

HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
6 February 2018

Subject: 2017/18 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 2017 on the progress of the capital programme 2017/18 and the treasury management position. A full schedule of the capital programme 2017/18 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, reserves and borrowing. The use of the Council's funds affects the daily treasury management cash flow position, as well as the requirement to investment surplus funds.

2.0 CAPITAL PROGRAMME SUMMARY:

- 2.1 The 2017/18 capital programme was approved by Cabinet at Quarter 2 on 5 December 2017 at £7,363,851.
- 2.2 At this Quarter 3 monitor, a net decrease to the capital programme of £1,276,256 results in a total revised capital programme of £6,087,595.
- 2.3 The net decrease of £1,276,256 to be approved in this report is detailed in Annex B and is made up of:-
 - (a) increase in expenditure of £461,410 of which £138,280 is supported from capital receipts and £95,130 increase in expenditure supported from capital reserves as well as an external grant of £228,000 from Sports England now confirmed and added to the schemes.
 - (b) decrease in expenditure of £31,361 due to funding no longer required
 - (c) increase in expenditure of £49,995 funded externally due to scheme rolled back from 2018/19
 - (d) decrease in expenditure of £1,766,900 due to schemes rolled forward to 2018/19
 - (e) increase in expenditure of £10,600 supported by capital receipts due to scheme re-profiled from 2018/19

2.4 Table 2 below outlines the variances reported against each portfolio area.

Portfolio	Current Approved Expenditure £	Revised Expenditure Q3 £	Variance Increase/ (decrease) £	Request for additional funding £	Funding no longer required £	External Funding £	Schemes re-profiled to future years £	Schemes re-profiled from future years £
Leisure & Environment	2,541,637	2,918,011	376,374	352,796	(2,017)	49,995	(25,000)	600
Economy & Planning	2,372,812	1,066,877	(1,305,935)	8,244	(499)	-	(1,323,680)	10,000
Finance	382,735	293,530	(89,205)	5,240	(28,845)	-	(65,600)	
Economic Development Fund	866,667	709,177	(157,490)	95,130	-	-	(252,620)	
Corporate Schemes	1,200,000	1,100,000	(100,000)	-	-	-	(100,000)	-
Total	7,363,851	6,087,595	(1,276,256)	461,410	(31,361)	49,995	(1,766,900)	10,600

Table 2: Capital Programme Q3 2017/18

2.5 To 31 December 2017 capital expenditure of £4,026,811 had been incurred or committed representing 66% of the revised Quarter 3 capital programme position of £6,087,595. 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 2017/18, at Quarter 3, the capital programme of £6,087,595 is being funded from £1,100,000 external borrowing, £847,606 external grants/contributions, £667,701 from the Economic Development Fund, £288,290 from the Computer Fund, £200,000 from the One Off Fund, £150,988 from the Repairs and Renewals Reserve and £2,833,010 from Capital Receipts Reserve.

3.2 The external grant funding has reduced in Quarter 3 by 82,005. This is as a result of £49,995 being rolled back from 2018/19 for the Thirsk and Sowerby Sports Village scheme since a decision for additional external funding from Economic Regional Development Fund (ERDF) is still outstanding as well as roll forwards to 2018/19 for Bedale Public Art of £25,000 and Bedale Bridge and Cycle Scheme of £335,000. Additional grant was also received from Sports England of £228,000 to support the Northallerton Leisure Centre Improvement projects.

3.3 The capital receipts estimated to be received during 2017/18 is £1,004,389.

3.4 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 £3,135,600 of reserve funding will be used.

3.5 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.

- 3.6 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 2017/18

- 4.1 The Treasury Management review at Quarter 3 2017/18 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 2017/18 which details the Council's approach to treasury management was approved by this Council on 21 February 2017. There are no policy changes to the Treasury Management Strategy Statement.
- 4.3 The Council will be treated as an Elective Professional Client in relation to The Market in Financial Instruments Directive II (MiFIDII) which was introduced on 3 January 2018. This has been accepted by all of the institution's the Council deals with and will allow access to a broader range of financial instruments.
- 4.4 The Council's treasury management advisors previously known as Capita Asset Services have been bought by Link Asset Services in November 2017.
- 4.5 The investment position at Quarter 3, 31 December 2017 was £6,660,000 with an average interest rate return of 0.24%. This is all invested in short term commodities for liquidity purposes due to the numerous capital projects that are currently ongoing within the Council.
- 4.6 At Quarter 2 the Council had given £26,200,000 of loans to a Local Housing Association, a further £8,800,000 is available to be taken. The Local Housing Association has until 1 April 2019 to draw down the additional tranches and have indicated that they will wait until this date to make the additional loans. The council currently finances the loans to the local Housing Association using the Council's surplus funding and has not yet taken any borrowing. This position is closely monitored and in accordance with the treasury management cash flow forecast and long term interest rate forecast long term borrowing will be taken when required.
- 4.7 The interest received from the loan to the local Housing Association is not included in this section of the report because the loan is classed as capital expenditure under economic development to support local businesses.
- 4.8 The Council has not borrowed any money in Quarter 3 however further short term borrowing is predicted in Quarter 4 in relation to cash flow movements. This is due to the council's surplus funds being used to fund the loan to the Local Housing Association. This position will be monitored and long term borrowing will be taken if the need arises in relation to the Treasury Management Strategy Statement approved in February 2017 for 2017/18,
- 4.9 The Council has operated within the treasury and prudential indicators set out at Annex E. The approved limits have not been breached during 2017/18.

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 2017/18 are the disabled facilities grant scheme and the disabled access to doors and ramps at the Civic Centre.

10.0 RECOMMENDATIONS:

- 10.1 That Cabinet approves and recommends to Council:-
- (1) the net decrease of £1,276,256 in the capital programme to £6,087,595 as detailed in Annex B and also in the capital programme attached at Annex A;
 - (2) the increase of capital expenditure is funded from earmarked reserves at £461,410 where £138,280 is funded from capital receipts, £95,130 is from the Economic Development Fund and £228,000 is from external grants/contributions;
 - (3) the funding allocation to the capital programme as detailed in paragraph 3.1 and 3.2;
 - (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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