Annex B

PROPOSED CHANGES TO THE CAPITAL PROGRAMME:

1.1 The proposed changes to the capital programme, detailed for each of the portfolio areas are listed below:

1.2 Leisure & Environment – 7 schemes affect the capital programme at Quarter 1:

(a) HLC Improvement Scheme - £190,946 was spent on the project in 2016/17 which was approved by Cabinet in July 2017. Therefore an adjustment to the budget is required in quarter 1 to return £190,946 to the fund.

(b) HLC All Weather Pitch – two additional floodlights are required to improve the lighting quality, therefore an additional £8,700 is required to complete this scheme.

(c) Upgrading Lockers – a new capital scheme is required as existing locker mechanisms do not accept the new shaped £1 coin and therefore require replacing or adapting to ensure that the new shaped £1 coin is compatible. £18,970 is required as it affects all of the leisure centre lockers.

(d) SLC Menerga Air Handling Unit – a saving of £6,658 has been made on this scheme and £3,000 will be used to fund the lighting columns needed a Thirsk All Weather Pitch and the remaining £3,658 to be returned to the fund.

(e) Thirsk All Weather Pitch Refurbishment of Showers & Lighting – £3,000 is required as the All Weather Pitch Lighting is inadequate and urgent unscheduled works need to be carried out. This will be funded from the saving made at SLC Menerga Air Handling Unit.

(f) Thirsk & Sowerby Sports Village – all land is now secured and currently working on a funding strategy and business plan. Target date for work to start is January 2018 and it is estimated that £700,000 will be required but this will be funded from a Section 106 Agreement.

(g) Waste and Street Scene – Stokesley Depot Roller Shutter Doors – a new capital scheme of £6,000 is required to repair the panel and install an electric motor on the roller shutter doors. It is now a Health and Safety risk as currently it takes significant effort to open and close the doors.

1.3 Economy & Planning – 4 schemes affect the capital programme at Quarter 1:

(a) Workspaces Roller Shutter Doors – this scheme is now complete but there is a small overspend of £446

(b) Evolution Car Park – The budget of £158,000 is no longer required and is to be returned to the fund as the project occurred in 2016/17 and was approved by Cabinet in July 2017. An additional £76,000 was agreed at Cabinet in March 2017 for 2018/19 to develop the site but the scheme will now be completed in 2017/18 therefore £50,000 that was required in 2018/19 needs to be included in 2017/18 and to be approved at quarter 1.

(c) Leeming Bar Business Park (Phase 4) – a new capital scheme of £355,286 is required for buy back of land but this will be resold in 2017/18.

(d) Disabled Facilities Grant – the total DFG Grant for 2017/18 has been confirmed to be £409,002 with HDC contributing £50,000 to the scheme. The remaining balance that was brought forward will be added to the grant which makes a total DFG grant of £553,505 for 2017/18.

1.4 Economic Development Fund – 2 schemes affect the capital programme at Quarter 1:

(a) Economic Development Improvement Infrastructure Dalton Bridge – £308,526 is to be allocated to the Dalton Bridge project as approved by Cabinet in July 2017 for additional build costs. £3,500 is required for legal documentation to be approved at Quarter 1. Further funding of £190,624 is to be returned to the fund as it is no longer required.

(b) Economic Development Improvement Infrastructure Centre Northallerton – £30,576 is required for additional demolition costs that are required.

1.5 Capital schemes are monitored on a monthly basis and reported to Cabinet quarterly, ensuring that the majority of schemes are held within budget or reported to Council at the earliest opportunity.

1.6 New Schemes added to the capital programme all have supporting Project Initiation Documentation to ensure projects are affordable, sustainable and prudent.

ANNEX C

TREASURY MANAGEMENT POSITION 2017/18 – QUARTER 1

1.0 LEGISLATIVE REQUIREMENT:

1.1 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (Treasury Management Strategy Statement, Annual and Mid-year reports, as well as quarterly updates). This report therefore ensures this Council is implementing best practice in accordance with the Code.

