HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
7 February 2017

Subject: **2017/18 CAPITAL PROGRAMME BUDGET, TREASURY MANAGEMENT STRATEGY STATEMENT AND PRUDENTIAL INDICATORS**

All Wards

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

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1.0 PURPOSE AND BACKGROUND:

1.1 This report considers the 10 year Capital Programme covering the financial years 2017/18 to 2026/27, the 2017/18 Capital Programme and the Treasury Management Strategy Statement; including the Annual Investment Strategy and Minimum Revenue Provision Policy Statement.

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. The Financial Strategy which supports the Capital Programme 2017/18 to 2026/27 is being approved at this February 2017 Cabinet.

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 2017/18 to 2026/27 clearly adheres to this requirement and it should be noted that the 10 year Programme is an estimate.

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 2017/18 Capital Programme is detailed in this report.

1.5 The Treasury Management Strategy Statement includes the Annual Investment Strategy the Minimum Revenue Policy Statement 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 2017/18 to 2026/27
(b) the Capital Programme for the coming financial year 2017/18, which is informed by the 10 year Capital Programme
(c) the Treasury Management Strategy Statement 2017/18
(d) the Minimum Revenue Policy Statement 2017/18
(e) the Prudential and Treasury Indicators 2017/18

2.0 <u>10 YEAR CAPITAL PROGRAMME 2017/18 to 2026/27:</u>

2.1 The 10 year Capital Programme 2017/18 to 2026/27 shows capital expenditure of £25,359,352, which is funded by reserves, contributions, capital receipts, borrowing and surplus funds of £28,710,558, which leaves a balance of funding of £3,351,206. £984,784 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 £2,366,422 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 long term.

2.2 The 10 Year Capital Programme 2017/18 to 2026/27 is financed from 4 earmarked reserves as well as borrowing or reduction in surplus funds:

	£
Repairs and Renewals Fund	1,076,000
Computer Fund	1,860,995
Capital Receipts Reserve	9,043,647
Economic Development Fund	3,378,710
Borrowing / Surplus Funds	<u>10,000,000</u>
	25,359,352

In essence, the Capital Programme is split into these four sections; the detailed Capital Programme is shown in Annexes A1, A2, A3, A4, A5 and A6.

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 **Capital Receipts Reserve** - Annex A3 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.

2.7 **Economic Development Fund** – Annex A4 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 2016/17 is £1,219,597.

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. Specifically, on 16 December 2014 Cabinet approved the loan to local Housing Association to assist the local area in increasing housing opportunities for the community and also on 7 July 2015 the loan to the Business Improvement District. Therefore, the Treasury Management Strategy Statement details the maximum amount of borrowing that can occur during 2017/18. There is still the flexibility that surplus funds could contribute to the funding of the loans 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 2017/18 CAPITAL PROGRAMME BUDGET:

3.1 The Capital Programme 2017/18 totals £9,554,070 and is funded as follows:

	£
Repairs and Renewals Fund	110,000
Computer Fund	184,270
Capital Receipts Reserve	459,800
Borrowing / Surplus Funds	8,800,000
	9,554,070

3.2 The Capital Programme 2017/18 is attached at Annex 'B'. 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. In addition, where a scheme appears for a number of years, an estimation of the costs in future years is also given.

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 Business Plan target and a number have 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;
- 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 Capital Monitoring Group, which is chaired by the Director of Finance.

3.5 The 10 year Capital Programme and the 2017/18 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 2017/18 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 2017/18. The Treasury Management Strategy Statement including the Annual Investment Strategy, the Minimum Revenue Provision Policy Statement and Prudential and Treasury Management Indicators is attached at Annex 'C'. Specifically the Treasury Management Strategy:

- Sets out the statutory and regulatory requirements of the Local Government Act 2003, the CIPFA (Chartered Institute of Public Finance and Accounts) Prudential Code, the CIPFA Treasury Management Code of Practice and the Communities and Local Government Minimum Revenue Provision Guidance and also 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;
- Calculates the Prudential and Treasury Management Indicators based on the Capital Programme funding requirements.

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, Capita Asset Services, in constructing this strategy.

4.3 The Treasury Management Strategy Statement for 2017/18 reflects the improved stability of the banking sector, as well as a more risk averse approach to the system of credit ratings. The proposed Strategy is influenced by the Capital expenditure plans for 2017/18 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 Capita Asset Services' credit worthiness criteria;
- Investments of surplus funds can be made in foreign Banks and institutions of AA sovereign rated countries subject to Capita 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 30% of total investments or £3.0m 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, Natwest, Ulster Bank – (and therefore are more secure) there will be a 40% limit or £5m 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 £5m 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.

4.4 The Treasury Management Strategy Statement 2017/18 also includes the revised Treasury Management Policy Statement which is attached at Annex 'D' and is recommended to be approved by Cabinet and Council in accordance with the revised CIPFA Treasury Management Code of Practice 2011.

4.5 The Scheme of Delegation and the Role of the S151 Officer (Director of Finance), in relation to Treasury Management, details that those charged with governance are responsible for Treasury Management activities within the organisation, this is attached at Annex 'E' and is recommended to be approved by Cabinet and Council.

4.6 The Prudential and Treasury Management Indicators are detailed in the main body of the Treasury Management Strategy Statement attached at Annex 'C'. It is recommended that the Prudential and Treasury Management indicators are 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 2016/17 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 2017/18:

Risk	Implication	Prob	Imp	Total	Preventative action
Proposed capital schemes for 2017/18 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.

Risk	Implication	Prob	Imp	Total	Preventative action
Treasury management function is a high risk area due to the volume and level of large investment 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 (as amended), supporting regulations, the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice (the code) are all adhered to as required

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 2017/18 and future years. This report provides detail of the Capital Programme 2017/18 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 and the CIPFA Treasury Management Code of Practice and also the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance.

9.0 EQUALITY/DIVERSITY ISSUES:

9.1 Some capital schemes have specific implications for Equalities. The equalities implications of the individual schemes will be assessed by individual departments once the Capital Programme 2017/18 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 2017/18 to 2026/27 at £25,359,352 be approved, as detailed in paragraph 2.2 and attached at Annex ‘A’;

2) the Capital Programme 2017/18 at £9,554,070 detailed 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 revised Treasury Management Policy Statement at Annex ‘D’ be approved; and

7) the Scheme of Delegation and role of the S151 Officer attached at Annex ‘E’ be approved.

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Background papers: None

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