

Hambleton District Council

Report To: Cabinet

Date: 1 December 2020

Subject: **2020/21 Q2 Capital Monitoring and Treasury Management Mid-Year Review**

Portfolio Holder: Economic Development and Finance
Councillor P R Wilkinson

Wards Affected: All Wards

1.0 Purpose and Background

- 1.1 The purpose of this report is to provide Members with the Quarter 2 update at 30 September 2020 on the progress of the capital programme 2020/21 and the treasury management position. A full schedule of the capital programme 2020/21 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 2020/21 capital programme was approved by Cabinet at Quarter 1 on 8 September 2020 at £52,233,766.
- 2.2 At this Quarter 2 monitoring, a net decrease to the capital programme of £31,688,990 results in a total revised capital programme of £20,544,776.
- 2.3 The net decrease of £31,688,990 to be approved in this report is detailed in Annex B and is made up of:-
- (a) increase in expenditure of £4,049,841 supported from Council reserves and borrowing;
 - (b) decrease in expenditure of £30,623,269 mainly due to the Commercial Investment Strategy being suspended and £30,000,000 returned to fund;
 - (c) increase in expenditure of £1,359,242 funded externally; and
 - (d) decrease in expenditure of £6,474,804 due scheme rolled forward to 2021/22.

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	1,656,904	3,063,193	1,406,289	150,700	(15,994)	1,271,583	-
Environment	334,303	299,303	(35,000)	-	(35,000)	-	-
Economy & Planning	4,778,411	4,345,073	(433,338)	50,000	(521,710)	38,372	-
Finance & Commercial	457,556	460,778	3,222	11,500	(50,565)	49,287	(7,000)
Economic Development Fund	238,022	238,022	-	-	-	-	-
Corporate Schemes	44,768,570	12,138,407	(32,630,163)	3,837,641	(30,000,000)	-	(6,467,804)
Total	52,233,766	20,544,776	(31,688,990)	4,049,841	(30,623,269)	1,359,242	(6,474,804)

Table 2: Capital Programme Q2 2020/21

2.5 To 30 September 2020 capital expenditure of £7,024,110 had been incurred or committed representing 34% of the revised Quarter 2 capital programme position of £20,544,776. 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 2020/21, at Quarter 2, the capital programme of £20,544,776 is being funded from £11,848,261 external borrowing, £5,943,188 external grants/contributions, £1,676,308 from Capital Receipts, £411,491 from the Computer Fund, £300,000 from the One Off Fund, £238,022 from the Economic Development Fund, £84,701 from revenue and £42,805 from the Repairs and Renewals Reserve.

3.2 The external grant funding has increased in Quarter 2 by £1,359,242. This is as a result of CIL funding for Bedale Leisure Improvement project of £206,961 and Thirsk and Leisure centre Improvement Project of £1,000,000. A total of £88,287 of Covid-19 grant have been allocated to the All Leisure Centres – Covid 19 ventilation enhancement scheme of £39,000, ICT improvements of £32,237 and £17,050 for Idox upgrade. In addition, ERDF grant funding of £25,622 for the Northallerton Sports Village has been allocated along with £133,800 for the Heritage Action Zone projects schemes. The Disable Facilities Grant has reduced by £95,428 to fund revenue expenditure.

- 3.3 The capital receipts estimated to be received during 2020/21 is £237,500.
- 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 £1,438,808 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 2020/21:

- 4.1 The Treasury Management review at Quarter 2 2020/21 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 2020/21 which details the Council's approach to treasury management was approved by this Council on 25 February 2020. The Authorised Borrowing limit, Capital Financing Requirement and other Prudential and Treasury indicators have been reviewed in light of the suspension of the Commercial Investment Strategy by Council September 2020 and this is reflected in Annex C and E. There has been a reduction in the Authorised Borrowing Limit from £90,000,000 to £62,500,000; approval is sought in this report for the reduction in the revised Authorised Borrowing limit.
- 4.3 The investment position at Quarter 2, 30 September 2020 is a balance of £12,530,000 with an average interest rate return of 0.21% for the year to date and 0.08% for Quarter 2. The interest rates currently available to invest are very low and the amount of interest estimated to be earned for 2020/21 is £10,500 lower than budgeted and is to be reported at Quarter 2 Revenue Monitoring Report. This is all invested in short term commodities for liquidity purposes due to the numerous capital projects that are currently ongoing within the Council. £5,630,000 is invested in Money Market Funds which has instant access and £6,900,000 is invested in an instant access bank account. 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.

- 4.4 The total borrowing by the Council with the Public Works Loan Board (PWLB) is now £27,700,000 taken in previous financial years over seven loans with varying maturity dates. Further borrowing is predicted in 2020/21 to carry out the Council's capital programme.
- 4.5 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. The first maturity date is in Quarter 3 on 8 October 2020 for £1,000,000. It is not anticipated that the Housing Association will renew the loan.
- 4.6 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 2020/21. At the beginning of October 2020 £1m loan invested with the Housing association matured and under the legal agreement this was returned to the Council. It will, therefore be reported in the Quarter 2 Revenue Monitoring Report that £16,110 loss of income will occur resulting in a total budget for 2020/21 of £1,458,650. A further review of the investment opportunities with the local Housing Association will be considered in the coming months.
- 4.7 The Council has operated within the treasury and prudential indicators set out at Annex E. The approved limits were not breached during Quarter 2 in 2020/21.
- 4.8 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 comment on the suspended Commercial Investment strategy approved by Council in September 2020.

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 increased costs on 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 scheme that specifically addressed equalities in the second Quarter of 2020/21 is the Disabled Facilities grant scheme.

10.0 Recommendations

10.1 That Cabinet approves and recommends to Council:-

- (1) the net decrease of £31,688,990 in the capital programme to £20,544,776 and all expenditure movements as detailed in Annex B and also in the capital programme attached at Annex A of the report;
- (2) the increase of capital expenditure of £5,515,953 funded as follows: £3,687,641 from borrowing, £1,454,670 is from external grants/contributions, £187,142 is funded from capital, £150,000 from the One Off fund, £25,000 from Revenue Contributions receipts and £11,500 from Computer Fund;
- (3) the funding allocation to the capital programme as detailed in paragraph 3. 1 and 3.2 of the report;
- (4) the reduction in the Affordable Borrowing Limit to £62,500,000 as detailed in paragraph 4.2;
- (5) the treasury management and prudential indicators at Annex E of the report have been revised in light of the changes in the Treasury Management Strategy Statement in paragraph 4.2; and
- (5) to note the position of the Council's third party companies at Annex F of the report.

Louise Branford-White
Director of Finance and Commercial (S151 Officer)

Background papers: Capital programme working papers Q2
Treasury management working papers Q2
Author ref: SC
Contact: Saskia Calton
Corporate Finance Manager
Direct Line No 01609 767226