

**CABINET  
17 DECEMBER 2019**

**PUBLIC DOCUMENT**

**TITLE OF REPORT: INVESTMENT STRATEGY (CAPITAL AND TREASURY ) MID-YEAR  
REVIEW 2019/20**

REPORT OF THE SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER FOR FINANCE AND I.T.

COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

**1. EXECUTIVE SUMMARY**

- 1.1 To update Cabinet on progress with delivering the capital and treasury strategy for 2019/20, as at the end of September 2019.
- 1.2 To update Cabinet on the impact upon the approved capital programme for 2020/21 – 2023/24. The current estimate is a decrease in spend in 2019/20 of £1.936million and an increase in spend in future years of £1.369million. The most significant individual change relates to the withdrawal of the Hitchin Swim Centre Car Park scheme.
- 1.3 To inform Cabinet of the Treasury Management activities in the first six months of 2019/20. The current forecast is that the amount of investment interest expected to be generated during the year is £0.372million. This remains unchanged from the value reported at the first quarter.

**2. Recommendations**

- 2.1 That Cabinet notes the forecast expenditure of **£5.886million** in 2019/20 on the capital programme, paragraph 8.2 refers.
- 2.2 That Cabinet approves the adjustments to the capital programme for 2019/20 onwards as a result of the revised timetable of schemes detailed in table 2, increasing the estimated spend in 2020/21 and beyond by **£1.369million**.
- 2.3 That Cabinet notes the position of the availability of capital resources, as detailed in table 3 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 September 2019.

### **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 quarterly updates with the Authority's Cash Manager, Tradition and regular meetings with Treasury advisors (Link).

### **6. FORWARD PLAN**

- 6.1 This report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 6th September 2019.

### **7. BACKGROUND**

- 7.1 In February 2019, Council approved the Integrated Capital and Treasury Strategy for 2019/20 to 2022/23. This was a change from having a separate Capital Programme and Treasury Strategy. The change was in response to guidance from the Ministry for Housing, Communities and Local Government (MHCLG) and the Chartered Institute of Public Finance and Accountancy (CIPFA). To be consistent with the strategy (and the guidance), the monitoring reports for Capital and Treasury are also integrated.
- 7.2 The Medium Term Financial Strategy for 2019 to 2024 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 were first contracted to provide Treasury advice for the financial year 2012/13 and this arrangement has been extended until 2022/23. 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 £114.5 million of capital assets that it currently owns. This is unchanged from Quarter 1. 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 changes in relation to these since the Strategy was set.

**Capital Programme 2019/20**

8.2 The full capital programme is detailed in Appendix A and shows the revised costs to date, together with the expected spend from 2019/20 to 2022/23 and the funding source for each capital scheme.

8.3 Capital expenditure for 2019/20 is estimated to be **£5.886million**. This is a reduction of **£1.936million** on the forecast in the 1st quarter report (reported to Cabinet on 30th July 2019). The decrease in spend in 2019/20 is largely due to the reprofiling of projects into 20/21. Table 1 below details changes to capital programme.

**Table 1- Current Capital Estimates**

	<b>2019/20 £M</b>	<b>2020/21 £M</b>	<b>2021/22 to 2023/24 £M</b>
<b>Original Estimates approved by Full Council February 2019</b>	<b>8.213</b>	<b>0.962</b>	<b>2.128</b>
<b>Changes approved by Cabinet in 2018/19 Capital Outturn report</b>	1.007	0	0
<b>Revised Capital estimates at start of 2019/20</b>	<b>9.220</b>	<b>0.962</b>	<b>2.128</b>
<b>Changes at Q1</b>	-1.398	1.408	0
<b>Changes at Q2 detailed in this report</b>	-1.936	1.450	0.047
<b>Current Capital Estimates</b>	<b>5.886</b>	<b>3.820</b>	<b>2.175</b>

8.4 Table 2 lists the schemes in the 2019/20 Capital Programme that will start or continue in 2020/21:

**Table 2: Scheme Timetable Revision:**

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

Scheme	2019/20 Working Budget £'000	2019/20 Forecast Spend £'000	Difference £'000	Reason for Difference	Estimated impact on 2020/21 onwards £'000
Lairage Lift Refurbishment	360	0	-360	Previously on hold due to a review of Car Parks. Now being progressed but the work will not take place until 2020/21.	360
Community Facilities Refurbishment	613	313	-300	Local community groups apply for grants. £0.5M has been awarded since 2017/18. 6 Schemes have been allocated funds totalling approximately £0.3M which are waiting to be drawn down. This budget is dependent on the community groups completing the work and claiming the grant funding. Grants are awarded via a panel which sits when a minimum of 3 grant applications have been received. The panel will consider new application in late autumn/winter (only 1 application has been received so far this year).	300
Green Infrastructure Implementation (GAF)	185	0	-185	Awaiting the adoption of the Local Plan as the sites directly relate to the implementation of the project.	185
Lairage Multi-storey Structural Repairs	121	10	-111	In process of instructing a structural engineer to establish the extent of defects. The structural engineer's report will identify areas that require attention. Timing of the repairs will depend on the urgency of what is identified.	111
Replace SAN	110	0	-110	Dell have agreed to extend the warranty cover by a further year.	110
Dell Servers	65	0	-65	Dell have agreed to extend the warranty cover by a further year.	65
Leisure Condition Survey	64	0	-64	Property Services are now going to manage the works which will be built into their 20/21 work programme.	64
Replace Floodlights at	60	0	-60	Power has been restored to	60

