Changes approved by Full Council 27/02/2025 - Investment Strategy 2025-35		-4.876	9.921
Changes at Q3	-0.583	0.627	
Current Capital Estimates	16.816	21.690	23.560

- 8.4 Table 2 lists the schemes in the 2024/25 Capital Programme that will now start or continue in 2025/26 and onwards:

Table 2: Scheme Timetable Revision:

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

Scheme	2024/25 Working Budget £'000	2024/25 Forecast £'000	Difference £'000	Reason for Difference	Estimated impact on 2025/26 onwards £'000
Hitchin Fitness Member Change and Relaxation Area Refurbishment	300	0	-300	There has not been capacity within the leisure team to procure for the project this financial year and therefore it will be completed in 2025/26	300
Royston Leisure Centre Change Village Refurbishment	150	0	-150	Works will be carried out at the same time as Public Sector Decarbonisation Fund project	150
North Herts Leisure Centre Lift Replacement	90	0	-90	Property Services have advised a consultant should be appointed to specify and procure the lift project, this has resulted in a delay in delivering the project until 25/26.	90
Priory Memorial Gardens Multi-Use Games Area (MUGA)a	55	0	-55	Project has slipped following research into options for the replacement of the fencing around the muga to ensure that a suitable product is identified within budget. This process took longer than expected and has caused a delay in commencing the procurement process.	55

Scheme	2024/25 Working Budget £'000	2024/25 Forecast £'000	Difference £'000	Reason for Difference	Estimated impact on 2025/26 onwards £'000
Riverside walkway Biggin Lane	53	0	-53	The Council has procured a topographical survey of the proposed route of the Riverside Walk and an outline proposal for the planned walkway improvements and bridge crossing is being prepared by an external firm of consultant engineers. Unfortunately, delivery of this and subsequent works on site have been delayed. It is hoped that a preliminary proposal will be available from the structural engineers during February. This will be reviewed internally and then will be consulted on. Finalisation of the proposed route will also be subject to various statutory consents, including planning, highways and the environment agency before work can begin on site.	53
Home Repair Assistance	100	75	-25	The use of these grants has reduced. We will be reviewing the terms of the grants to increase eligibility. So requesting a carry-forward to support more households during 2025/26.	25
Other minor changes			-68		68
Total Revision to Budget Profile			-741		741

8.5 There are also changes to the overall costs of schemes in 2024/25. These changes total a net increase of £0.158million and are detailed in Table 3

Table 3: Changes to Capital Schemes Commencing in 2024/25:

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

Scheme	2024/25 Working Budget £'000	2024/25 Forecast Spend £'000	Difference £'000	Comments
SPF Community and Place	130	194	+64	The grant funding for these projects is split over Capital and Revenue. There will be an equivalent underspend in Revenue to fund this additional expenditure.
Community Facilities Refurbishment	0	48	+48	This budget was reprofiled into 25/26 in the Q2 report. Pirton Parish Council have fulfilled the conditions sooner than expected to enable of the grant and will commence the build of the project in February 2025.
Oughtonhead Common Weir	0	40	+40	This budget was reprofiled into 25/26 in the Q2 report but consultants costs have been incurred in 24/25
S106 Projects	12	40	+28	To date a total of £40K of S106 funds have been released for community schemes.
Other minor changes			-22	
Total revision to scheme spend			158	

8.6 Table 4 below shows how the Council will fund the 2024/25 capital programme.

Table 4: 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	(4.749)	0.165
S106 receipts			(0.567)	
Other third party grants and contributions			(8.127)	
Revenue Contribution			(0.030)	

	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
Borrowing			(3.343)	
Total			(16.816)	

- 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 2024 was negative £2.58M. Based on current forecasts it will become positive during 2024/25 as the Council does not have sufficient funding (e.g. Capital Receipts) to finance the Capital programme. This means the Council will have to borrow to fund the programme in this year, with MRP (Minimum Revenue Provision) charged to the General Fund in 2025/26.

Treasury Management 2024/25

- 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, general fund balance, other revenue reserves and provision balances and variations in cash due to the timing of receipts and payments. During the first nine months of 2024/25, the Council had an average investment balance of £57.0M 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 £2.8M of interest in 2024/25 from investments already made during the first nine months of the year (and accrued interest from deals made in 2023/24). This includes the interest that will be earned during the final three months of the year on investments that have already been made. The average interest rate on all outstanding investments at the 31st December was 5.04%. (30th September was 5.17.%). 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 £2.955M of interest over the whole of 2024/25.
- 8.11 As at 31st December 2024, the split of investments was as shown in the table below.

Banks	10%
Building Societies	0%
Government	5%
Local Authorities	85%

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 2024. The most risky investment has a historic risk of default of 0.013%. 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 31 Dec	Historic Risk of Default %
Lloyds Bank	0.5	4.62	A+	1	0.000
Shropshire Council	2.0	5.35	AA-	2	0.000
Australia & New Zealand Bank	1.0	5.26	AA-	5	0.000
Nat West	1.0	5.17	A+	5	0.001
DMO	2.0	4.71	AA-	16	0.001
City of Bradford Metropolitan District Council	2.0	4.8	AA-	16	0.001
North Tyneside Council	2.0	5.05	AA-	19	0.001
Nat West	1.0	5.13	A+	26	0.003
Stoke on Trent City Council	1.0	5.75	AA-	27	0.002
London Borough of Barking & Dagenham	3.0	5.05	AA-	29	0.002
Central Beds Council	2.0	5.25	AA-	33	0.002
Australia & New Zealand Bank	2.0	4.96	AA-	40	0.002
DMO	1.0	4.7	AA-	43	0.003
Cheshire East Council	2.0	4.9	AA-	47	0.003
Folkestone & Hythe District Council	2.0	5.05	AA-	54	0.003
Flintshire County Council	2.0	5.0	AA-	57	0.004
City of Bradford MDC	1.0	5.1	AA-	58	0.004
London Borough of Barking & Dagenham	1.0	5.07	AA-	64	0.004
Cheltenham Borough Council	2.0	5.0	AA-	71	0.004
Liverpool City Council	2.0	5.25	AA-	78	0.005
Lancashire County Council	1.0	5.05	AA-	96	0.006
Reading Borough Council	2.0	4.75	AA-	96	0.006
Blackpool Council	3.0	4.75	AA-	113	0.007
Gravesham Borough Council	1.0	5.2	AA-	114	0.007
Leeds City Council	2.0	5.05	AA-	114	0.007
Lancashire County Council	3.0	5.2	AA-	119	0.007
Highland Council	2.0	5.1	AA-	125	0.008
Bournemouth Christchurch & Poole Council	2.0	4.8	AA-	131	0.008
Cheshire East Council	2.0	5.2	AA-	141	0.009
West Berkshire District Council	2.0	4.95	AA-	141	0.009
West Berkshire District Council	2.0	5.1	AA-	148	0.009

Borrower	Principal Invested £M	Interest Rate %	Credit Rating	Days to Maturity at 31 Dec	Historic Risk of Default %
Northumberland County Council	2.0	4.85	AA-	168	0.010
Liverpool City Council	2.0	4.85	AA-	209	0.013
	58.5	5.04			0.005

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 £5.2M higher than the budgeted £62.065M.
- 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 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.

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>