

HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
7 February 2017

Subject: 2016/17 Q3 CAPITAL MONITORING AND TREASURY MANAGEMENT REPORT

All Wards
Portfolio Holder for Economic Development and Finance: Councillor P R Wilkinson

1.0 PURPOSE AND BACKGROUND:

- 1.1 The purpose of this report is to provide Members with the Quarter 3 update at 31 December 2016 on the progress of the capital programme 2016/17 and the treasury management position. A full schedule of the capital programme 2016/17 schemes is attached at Annex A, together with the relevant update on progress of each scheme.
- 1.2 Capital expenditure is intrinsically linked with treasury management as the way that the capital programme is funded, directly effects the treasury management arrangements of the Council. The majority of the Council's capital expenditure is funded by grants, capital receipts and reserves, however borrowing is also considered when required. The use of the Council's funds affects the daily treasury management cash flow position, as well as the requirement to invest these surplus funds.

2.0 CAPITAL PROGRAMME SUMMARY:

- 2.1 The 2016/17 capital programme was approved by Cabinet at Quarter 2 on 6 December 2016 at £18,935,354.
- 2.2 At this quarter 3 monitor, a net increase to the capital programme of £251,976 results in a total revised capital programme of £19,187,330.
- 2.3 The net increase of £251,976 to be approved in this report is detailed in Annex A and Annex B and is made up of:-
 - (a) increase in expenditure of £17,000 for two new schemes;
 - (b) increase in expenditure of £60,110 supported from Council reserves;
 - (c) increase in expenditure of £1,200,000 supported from surplus funds or external borrowing and rolled back from 2017/18;
 - (d) increase in expenditure of £105,321 funded externally;
 - (e) transfer of funds between schemes, with overall effect being zero;
 - (f) decrease in expenditure of £1,024,835 due to schemes rolled forward to 2017/18; and
 - (g) decrease in expenditure of £105,620 due to funding no longer required.

2.4 Table 2 below outlines the variances reported against the current portfolio areas. Following the Management restructure it is recommended that the portfolio's are re-aligned to reflect the new structure. Therefore the new portfolio's are detailed in table 3.

Portfolio	Current Approved Expenditure	Revised Expenditure Q3	Variance Increase/ (decrease)	New Schemes	Request for additional funding	Funding no longer required	External Funding	Schemes re-profiled (to) from future years £
£	£	£	£	£	£	£	£	£
Environmental & Planning Services	473,458	531,119	57,661	8,000	11,890	(50,000)	99,821	(12,050)
Customer & Leisure Services	311,061	207,101	(103,960)	0	7,680	(35,620)	5,500	(109,660)
Support Services	1,819,535	1,163,270	(656,265)	9,000	0	0	0	(637,125)
Economic Development Fund	1,331,300	1,085,840	(245,460)	0	40,540	(20,000)	0	(266,000)
Local Housing Associations	15,000,000	16,200,000	1,200,000	0	0	0	0	1,200,000
Total	18,935,354	19,187,330	251,976	17,000	60,110	(105,620)	105,321	175,165

Table 2: Capital Programme Q3 2016/17

Portfolio	Current Approved Expenditure	Revised Expenditure Q3	Variance Increase/ (decrease)	New Schemes	Request for additional funding	Funding no longer required	External Funding	Schemes re-profiled (to) from future years £
£	£	£	£	£	£	£	£	£
Leisure & Environment	407,977	329,337	(70,640)	8,000	19,570	0	5,500	(103,710)
Economy & Planning	1,667,681	1,159,020	(516,661)	9,000	0	(67,102)	99,821	(558,380)
Finance	528,396	413,133	(115,263)	0	0	(18,518)	0	(96,745)
Economic Development Fund	1,331,300	1,085,840	(245,460)	0	40,540	(20,000)	0	(266,000)
Local Housing Associations	15,000,000	16,200,000	1,200,000	0	0	0	0	1,200,000
Total	18,935,354	19,187,330	251,976	17,000	60,110	(105,620)	105,321	175,165

Table 3: Capital Programme Q3 2016/17

- 2.5 To 31 December 2016 capital expenditure of £17,610,824 had been incurred or committed representing 92% of the revised quarter 3 capital programme position of £19,187,330, this included the £16,200,000 loan to the local Housing Association. It is expected at quarter 3 that the capital programme will come in on target at the end of the financial year.
- 2.6 The proposed changes to the Capital Programme, which require approval by this Cabinet, are detailed for each of the 3 portfolio areas and the Economic Development Fund at Annex B.