Scheme	2019/20 Working Budget £'000	2019/20 Forecast Spend £'000	Difference £'000	Reason for Difference	Estimated impact on 2020/21 onwards £'000
St Mary's Car Park				existing light columns, however a design review of the lighting is required. This review has been delayed due to other projects and reactive workload.	
Off Street Car Parks Resurfacing	77	30	-47	Car Parks are in reasonable condition with the potential for one car park to be resurfaced this year. No further works are foreseen in the next couple of years so it is requested that the budget is reprofiled into 2022/23.	47
New Blade Enclosure	32	0	-32	Dell have agreed to extend the warranty cover by a further year.	32
Additional Storage	25	0	-25	Dell have agreed to extend the warranty cover by a further year.	25
Royston All Weather Hockey Pitch	128	0	-128	This project is for the provision of an All Weather Hockey Pitch on the Heath, Royston. As the Heath is a public open space permission will not be granted to create an enclosed area on the Heath. Officers are looking to see if the S106 funds can be used at an alternative location in Royston. Also in order for the scheme to go ahead additional external funding is still to be secured.	128
S106	0	128	128	To date, a total of £60k of S106 funds have been released for community schemes with an additional £60K committed.	0
Total Minor (under £25k) slippage on other projects	10	0	-10		10
<b>Total Revision to Budget Profile</b>			<b>-1,369</b>		<b>1,497</b>

8.5 There are also changes to the overall costs of schemes in 2019/20. These changes total a net decrease of £0.567million and are detailed in Table 3.

**Table 3: Changes to Capital Schemes Commencing in 2019/20:**

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

<b>Scheme</b>	<b>2019/20 Working Budget £'000</b>	<b>2019/20 Forecast Spend £'000</b>	<b>Difference £'000</b>	<b>Comments</b>
Hitchin Swim Centre Car Park	498	0	-498	In January 2018 the Planning Inspectorate refused the application to build the access road on Common Land. Since then Officers have been looking at alternatives to provide additional parking. None of the projects identified are financially viable.
Storage Facilities	49	0	-49	We are currently undertaking a wide review of the Council's storage needs. Unit 3 in Letchworth is currently used for general storage needs, particularly archived document storage. There was an expectation that the rationalisation of the Council's property would result in more storage being required at Unit 3. However a combination of (1) a move to electronic data storage means a reducing requirement for paper document storage and (2) most of the documents/ items stored in other locations could be disposed of. This means that a mezzanine floor is unlikely to be needed for general storage. However it is known that Burymead Road has both a limited life and capacity for museum storage. A mezzanine floor at Unit 3 would not provide anywhere near the required volume of storage (or the right storage conditions) to replace Burymead Road, but it is possible it could form part of a wider solution.
Lairage Multi-storey Safety and Equality	39	0	-39	Budget no longer required as superseded by £360K allocation for the refurbishment of Lairage Car Park lift
NH Museum & Community Facility	30	70	40	The Terrace Area at North Herts Museum is still to be developed and will require planning permission. Quotes and designs are currently being drawn up, with the works expected to be completed by the end of this

Scheme	2019/20 Working Budget £'000	2019/20 Forecast Spend £'000	Difference £'000	Comments
				financial year.
<b>Other minor changes</b>			<b>-21</b>	
<b>Total revision to scheme spend</b>			<b>-567</b>	

### Capital Programme 2019/20 Funding onwards

8.6 Table 3 below shows how the Council will fund the 2019/20 capital programme.

**Table 3: Funding the Capital Programme:**

	2019/20 Balance at 1st start of year £M	2019/20 Estimated Additions £M	2019/20 Funding Used £M	2019/20 Balance at end of year £M
Useable Capital Receipts and Set-aside Receipts	8.490	0.474	(4.861)	4.103
IT Reserve			(0.005)	
S106 receipts			(0.229)	
Other third party grants and contributions			(0.791)	
<b>Total</b>	<b>8.490</b>		<b>(5.886)</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. This will be kept under review throughout the year. No substantial funds from land sales are forecast until 2021/22.

8.8 The Council's Capital Financing Requirement at 31<sup>st</sup> March 2019 was negative £5.9 million. Based on current forecasts it is expected to remain negative during 2019/20, which means that the Council does not have a need to borrow to fund capital spend.

### Treasury Management 2019/20

8.9 Whilst the Council does not have a need to borrow for capital spend, it still holds historic borrowing that is uneconomical to repay early. Borrowing can also be used for short-term cash flow purposes. During the first six months no long-term borrowing was taken out and no historic borrowing became due for repayment. £2.0M was borrowed for cash flow on 20 June until 1 July at a rate of 0.7%.