1.2 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This Quarter 1 report therefore updates Members on the current treasury management position and is presented to Cabinet and also Audit, Governance and Standards Committee.

1.3 The Council's treasury management position is based on its requirement to fund the capital programme and it's operational cash flow need. The Council looks to balance the requirement to borrow from external sources with the surplus funds that are available.

1.4 During 2016/17 the Council supported its Capital Expenditure by short term borrowing. This was repaid in Quarter 1 of 2017/18 and the council used surplus funds to fund the expenditure. The council continues to have an underlying need to borrow for capital purposes and has external borrowing of £1,200,000 which was undertaken in September 2016 from the Public Works Loan Board at a rate of 1.05% over 5 years.

1.5 The capital financing requirement, which is the amount of borrowing required to support the capital expenditure programme, is set at £36,200,000. The capital expenditure of the Council is mainly supported by grants, contributions and reserves. The capital financing requirement refers to the amount of borrowing that could be taken to support the capital expenditure programme.

1.6 The following table shows the treasury management position as at 30 June 2017:-

	30 June 17 £000's	**Rate %**
Capital Financing Requirement	36,200	
Borrowing	1,200	1.05
Investments	1,980	0.17

Table 1: Borrowing and Investment position at 30 June 2017

1.7 The table shows that changes in the capital expenditure programme only affects the treasury management position through the surplus funds that are available to the Council to invest, to earn investment income.

2.0 THE ECONOMY, INTEREST RATES AND TREASURY MANAGEMENT STRATEGY:

2.1 The economic background and interest rate forecast, which sets the environment in which the Council's treasury management operates, is attached at Annex D.

3.0 ANNUAL INVESTMENT STRATEGY 2017/18 – Quarter 1:

3.1 **Investment Policy** – the Council's investment policy is governed by the Department for Communities and Local Government guidance, which was implemented in the Treasury Management Strategy Statement (TMSS) for 2017/18, and includes the Annual Investment Strategy approved by Cabinet on 7 February 2017. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity;
- Yield

3.2 The Council's priority is security of its surplus funds when investing with financial institutions. However the Council will always aim to achieve the optimum return (yield) on investments in line with its risk appetite and which is commensurate with proper levels of liquidity and security. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months. Investments are placed with highly credit rated financial institutions, using the Council's treasury Management advisers – Capita Asset Services - suggested creditworthiness approach including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Capita Asset Services.

3.3 The average level of funds available for investment purposes during Quarter 1 – 30 June 2016 - was £5,123,407. The level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme. The Council held £1,980,000 cash flow movement balances at the end of Quarter 1.