3.0 FUNDING THE CAPITAL PROGRAMME:

- 3.1 For 2016/17, at Quarter 3, the capital programme of £19,187,330 is being funded from £1,200,000 external borrowing, £424,829 external grants/contributions, £1,085,840 from the Economic Development Fund, £324,133 from the Computer Fund, £24,165 from the One Off Fund, £119,744 from the Repairs and Renewals Reserve and £1,008,619 from Capital Receipts Reserve. The remaining funding will be financed either by the Council's surplus funds or external borrowing.
- 3.2 Due to the overall financial position and the underlying need to borrow for capital purposes, external borrowing of £1,200,000 was undertaken in September 2016 from the Public Works Loan Board at a rate of 1.05% over 5 years.
- 3.3 The external grant funding is higher than Quarter 2 by £5,050. This is as a result of the Bedale Public Art Project. This will be funded by the Arts Council and a Section 106 Agreement. The total cost of the project is £50,000, the majority of the work will take place in 2017/18 with only a small amount required in 2016/17. The amount required in 2016/17 is £5,050 and will be funded by the Arts Council.
- 3.4 The capital receipts estimated to be received during 2016/17 is £881,887.
- 3.5 Therefore at year end in accordance with accounting practice the capital programme will be financed using all available in year funding prior to using the Council's capital reserves. At Quarter 3 it is estimated that £1,553,882 of reserve funding will be used.
- 3.6 The overall funding position continues to be closely monitored to ensure the overall capital programme remains affordable and sustainable over the 10 year approved capital plan.
- 3.7 It should be noted that the report reflects the capital programme position as if approval has been agreed by Cabinet. This is detailed in the recommendations below.

4.0 TREASURY MANAGEMENT POSITION 2016/17

- 4.1 The Treasury Management review at quarter 3 2016/17 is attached at Annex C and provides Members with an update on the:
- (a) treasury management position
 - (b) economy and interest rates
 - (c) investment policy
 - (d) investment performance
 - (e) borrowing position
 - (f) Compliance with prudential and treasury indicators
- 4.2 The Treasury Management Strategy Statement (TMSS) for 2016/17 which details the Council's approach to treasury management was approved by this Council on 25 February 2016. There are no policy changes to the Treasury Management Strategy Statement, however it should be noted that where the Strategy is influenced by the capital expenditure

plans for 2016/17 the Council's Capital Financing Requirement (need to borrow) relates to the entire 2016/17 capital expenditure programme and not only the loan to the local Housing Association. This aligns with reports that have been approved by Cabinet and Council in the first half of 2016/17 and the Local Government Act 2003.

- 4.3 The investment position at Quarter 3, 31 December 2016 was £7,490,000 with an average interest rate return of 0.44%. For surplus funds invested for 3 months or more, a return of 0.59% was achieved which was 0.33% greater than the 3 month benchmark at 0.26 %. For funds invested short term 0.35% was achieved compared to the 7 day benchmark of 0.12%. At quarter 3 the interest earned from short term investments is £20,643 and investments of 3 months or more is £27,446.
- 4.4 The Council's Investment balances have reduced considerably compared to quarter 3, 2015/16. This is due to the loans to the Local Housing Association being financed from surplus funds. In 2015/16 £10,000,000 was loaned to the Local Housing Association. In quarter 3 additional tranches of £1,200,000 were loaned resulting in £16,200,000 to date in 2016/17, giving an overall total of £26,200,000. These loans are estimated to earn the council interest of £1,038,390 at an average rate of 4.37% in 2016/17 (£123,230, 2015/16 at an average rate of 4.21%). However interest received from the loans to the local Housing Association is not included in this section of the report because it is classed as capital expenditure under economic development to support local businesses.
- 4.5 The Council borrowed £1,200,000 in quarter 2 from the Public Works Loan Board (PWLb) at a rate of 1.05 over five years to fund capital expenditure. Further borrowing is predicted in quarter 4.
- 4.6 The Council has operated within the treasury and prudential indicators set out at Annex E. The approved limits were not breached during quarter 3 of 2016/17.

5.0 LINK TO COUNCIL PRIORITIES:

- 5.1 All schemes approved as part of the capital programme have been evaluated against key corporate priorities. Schemes are only undertaken and approved by cabinet in accordance with the Council Plan and supporting project initiation documentation.
- 5.2 Treasury Management supports all aspects of the Council's priorities as with good management of surplus funds, investment interest earned can be used to support Council services.

6.0 RISK ASSESSMENT:

- 6.1 There are no risks associated with approving this report. However, the risks associated with not receiving regular monitoring reports are potentially more serious.

7.0 FINANCIAL IMPLICATIONS:

- 7.1 The financial implications are dealt with in the body of the report.

8.0 LEGAL IMPLICATIONS

- 8.1 Treasury Management activities and the Capital programme conform to the Local Government Act 2003 and the Council has adopted the **Chartered Institute of Public Finance and Accountancy** (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice.

9.0 EQUALITY/DIVERSITY ISSUES

- 9.1 The capital programme seeks to address key equality issues that affect the Council and the public. The main schemes that specifically addressed equalities in the third quarter of 2016/17 is the disabled facilities grant scheme and additional work to the disabled access doors and ramps at the Civic Centre.

10.0 RECOMMENDATIONS:

- 10.1 That Cabinet approves and recommends to Council:-
- (1) the net increase of £251,976 in the capital programme to £19,187,330 and all expenditure movements as detailed in Annex B and also in the capital programme attached at Annex A;
 - (2) the increase in capital expenditure of £60,110 is funded from capital receipts of £19,570 and £40,540 from the Economic Development Fund;
 - (3) the funding allocation of the capital programme as detailed in paragraph 3.1; and
 - (4) the treasury management and prudential indicators at Annex E.

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Background papers: Capital programme working papers Q3
Treasury management working papers Q3

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