Hambleton District Council

Report To:	Cabinet
Date:	9 February 2021
Subject:	**2021/22 Capital Programme Budget, Treasury Management Strategy Statement and Prudential Indicators**
Portfolio Holder:	Economic Development and Finance Councillor P R Wilkinson
Wards Affected:	All Wards

1.0 Purpose and Background

1.1 This report considers the 10 Year Capital Programme covering the financial years 2021/22 to 2030/31, the 2021/22 Capital Programme and the Treasury Management Strategy Statement; including the Minimum Revenue Provision policy statement and Annual Investment Strategy.

1.2 The 10 Year Capital Programme is set within the fiscal parameters of the Financial Strategy, a key feature of which is to ensure that at the end of the 10 year Strategy sufficient reserve funds – grants, contribution and capital receipts – remain available so that the Council's capital plans are affordable, sustainable and prudent. In addition to reserves being maintained, the Council can also use borrowing to support the Capital programme.

1.3 It is a legal requirement under the Local Government Act 2003 and the CIPFA Prudential Code to ensure that the Capital Programme is affordable, sustainable and prudent over a 3-year period. The 10 Year Capital Programme 2021/22 to 2030/31 clearly adheres to this requirement and it should be noted that the 10 Year Programme is an estimate. The Financial Strategy for 2021/22 is for 4 years whilst the Capital programme is maintained for 10 years to be able to forecast the expenditure on the asset base for the longer term.

1.4 Prior to expenditure being incurred on any scheme a Value for Money project appraisal occurs for each project and the annual Capital Programme is approved at Council before the commencement of the new financial year. The 2021/22 Capital Programme is detailed in this report.

1.5 The Treasury Management Strategy Statement includes the Minimum Revenue Provision Policy Statement, the Annual Investment Strategy and the Prudential and Treasury indicators. The Treasury Management Strategy manages the cash flow position of the Council on a long and short term basis to ensure that cash is available when needed and surplus funds are invested in with low risk counterparties (ensuring security of funding is key), providing adequate liquidity, whilst also considering investment return.

1.6 The Capital Programme and Treasury Management Strategy are monitored through the setting of the Prudential and Treasury Management Indicators on an annual basis prior to the beginning of the new financial year.

1.7 This report seeks approval for

- (a) the 10 Year Capital Programme 2021/22 to 2030/31;
- (b) the Capital Programme for the coming financial year 2021/22, which is informed by the 10 Year Capital Programme;
- (c) the Treasury Management Strategy Statement 2021/22;
- (d) the Minimum Revenue Provision Policy Statement 2021/22; and
- (e) the Prudential and Treasury Indicators 2021/22.

2.0 10 Year Capital Programme 2021/22 to 2030/31

2.1 The 10 Year Capital Programme 2021/22 to 2030/31 shows capital expenditure of £35,398,320 which is funded by reserves, contributions, capital receipts, borrowing and surplus funds of £37,239,048, which leaves a balance of funding of £1,840,728. £1,382,232 of this reserve funding balance is allocated for a revenue purpose to support repairs & renewals of the Council's assets, ICT development and development of the economy, this leaves £458,496 to be used on capital projects in future years. The Financial Strategy supports this 10 Year Capital Programme which shows it is affordable, sustainable and prudent over the next four years.

2.2 The 10 Year Capital Programme 2021/22 to 2030/31 is financed from 4 earmarked reserves, revenue contributions, grants as well as borrowing or reduction in surplus funds:

	£
Repairs and Renewals Fund	354,200
Computer Fund	1,737,760
Economic Development Fund	695,248
Capital Receipts Reserve	1,172,255
Capital Grants/Contributions	13,604,364
Revenue Contributions	478,309
Borrowing / Surplus Funds	17,356,184
	35,398,320

In essence, the Capital Programme is split into four sections detailed below; the detailed Capital Programme is shown in Annexes A1, A2, A3 and A4.