3.4

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day	0.11%	0.17%	£2,221

Table 2: Investment performance for quarter 1 at 30 June 2017

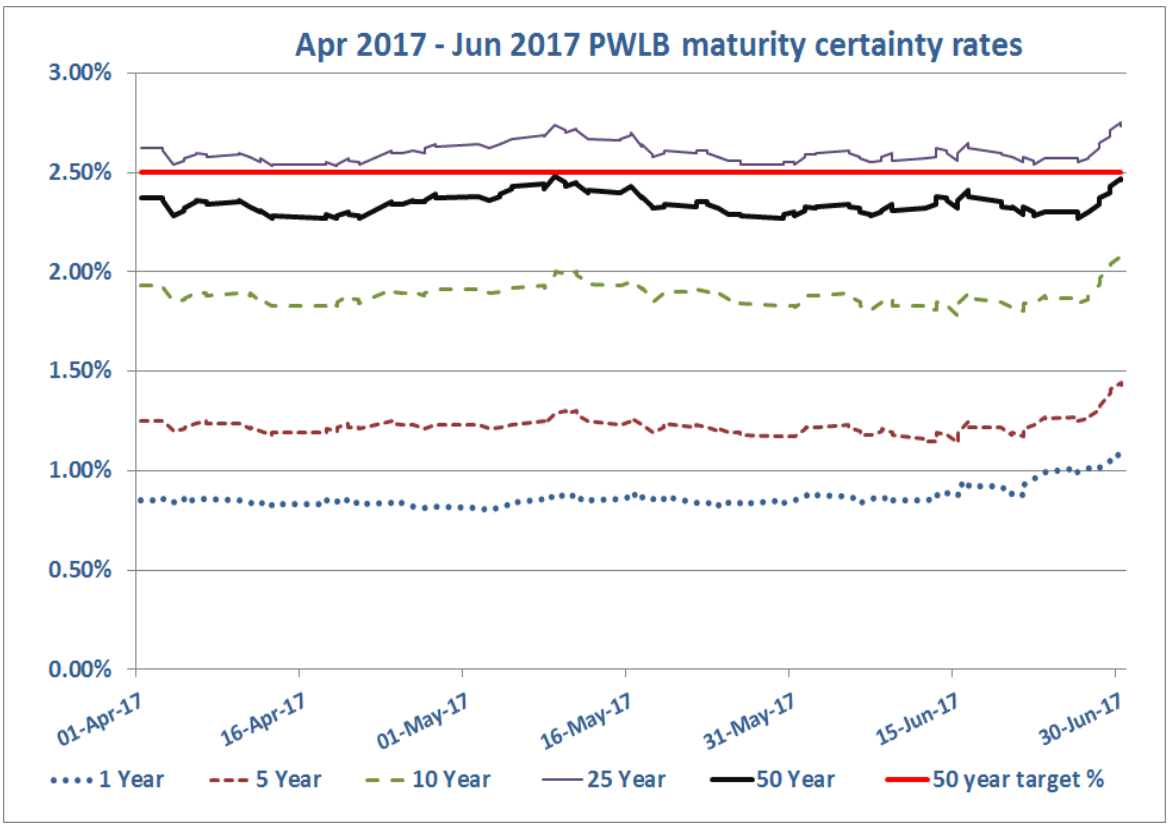
3.5 The table shows that the Council monitors its cash flow investments against the 7 day rate. The Council outperformed the 7 day benchmark by 0.06%.

3.6 The Council's budgeted investment return for 2017/18 was approved at £19,000. This will be closely monitored throughout the year, in Quarter 1 budget monitoring the interest anticipated to be received through the Council's investment funds will be reduced by £13,000 to £6,000. This is as a result of very low interest rates offered by the council's counterparties for its cashflow investments.

4.0 BORROWING 2017/18 – Quarter 1

4.1 As depicted in the graph and table below, PWLB rates varied little during the Quarter until rising sharply in the last week of June.

During the Quarter, the 50 year PWLB target (certainty) rate for new long term borrowing was 2.50%.



Graph 1: Public Works Loan Board (PWLB) Interest rates for Quarter 1 of 2017/18

4.2 The table below shows the Public Works Loans Board interest rates which were available for loans during Quarter 1 of 2017/18. The Public Works Loans Board is the mechanism by which the Government allows local authorities to borrow at slightly lower interest rates than are available to other institutions. Certainty rates, as detailed in the table, are interest rates available to local authorities if they inform the Government of their borrowing requirements at the beginning of the financial year and are 0.02% (or 20 basis points) below Public Works Loans Board rates. This was introduced by the Government in October 2012.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.80%	1.14%	1.78%	2.53%	2.27%
Date	03/05/2017	15/06/2017	15/06/2017	13/04/2017	13/04/2017
High	1.08%	1.44%	2.08%	2.75%	2.48%
Date	30/06/2017	30/06/2017	30/06/2017	30/06/2017	09/05/2017
Average	0.87%	1.23%	1.89%	2.60%	2.34%

Table 3: Public Works Loan Board (PWLB) certainty rates, Quarter ended 30 June 2017

4.3 Treasury Borrowing: 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. The Council did not undertake any new external borrowing during Quarter 1, 2017/18.

4.4 It is anticipated that more borrowing will be required during the financial year 2017/18 to support the overall Capital Programme.