8.10 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 balances and variations in cash due to the timing of receipts and payments. During the first six months, the Council had an average investment balance of £36.7 million 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. Officers can confirm that the approved investment limits within the Annual Investment Strategy were not breached during the quarter ended 30 September 2019. However, the Council's current account did exceed the £5M maximum limit on 17 July by £74K for one day only. On 17 July the Council had the maximum invested with Building Societies (£18M) and its Money Market fund (£3M) and was not yet set up to deal with foreign banks. Funds were not transferred off of the current account as £6.7M was needed on 19 July to fund expenditure and banks the Council had scope to invest with would not have been willing to take such a short term deposit with a reasonable interest rate.

8.11 The Council generated £0.194 million of interest during the first six months of 2019/20. The average interest rate on all outstanding investments at the 30 September was 1.13%. 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 £0.372 million of interest over the whole of 2019/20.

8.12 As at 30 September the split of investments was as shown in the table below. 7% of total investments (and 18% of the total amount invested in banks) were non-UK banks:

Banks	36%
Building Societies	30%
Local Authorities	31%
Money Market Funds	3%

8.13 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 30 September. The most risky investment still has a historic risk of default of below 1%. 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 it took on less risk. As stated in paragraph 8.10, all investments have been made in accordance with the Investment Strategy.

<b>Borrower</b>	<b>Principal Invested £M</b>	<b>Interest Rate %</b>	<b>Credit Rating</b>	<b>Days to Maturity at 30 Sept</b>	<b>Historic Risk of Default %</b>
Public Sector Deposit Fund	1.0	0.8293 Variable	AAA	1	0.000
Wirral Metropolitan Borough Council	2.0	0.65	AA	20	0.001
Lloyds Bank	1.0	1.15	A+	35	0.005
Bank of Scotland	1.0	0.8	A+	38	0.006
North Lanarkshire Council	1.0	0.8	AA	45	0.003
Barclays Bank	2.0	1.0	A	55	0.008
Cambridge Bldg Soc	1.0	1.25	*	59	0.026
Australia and New Zealand Bank	1.5	0.8	AA-	69	0.005
North Lanarkshire Council	2.0	0.8	AA	70	0.005
Darlington Bldg Soc	1.0	1.3	*	101	0.044
Santander UK Bank	2.0	0.8	A+	106	0.015
Australia and New Zealand Bank	1.0	0.81	AA-	111	0.007
Coventry Bldg Soc	1.0	0.99	A-	139	0.020
Yorkshire Bldg Soc	1.0	0.96	A-	139	0.020
Surrey Heath Borough Council	3.0	0.75	AA	141	0.009
Lloyds Bank	1.0	1.05	A+	155	0.023
Santander UK	1.0	0.83	A+	168	0.024
Lancashire County Council	1.0	1.1	AA	170	0.011
Derbyshire County Council	3.0	0.9	AA	181	0.012
Hinckley & Rugby Bldg Soc	2.0	1.35	*	206	0.090
Skipton Bldg Soc	1.0	0.92	A-	211	0.089
Dudley Bldg Soc	1.0	1.3	*	219	0.096
Furness Bldg Soc	1.0	1.3	*	245	0.107
Lloyds Bank	1.0	1.25	A+	307	0.044
Marsden Bldg Soc	1.5	1.6	*	479	0.577
Monmouthshire Bld Soc	1.0	1.5	*	605	0.729
	36.0	1.13			

\* Unrated Building Societies Historic Risk of Default is based on a Fitch (a credit rating agency) rating of BBB.

## **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.

## **10. FINANCIAL IMPLICATIONS**

- 10.1 The main financial implications are covered in section 8 of the report.
- 10.2 The Authority operates a tolerance limit on capital projects that depends on the value of the scheme and on this basis over the duration of the programme it should be anticipated that the total spend over the period could be around £2.342million higher than the estimated budget of £11.831million.
- 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. £1.0million currently earns the Authority approximately £1.0k a year in interest. The general fund estimates are routinely updated to reflect the reduced 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 2019 was negative £6million.
- 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). Some of the major capital projects have been included in the Council’s Corporate Risks (such as the new North Hertfordshire Museum). The Corporate Risks are monitored by the Finance, Audit and Risk Committee and Cabinet.
- 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 dependant 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 2019/20 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” policy do not apply to this report.

## **14. HUMAN RESOURCE IMPLICATIONS**

- 14.1 There are no direct human resource implications.

## **15. APPENDICES**

- 15.1 Appendix A - Capital Programme Detail including Funding 2018/19 onwards.
- 15.2 Appendix B - Treasury Management Update

## **16. CONTACT OFFICERS**

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## **17. BACKGROUND PAPERS**

- 17.1 Investment Strategy (Integrated Capital and Treasury Strategy)  
<https://democracy.north-herts.gov.uk/documents/s4263/Appendix%20A-%20Investment%20Strategy.pdf>