2.3 **Repairs and Renewals Fund -** Annex A1 details the funding available in the Repairs and Renewals Fund, together with a detailed estimate of the schemes that will utilise this funding over the next 10 years. This fund will be used to fund all repairs and renewals, including a proportion of those in the revenue budget. This practice will protect the repairs budget, from being used to fund other items of expenditure and eliminate excessive spending at the end of the year.

2.4 **Computer Fund** - Annex A2 details the funding available in the Computer Fund, together with an estimate of how this funding will be utilised over the next 10 years. No specific schemes are detailed through the 10 year strategy because it is envisaged that schemes will emerge from the review of all service areas on an ongoing basis which will provide the detail of the computer programme.

2.5 The Repairs and Renewals Fund and Computer Fund at the end of the 10 year Strategy will require additional funding to be allocated to continue necessary investment. This will be facilitated by income generation opportunities available to the Council and continued revenue efficiencies savings from existing budgets.

2.6 **Economic Development Fund** – Annex A3 details the Economic Development Fund which was created in 2014/15 when £5,000,000 was allocated. The Investment Plan was approved at Cabinet on 2 December 2014. Funding remaining to be allocated at Quarter 3 2020/21 is £225,638.

2.7 **Capital Receipts Reserve** - Annex A4 details the funding available in the Capital Receipts Reserve, together with an estimate of future receipts and the detailed schemes to be financed from the Reserve over the next 10 years. The Capital Receipts Reserve has sufficient balances to continue to fund capital expenditure beyond the 10 Year Capital Programme.

2.8 **Borrowing / Surplus funds** – Borrowing or surplus funds can be used to support the Capital Programme in accordance with the Treasury Management Strategy Statement; this details the borrowing that can occur during 2021/22 in accordance with the capital programme. There is still the flexibility that surplus funds could contribute to the funding of capital expenditure and both these options will be considered in the light of the treasury management, economic and interest rate environment.

2.9 In preparing the 10 Year Capital Programme a number of schemes were put forward that were deemed not to be business critical at this time and therefore are not incorporated in the 10 Year Capital Programme. These schemes will be reassessed in the future and incorporated into future capital programmes, if they become business critical.

3.0 2021/22 Capital Programme Budget

3.1 The Capital Programme 2021/22 totals £26,059,362 and is funded as follows:

	£
Repairs and Renewals Fund	36,000
Computer Fund	246,900
Economic Development Fund	154,610
Capital Receipts Reserve	925,528
Capital Grants and Contributions	9,244,334
Revenue Contributions	85,036
Borrowing / Surplus Funds	15,366,954
	26,059,362

3.2 The Capital Programme 2021/22 is attached at Annex B which shows the additional schemes of £18,511,690. Annex A highlights the full capital programme for 2021/22 of £26,059,362 which includes roll forwards of £7,547,672 from Quarter 1 - Quarter 3 in 2020/21 to 2021/22 This details the capital expenditure cost and also the total cost to the Council, along with associated funding received from third parties in respect of the schemes.

3.3 All schemes have been assessed to allow a considered and informed judgement to be made in respect of the Value for Money of each scheme. It is believed that each scheme does represent value for money. The reasons for this judgement are:-

- each scheme contributes towards the attainment of a particular Council Plan project and / or have a number of clear community benefits;
- schemes can generate ongoing revenue savings;
- although the cost of each scheme is indicative, prior to implementation each scheme will follow the Council's procurement process to ensure best value is achieved; and
- each scheme has a clear completion date.

3.4 A proposal form for each scheme giving evidence of how value for money has been obtained has been reviewed by the Corporate Project Management Board (PMB); it is chaired by the Director of Finance and Commercial (s151 Officer).

3.5 The 10 Year Capital Programme and the 2021/22 Capital Programme will be used to inform the Treasury Management Strategy Statement, the Minimum Revenue Provision Policy Statement and the calculation of the Prudential Indicators as detailed in Paragraph 4.0 and subsequent paragraphs.