4.5 Rescheduling of Borrowing: the Council had no debt that could be rescheduled in Quarter 1 of 2017/18 under the regulations as borrowing have to be held for at least one year prior to rescheduling being undertaken.

4.6 Repayment of Borrowing: the Council repaid a short term loan of £5,500,000 in Quarter 1 of 2017/18.

5.0 COMPLIANCE WITH PRUDENTIAL AND TREASURY INDICATORS:

5.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) were approved in the Treasury Management Strategy Statement by Council on 21 February 2017 and are in compliance with the Council's Treasury Management Practices.

5.2 During the financial year to date the Council has operated within the Treasury and Prudential Indicators approved which are attached at Annex E.

5.3 Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the Quarter ended 30 June 2017.

ANNEX D

Economic Update

1.1 ECONOMIC BACKGROUND

The United Kingdom Gross Domestic Product annual growth rates in each calendar year 2013 – 2016 of 1.9%, 3.1%, 2.2% and 1.8%, have all been the top rate, or near top rate, of any of the G7 countries in every year. It is particularly notable that the United Kingdom performance was repeated in 2016, a year in which the Bank of England had forecast in August 2016 that growth would be near to zero in the second half of the year due to the economic shock it expected from the result of the Brexit referendum in June.

However, it has had to change its mind and in its February and May 2017 Inflation Reports, the Bank upgraded its forecasts for growth (May Report - 2017 1.9%, 2018 and 2019 1.9%). However over these years, it also expects inflation to accelerate towards nearly 3% as increases in costs as a result of the fall in the value of sterling since the referendum, gradually feeds through into the economy, though it should fall back to 2.2% in 2019.

Provided those cost pressures do not feed through into significantly higher domestically generated inflation within the United Kingdom, the Monetary Policy Committee is expected to 'look though' this one off blip upwards in inflation. Wage inflation, which is a key driver of domestically generated price pressures, is currently subdued. There is, though, a potential risk that the Monetary Policy Committee might muster a majority to reverse the emergency 0.25% rate cut before embarking on a progressive trend of increases in Bank Rate at a later time.

Gross Domestic Product growth in the United States has been highly volatile in 2016 but overall mediocre, at an average of 1.6% for the year. Quarter 1 in 2017 has also been mediocre at 1.4% but current indications are that growth could rebound strongly in Quarter 2. The disappointment so far has been the lack of decisive action from President Trump to make progress with his promised fiscal stimulus package.

The Fed has, therefore, started on the upswing in rates now that the economy is at or around "full employment" and inflationary pressures have been building to exceed its 2% target. It has, therefore, raised rates four times, with the last three following quickly on one another in December 2016 and March and June 2017. One or two more increases are expected in 2017 and possibly four in 2018.

Growth in the European Union improved in 2016, to 1.7%, after the European Central Bank cut rates into negative territory and embarked on massive quantitative easing during the year. The European Central Bank is now forecasting growth of 1.9% in 2017, 1.8% in 2018 and 1.7% in 2019. It has committed to continuing major monthly quantitative easing purchases of debt instruments, though in April 2017 it reduced the rate from €80bn per month to €60bn, to continue until the end of 2017, in order to stimulate growth and to get inflation up to its 2% target.

There are major concerns about various stresses within the European Union; these could even have the potential to call into question the European Union project. The Dutch and French elections passed off without creating any waves for the European Union but we still have a national election in Germany on 22 October; this is not currently expected to cause any significant change.

What could be more problematic is the general election in Austria on 15 October where a major front runner is the Freedom Party which is strongly anti-immigration and anti European Union. There is also a risk of a snap general election in Italy before the final end possible date of 20 May 2018.

A continuing major stress point is dealing with the unsustainable level of national debt in Greece in the face of implacable opposition from Germany to any further bail out. High levels of unemployment in some European Union countries and the free movement of people within the European Union, together with the European Union's fraught relationship with Turkey in controlling such people movements, are also major stress issues. On top of which the European Union also now has to deal with Brexit negotiations with the United Kingdom.

