

HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
3 December 2019

Subject: 2019/20 Q2 CAPITAL MONITORING AND TREASURY MANAGEMENT MID-YEAR REVIEW

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 2 update at 30 September 2019 on the progress of the capital programme 2019/20 and the treasury management position. A full schedule of the capital programme 2019/20 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 invest surplus funds.

2.0 CAPITAL PROGRAMME SUMMARY:

- 2.1 The 2019/20 capital programme was approved by Cabinet at Quarter 1 on 3 September 2019 at £42,329,484.
- 2.2 At this Quarter 2 monitoring, a net decrease to the capital programme of £14,370,439 results in a total revised capital programme of £27,959,045.
- 2.3 The net decrease of £14,370,439 to be approved in this report is detailed in Annex B and is made up of:-
- (a) increase in expenditure of £749,583 supported from Council reserves;
 - (b) decrease in expenditure of £153,447 is mainly due to capital expenditure from the Economic Development fund of £152,154 being transferred to the revenue section of the reserve;
 - (c) increase in expenditure of £57,585 funded externally due to the increased salix loan facility for the LED lighting scheme of £50,000, contribution for the fitness track lighting at Thirsk and Sowerby Sports Village of £6,485 and contribution from the Forum of £1,100 to implement a new heater at the premise; and
 - (d) decrease in expenditure of £15,024,160 mainly due to part of the Commercial Property Portfolio scheme of £15,000,000 expected to now take place in 2020/21.
- 2.4 Table 2 below outlines the variances reported against each portfolio area.

Portfolio	Current Approved Expenditure	Revised Expenditure Q2	Variance Increase/ (decrease)	Request for additional funding	Funding no longer required	External Funding	Schemes re- profiled to future years
	£	£	£	£	£	£	£
Leisure & Communities	1,571,417	1,962,504	391,087	357,700	(38)	57,585	(24,160)
Environment	342,105	345,788	3,683	3,683	-	-	-
Economy & Planning	4,920,751	4,920,751	-	-	-	-	-
Finance & Commercial	803,195	930,140	126,945	128,200	(1,255)	-	-
Economic Development Fund	318,226	176,072	(142,154)	10,000	(152,154)	-	-
Corporate Schemes	34,373,790	19,623,790	(14,750,000)	250,000	-	-	(15,000,000)
Total	42,329,484	27,959,045	(14,370,439)	749,583	(153,447)	57,585	(15,024,160)

Table 2: Capital Programme Q2 2019/20

2.5 To 30 September 2019 capital expenditure of £821,654 had been incurred or committed representing 6.3% of the revised Quarter 2 capital programme position of £12,959,045 when the Property Fund of £15m is excluded. It is expected that the capital programme will come in on target at the end of the financial year and preparation has occurred in the first 6 months of the year to ensure the delivery of the capital programme in the next 6 months, hence the low percentage of currently incurred expenditure.

2.6 The proposed changes to the Capital Programme, which require approval by this Cabinet, are detailed for each of the four portfolio areas, the Economic Development Fund and the Corporate Schemes at Annex B.

3.0 FUNDING THE CAPITAL PROGRAMME:

3.1 For 2019/20, at Quarter 2, the capital programme of £27,959,045 is being funded from £19,562,302 external borrowing, £4,708,063 external grants/contributions, £1,929,709 from Capital Receipts, £979,140 from the Computer Fund, £322,300 from the Council Tax Payers Reserve, £176,072 from the Economic Development Fund, £149,368 from revenue, £82,091 from the Repairs and Renewals Reserve and £50,000 from the One Off Fund.

3.2 The external grant funding has increased in Quarter 2 by £57,585. This is as a result of additional Salix loan received of £50,000 for the LED Lantern scheme, £6,485 being contributed by the Thirsk and Sowerby Harriers for the Fitness Track Lighting scheme at Thirsk and Sowerby Sports Village and £1,100 contribution from the Forum group in regards to the new heater that is due to be installed.

3.3 The capital receipts estimated to be received during 2019/20 is £240,000

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 2 it is estimated that £1,689,709 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 2019/20:

- 4.1 The Treasury Management review at Quarter 2 2019/20 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 2019/20 which details the Council's approach to treasury management was approved by this Council on 26 February 2019. There is one policy change to the Treasury Management Strategy Statement, in relation to the Investment counterparty limits and this is presented at paragraph .
- 4.3 During Quarter 2 the Council has taken two long term loans with the Public Works Loan Board (PWLB). The first loan for £5,000,000 was taken on 2 September 2019 for ten years at a rate of 1.20%. The second loan of £5,000,000 was taken on 5 September 2019 for fifteen years at a rate of 1.43%. These loans were taken to take advantage of the low rates available in preparation of the large capital expenditure occurring in 2019/20.
- 4.4 The investment position at Quarter 2, 30 September 2019 is higher than usual as the large payments for the capital programme are scheduled for Quarters 3 and 4. The balance at the end of Quarter 2 was £17,050,000 with an average interest rate return of 0.85% for the year to date. This is all invested in short term commodities for liquidity purposes due to the numerous capital projects that are currently ongoing within the Council. £2,720,000 is invested in Money Market Funds which has instant access, £5,730,000 is invested in a 175 day notice account with Lloyds, £4,300,000 is in a 95 day notice account with Santander and £4,300,000 is invested in a 35 day notice account with Handelsbanken. The balance has been divided into these commodities so that the best yield is obtained whilst ensuring the money is available by the Council when required.
- 4.5 The total borrowing by the Council with the Public Works Loan Board (PWLB) is now £22,700,000 taken over five loans with varying maturity dates. Further borrowing is predicted in 2019/20 to carry out the Council's capital programme.
- 4.6 In relation to further borrowing, it should be noted on 9 October 2019 the Treasury and Public Works Loan Board (PWLB) announced an increase in the margin over gilt yields of 100 basis points on top of the current margin of 80 basis points which this Council has paid prior to this date for new borrowing from the Public Works Loan Board (PWLB). There was no prior warning that this would occur and it now means that the Council has to assess how to finance its external borrowing needs and the financial viability of capital projects in the capital programme due to this unexpected increase in the cost of borrowing.
- 4.7 Representations have been made to HM Treasury to suggest that areas of capital expenditure that the Government are keen to see move forward should not be subject to such a large increase in borrowing. Whereas this Council has previously relied on the Public Works Loan Board (PWLB) as its only source of funding, it now has to reconsider alternative sources of borrowing. At the current time, this is under consideration as this event was unexpected in the financial services industry. We are expecting that various financial institutions will enter the market or make products available to local authorities. Members will be updated as this area evolves.

- 4.8 At Quarter 2 the Council had given a total of £35,000,000 of loans to a Local Housing Association. This has been made up of ten individual loans with varying maturity dates and fulfils the agreement taken out with the Housing Association.
- 4.9 The interest received from the loans 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. However the interest earned in the second quarter from the £35,000,000 loaned to the Local Housing association is £368,690. This totals £737,380 to date in 2019/20 and is on target for the annual budget of £1,474,760.
- 4.10 The Council has operated within the treasury and prudential indicators set out at Annex E. However, the approved investment limits were breached for 2 days during Quarter 2 due to an incorrect payment method made to a counterparty. The payment was processed by BACS – a 2 day turnaround - rather than CHAPS – same day payment. It was not possible to change the processed payment as this would have been greater than 2 days. The funds remained with the Council's bank rather than being invested with the alternative counterparty which meant that the 40% counterparty balance limit with Lloyds was breached.
- 4.11 On consideration of the investment limits, in Quarter 2 it has been identified that the limits previously set are now restricting the investment ability of the Council. This is due to the increase in borrowing creating surplus funds that need to be invested in short term accounts so that the money is available when required to meet the capital programme expenditure profile. Therefore it is recommended that the Counterparty limits are increased for approval in this report:
- Individual Limits – These limits will be set at 35% of total investments or £7,000,000 per counterparty whichever is the higher. This is an increase in percentage terms of 5% from 30% and in monetary value by £4,000,000 from £3,000,000. This allows an increased amount to be invested with an individual counterparty whilst still allowing the Council's total investment to be spread between at least 3 different counterparties.
 - All other individual counterparty limits will remain as per the Treasury Management Strategy Statement approved in February 2019.
 - Group Limits – 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.
- 4.12 Annex F, in line with good practice on openness and transparency, explains the Council's relationship with its third party companies; it details the financial position of the Joint Venture Company and provides information on the progress of the Commercial Portfolio and Crematorium projects.

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 the income earned on investments or reduced interest paid on borrowing contributes to the Council's funding position which supports 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 second quarter of 2019/20 is the disabled facilities grant scheme and the pool access scheme for all four leisure centres.

10.0 RECOMMENDATION(S):

- 10.1 That Cabinet approves and recommends to Council:-
- (1) the net decrease of £14,370,439 in the capital programme to £27,959,045 and all expenditure movements as detailed in Annex B and also in the capital programme attached at Annex A;
 - (2) the increase of capital expenditure of £807,168 is funded as follows: £177,200 is funded from the Computer fund, £50,000 from the One Off fund, £10,000 from the Economic Development fund, £200,383 is funded from capital receipts, £250,000 from borrowing, £62,000 from revenue contributions and £57,585 is from external grants/contributions;
 - (3) the funding allocation to the capital programme as detailed in paragraph 3.1 and 3.2;
 - (4) the Individual Counterparty limits are increased to 35% or £7,000,000 whichever is the highest, as detailed in paragraph 4.11;
 - (5) the treasury management and prudential indicators at Annex E; and
 - (6) to note the position of the Council's third party companies at Annex F.

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Background papers: Capital programme working papers Q2
Treasury management working papers Q2
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