4.0 2021/22 Treasury Management Strategy and Prudential Indicators

4.1 The Treasury Management Strategy sets out a framework for how the Council will manage its investments, cash flows and borrowings for 2021/22. The Treasury Management Strategy Statement including the Minimum Revenue Provision Policy Statement, the Annual Investment Strategy and Prudential and Treasury Management Indicators is attached at Annex C. The Treasury Management Strategy specifically sets out:

- the statutory and regulatory requirements of the Local Government Act 2003, the CIPFA (Chartered Institute of Public Finance and Accounts) Prudential Code 2017, the CIPFA Treasury Management Code of Practice 2017 and the Ministry of Housing, Communities and Local Government (MHCLG) 2018 Statutory Guidance on Minimum Revenue Provision and Investment Guidance;
- identifies reporting arrangements and responsibilities;
- clarifies the potential requirement to borrow;
- clearly states that the Council's priorities for investment are the security of capital, whilst also considering liquidity and rate of return;
- identifies the type and the limits for investments and counterparties with which those investments can be placed as well as the maximum duration of the investment;

- ➢ the calculations of the Prudential and Treasury Management Indicators based on the Capital Programme funding requirements; including the Authorised Borrowing limit

4.2 Approval of the Treasury Management Strategy Statement is required by the Local Government Act and Code of Practices as detailed above and advice has been taken from the Council's Treasury Management advisors, Link Asset Services, in constructing this strategy.

4.3 In December 2017, CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code which requires all local authorities to prepare a capital strategy report and it provides the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed; and
- the implications for future financial sustainability.

4.4 The Capital Strategy 2021/22 is reported elsewhere on this agenda and is separate from the Treasury Management Strategy Statement, where non-treasury investments will be reported through the Capital Strategy and treasury investments through this report. This ensures the separation of the core treasury function under the security, liquidity and yield principles and the policy and commercialism investments usually driven by capital expenditure on an asset.

4.5 It should be noted that in the Treasury Management Strategy Statement which includes the Prudential Indicators, reference is made to non-treasury investments which is capital expenditure being either for commercial activity or for valid service delivery. Reference is made in this report to provide a full understanding of how the capital expenditure decisions on non-treasury investments affects the Council's treasury managment activities. In 2021/22, the Coucil will make non-treasury investments for service delivery but will not be pursuing any commercial activity. Commercial activity is still included in the capital strategy to show a complete view of the governance arrangements necessary if this was to occur. From a treasury management perspective, non-treasury activity in the capital programme for service delivery, where expenditue is funded from either external borrowing or the use of existing cash balances then both these actions would affect treasury management.

4.6 The Treasury Management Strategy Statement for 2021/22 reflects the improved stability of the banking sector, as well as a more risk adverse approach to the system of credit ratings. The proposed Strategy is influenced by the Capital expenditure plans for 2021/22 and the next 10 years. It can be summarised as follows:

- ➢ The Council's Capital Financing Requirement and the potential need to borrow;
- ➢ The Minimum Revenue Provision policy is defined determining the minimum revenue payments that are required;

- The Council continues with its investment priority as being the security of capital and also liquidity of its funds, whilst maximising returns commensurate with risk;

- Investment of surplus funds can be made to other Local Authorities, nationalised banks, banks which are part of the UK banking system support package, as well as other UK banks and building societies, subject to the application of Link Asset Services' credit worthiness criteria;

- Investments of surplus funds can be made in foreign Banks and institutions of AA- sovereign rated countries subject to Link Asset Services' credit worthiness criteria;

- Limits for all investments to be placed with specified and non-specified investments are:

  Individual Limits – These limits will be set at 35% of total investments or £7m per counterparty whichever is the higher. There are three exceptions to this policy:

  (a) with counterparties that are backed by the Government – Royal Bank of Scotland and Natwest – (and therefore are more secure) there will be a 40% limit or £7m per counterparty whichever is the higher;

  (b) with the Council's own bank – Lloyds – and associated banks in the Lloyds group – Bank of Scotland – there will be a 40% limit or £7m per counterparty, whichever is the higher;

  (c) with the Debt Management Agency Deposit there will be an unlimited amount with this organisation due to its high level of security.