China is expected to continue with reasonably strong growth, (by Chinese standards), of 6.5% in 2017. However, medium term risks are increasing. Japan has only achieved 1% growth in 2016 and is struggling to get inflation to move from around 0%, despite massive fiscal stimulus and monetary policy action by the Bank of Japan.

1.2 INTEREST RATE FORECAST

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.10%	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%
50yr PWLB rate	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%

The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August 2016 in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. However, since then, growth has been robust until dipping in Quarter 1 of 2017 to 0.2%. Also, Consumer Price Index inflation has risen substantially as a result of the sharp fall in the value of sterling since the referendum. Consequently, Bank Rate has not been cut again, and market concern has switched to whether the Monetary Policy Committee could get together a majority to reverse the August emergency 0.25% rate cut before embarking on a progressive trend of increases in Bank Rate at a later time when the economic and political / Brexit situation is more robust to withstand such increases. There is much uncertainty at this time over the slender majority the Conservative Government has, which is dependent on Democratic Unionist Party support, and also over what form of Brexit will transpire and how difficult the European Union could be in setting terms. There are therefore a multiplicity of ifs and buts at the current time and depending on how things transpire, then this will materially influence Monetary Policy Committee decision making as to when Bank Rate will rise.

Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until Quarter 2 2019, after the Brexit negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the United Kingdom), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

ANNEX 'E'

PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits – the Authorised Limit and the Operational Boundary - as detailed below. The Council approved the Treasury and Prudential Indicators (affordability limits), for the 2017/18 financial year at Council on 21 February 2017 in the Treasury Management Strategy Statement.

The main purpose of the indicators is to control how much a Council needs to borrow.
In 2017/18, The Treasury Management Strategy Statement approved the capital financing requirement at £36.2 million which gives the Council the ability to either use surplus funds to support the capital expenditure requirement or to take external borrowing.

The Prudential and Treasury Indicators are detailed below as approved at Council prior to the beginning of the 2017/18 financial year – Original Budget - and at Q1 Actual:

1. PRUDENTIAL INDICATORS	**2017/18**	**2017/18**
Extract from budget and rent setting report	**Original Budget**	**Actual Q1**
	£'000	**£'000**
Capital Expenditure	14,886	16,878
Ratio of financing costs to net revenue stream	Nil	Nil
Net borrowing requirement General Fund		
brought forward 1 April	10,200	1,200
carried forward 31 March	24,690	24,690
in year borrowing requirement	14,490	23,490
Capital Financing Requirement 31 March 2018	36,200	36,200
Incremental impact of capital investment decisions	£	£
Increase in Council Tax (band D) per annum	Nil	Nil

2. TREASURY MANAGEMENT INDICATORS	**2017/18**	**2017/18**
	Original Budget	**Actual Q1**
	£'000	**£'000**
Authorised Limit for external debt -		
borrowing	£40,000	£40,000
other long term liabilities	£1,000	£1,00
TOTAL	£41,000	£41,000
Operational Boundary for external debt -		
borrowing	£39,000	£39,000
other long term liabilities	£600	£600
TOTAL	£39,600	£39,600
Actual external debt	£24,690	£1,200

Upper Limit on fixed interest rates based on net debt	104%	104%
Upper Limit on variable interest rates based on net debt	-4%	-4%
Upper limit for total principal sums invested for over 364 days (per maturity date)	£1,000	£1,000

Maturity structure of fixed rate borrowing during 2017/18	Lower limit	Upper limit
Under 12 months	**0%**	**100%**
12 months to 2 years	**0%**	**100%**
2 years to 5 years	**0%**	**100%**
5 years to 10 years	**0%**	**100%**
10 years to 20 years	**0%**	**100%**
20 years to 30 years	**0%**	**100%**
30 years to 40 years	**0%**	**20%**
40 years to 50 years	**0%**	**20%**