

East Herts Council Report

Audit and Governance Committee

Date: 30th January 2024

Report by: Councillor Carl Brittain, Executive Member for Financial Sustainability

Report title: Capital Strategy and Minimum Revenue Provision Policy, Treasury Management Strategy 2024/25

Ward(s) affected: All

Summary

- The report contains the Capital Strategy and Minimum Revenue Provision (MRP) policy and Treasury Management Strategy for 2024/25 for Scrutiny

RECOMMENDATIONS FOR AUDIT AND GOVERNANCE:

(A) Scrutinise the Capital Strategy and Minimum Revenue Provision Policy, Treasury Management Strategy 2024/25 and make any observations to the Executive.

1.0 Proposal(s)

1.1 This report presents the Executive's Capital Strategy and the Minimum Revenue Provision policy and Treasury Management Strategy 2024/25 onwards for Scrutiny.

2.0 Background

- 2.1 The East Herts Council Capital Strategy provides a valuable opportunity for engagement with Full Council to ensure that overall strategy, investment ambition, risk appetite and governance procedures are fully understood by all elected Members and other Council stakeholders.
- 2.2 The East Herts Council Capital Strategy is intended to be a strategic corporate document which will both be influenced by and in turn influence policy and decision making in respect of capital investment.
- 2.3 The Strategy will continue to develop and evolve as external influences do and will be updated as required in order that this Strategy is responsive to the challenges, opportunities, priorities and objectives that the Council must consider.
- 2.4 The current capital programme pauses the Arts Centre at Old River Lane in order to make the capital programme affordable by reducing borrowing costs.
- 2.5 As the council continues to deliver, review and update the capital programme, it will do so within the context of the council's Climate Change commitments, most notably the commitment to the council itself becoming carbon neutral by 2030. To that end, the council has devised a carbon assessment tool which it is now beginning to use to assess its existing major projects. As new proposals for capital funding come forward, a carbon assessment will be included as an integral part of the business case to inform decision-making.
- 2.6 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to

ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Council's low risk appetite, providing security and adequate liquidity always before considering investment return.

- 2.7 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 2.8 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.
- 2.9 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

- 2.10 This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 2.11 This activity is currently supported by the council's appointed independent advisors – Link Asset Services.
- 2.12 The strategy was scrutinised by Audit and Governance Committee at its meeting on 24 January 2023 and made no comments

3.0 Reason(s)

- 3.1 Revised reporting was required from the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes included the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011.
- 3.2 This report includes the fourth capital strategy since the revisions. The first three versions of the report were welcomed by Members and no comments or suggestions for improvement have been received from either internal or external audit.

4.0 Options

- 4.1 Endorse the updated strategy or suggest amendments because of the scrutiny process.

5.0 Risks

5.1 Risks are discussed in detail, within the Capital Strategy, including the uncertainty around future funding.

6.0 Implications/Consultations

6.1 None

Community Safety

Building and refurbishment schemes design out crime and safety issues and public realm works in particular are required to ensure that the community feel safe.

Data Protection

All investment in IT systems are required to check where data is held and that systems comply with data protection legislation.

Equalities

All capital schemes meet the necessary legislation and are subject to access audits. Design also takes into account dementia friendly design elements particularly around colour.

Environmental Sustainability

The council has established a carbon assessment tool that it is beginning to apply to existing capital projects. In the future, a carbon assessment of proposed capital projects will be included within the overall business case so as to inform decision-making. To date, individual schemes have sustainability features designed into them and may include, for example: meeting BREEAM ratings for buildings and refurbishments; flood resilience and sustainable underground drainage systems; opportunities for renewable energy generation; and carbon reduction such as replacement of the council's internal combustion engine vehicles with battery electric vehicles.

Financial

The strategy guides the capital programme and detailed financial implications are included with that in the budget report

Health and Safety

All contractors are required to have compliant health and safety policies. Where a health and safety issue requires capital expenditure it will be fast tracked to deal with the issue

Human Resources

None

Human Rights

None

Legal

A Capital Strategy is a requirement of the Prudential Code which the council is required to follow under the Local Government Act 2003.

Specific Wards

None

7.0 Background papers, appendices and other relevant material

7.1 **Appendix A** - East Herts District Council Draft Capital Strategy and Minimum Revenue Policy 2023/24 Onwards

Contact Member

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