  Group Limits – this policy recognises that individual counterparties (banks/financial institutions etc), whilst being sound in themselves, may be part of a larger group. This brings with it added risks where parent institutions may be in difficulties. Therefore, due to the reduced surplus balances available for investment, the group limit will also be as stated for the individual limits as it is important to diversify the risk to a variety of counterparties.

4.7 **Authorised Limit for external debt** – it should be noted that the Authorised Limit has increased from £62.5m in 2020/21 to £72m in 2021/22 and onwards due to the Council's commitment to the capital programme.

4.8 The Scheme of Delegation is attached at Annex D and the Treasury Mangement role of the Director of Finance and Commercial (s151 Officer) is attached at Annex E. This is in accordance with the revised Codes and details that the specific roles of the chief financial officer - Director of Finance and Commercial (s151 Officer) at this Council - have been extended in respect of investment in non-treasury investments (non-financial assets) as well as the responsibility in relation to Treasury Management, that those charged with governance are responsible for Treasury Management activities within the organisation; it is recommended to be approved by Cabinet and Council.

5.0 Link to Council Priorities

5.1 This report links to the efficient use of Council resources, where the Capital Programme 2021/22 demonstrates value for money in the implementation of the individual capital schemes and the Treasury Management Strategy Statement ensure the Council maximises its return on investments. Both the Capital Programme and Treasury Management allow more resources to be freed up to invest in the Council's other priorities, values and imperatives.

6.0 Risk Assessment

6.1 There are two main risks associated with setting the Capital Programme and the Treasury Management Strategy Statement 2021/22:

Risk	Implication	Gross Prob	Gross Imp	Gross Total	Preventative action	Net Prob	Net Imp	Net Total
Proposed capital schemes for 2021/22 are not assessed for risk prior to the commencement of the schemes	The Council is unable to control capital expenditure or redirect resources to priority areas	3	5	15	Capital Scheme Proposal Forms are prepared for each individual capital scheme, including the assessment of risk.	2	5	10
Treasury management function is a high risk area due to the volume and level of large investment of money transactions.	The value of the investment could be lost, liquidity of the Council could be reduced and yield not maximised.	3	5	15	The Local Government Act 2003, supporting regulations, the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice 2017 are all adhered to as required	3	5	15

Prob = Probability, Imp = Impact, Score range is Low = 1, High = 5

7.0 Financial Implications

7.1 The financial implications are contained within the body of the report.

8.0 Legal Implications

8.1 The Council is legally required to set a balanced 3 year Capital Programme budget and Treasury Management Strategy Statement as set out in Local Government Act 2003. This Council has set a 10 Year Capital Plan to assist with medium term financial planning, budget and Council Tax setting for 2021/22 and future years. This report provides detail of the Capital Programme 2021/22 and also includes the requirements for the Treasury Management Strategy Statement.

8.2 Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to the CIPFA Prudential Code 2017 and the CIPFA Treasury Management Code of Practice 2017. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance has been updated by the Secretary of State under section 21(1A) of the Local Government Act 2003 which came into effect for 1 April 2019.

9.0 Equality/Diversity Issues

9.1 The equality and diversity implications of the individual schemes will be assessed by individual departments once the Capital Programme 2021/22 has been approved and the schemes are further developed. Any implications will be identified in the individual schemes project plans.

10.0 Recommendations

10.1 It is recommended that Cabinet approves and recommends to Council that:-

1) the 10 Year Capital Programme 2021/22 to 2030/31 at £35,398,320 be approved, as detailed in paragraph 2.2 and attached at Annex A;

2) the Capital Programme 2021/22 at £26,059,362 detailed in Annex A where the additional schemes of £18,511,690 are attached in Annex B be approved for implementation;

3) the Treasury Management Strategy attached at Annex C be approved;

4) the Minimum Revenue Provision Policy Statement attached in the body of the Treasury Management Strategy Statement Annex C be approved;

5) the Prudential and Treasury Indicators attached at Annex C in the body of the Treasury Management Strategy Statement be approved;

6) the Treasury Management Scheme of Delegation at Annex D be approved; and

7) the Treasury Management role of the S151 Officer attached at Annex E be approved.

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Background papers: None

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