

HAMBLETON DISTRICT COUNCIL

Report To: Cabinet

Date: 8 February 2022

Subject: **2022/23 Capital Programme Budget, Treasury Management Strategy Statement and Prudential Indicators**

Portfolio Holder: Economic Development and Finance
Councillor P R Wilkinson

Wards Affected: All Wards

1.0 Purpose and Background:

- 1.1 The draft 4 Year Capital Programme has been published on the 7 December and this report finalises the 4 Year Capital Programme covering the financial years 2022/23 to 2025/26, the 2022/23 Capital Programme and the Treasury Management Strategy Statement; including the Minimum Revenue Provision policy statement and Annual Investment Strategy.
- 1.2 The 4 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 4 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.
- 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 4 Year Capital Programme 2022/23 to 2025/26 clearly adheres to this requirement and it should be noted that the 4 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 2022/23 Capital Programme is detailed in this report.
- 1.5 The Treasury Management Strategy Statement includes the Minimum Revenue Provision Policy Statement, the Annual Investment Strategy 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 4-year Capital Programme 2022/23 to 2025/26
 - (b) the Capital Programme for the coming financial year 2022/23, which is informed by the 4-year Capital Programme
 - (c) the Treasury Management Strategy Statement 2022/23
 - (d) the Minimum Revenue Provision Policy Statement 2022/23
 - (e) the Prudential and Treasury Indicators 2022/23

2.0 4 Year Capital Programme 2022/23 to 2025/26:

- 2.1 This programme has been influenced by implementation of local government reorganisation (LGR) in North Yorkshire. The 4-year programme includes carry forwards from 2021/22 programme, profiled spend on approved schemes, new schemes identified in this report for 2022/23 and programme commitments over the ensuing years
- 2.2 There are no new large scale schemes seeking approval in this programme that have significant impact on either capital or revenue resources of the new authority. The programme is heavily weighted to spend in 2022/23 which is also weighted by commitments and carry forwards from previously approved schemes.
- 2.3 Major investment has been made in Hambleton's assets over recent years and will continue in 2022/23. The impact of those investments needs to be reviewed and new asset condition surveys commissioned on the major assets. This will influence the detail of future capital spend and will be determined by the successor organisation. However, experience shows that future maintenance will be required and indicative sums have been included in the programme.
- 2.4 The 4 Year Capital Programme 2022/23 to 2025/26 shows capital expenditure of £22,102,903 which is funded by reserves, contributions, capital receipts and borrowing.

- 2.5 The 4 Year Capital Programme 2022/23 to 2025/26 is financed from;

	£
Reserves	921,588
Grants and Contributions	9,750,647
Revenue Contributions	293,270
Capital Receipts Reserve	1,545,000
Borrowing	<u>9,592,398</u>
	22,102,903

3.0 2022/23 Capital Programme Budget:

- 3.1 The detailed capital programme for 2022/23 is shown as Year 1 in Annex A, 4 Year Capital Plan. It includes £14,176,832 of carry forwards of expenditure for schemes originally approved in the 2021/22 programme but the profile of expenditure has shifted. These are detailed in the Quarter 3 Capital Programme Monitoring report elsewhere on this Agenda as well as capital monitoring reports from Quarter 1 and Quarter 2.

3.2 It also includes schemes that were previously approved but always profiled to incur expenditure. These include:

Thirsk & Sowerby Sports Village	£350,000
Northallerton Sports Village	£718,892
Heritage Action Zone – Cultural	£27,000
Treadmills	£765,580

3.3 New schemes proposed for 2022/23 of £2,374,420 are identified in Annex B and approval is sought to include these in the programme. These schemes have been assessed by Corporate Programme Management Board (PMB) on essential need, meeting Council priorities and deliverability. Most are essential maintenance schemes previously identified in the 10-year Capital Strategy. A key programme of Market Town Investment Plans is seeking approval. This funding is indicative at this stage and part of the Council's continuing commitment to economic vitality. Detailed proposals will be reviewed prior to implementation but will be delivered in 2022/23.

3.4 Since the draft Capital Programme was agreed in December 2021, two changes have been identified for the 2022/23 Capital Programme. First, £200,000 is required for a replacement heating system at Evolution. There have been continuing problems with the current system and expensive temporary heating solutions have been utilised. Management Team considered the business case and recommend the scheme to be included in 2022/23 capital programme. Secondly, contractual challenges have emerged on the Treadmills development. The new contractual arrangement is likely to incur additional costs and therefore an additional £500,000 (c10% of construction cost) is requested. Members will be updated regularly.

3.5 The Capital Programme 2022/23 totals £18,412,724 and is funded as follows:

	£
Capital Receipts Reserve	910,000
Grants and Contributions	8,511,768
Reserve Funding	921,588
Revenue Contribution	88,370
Borrowing	<u>7,980,998</u>
	18,412,724

3.6 The 4 Year Capital Programme and the 2022/23 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 2022/23 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 2022/23. The Treasury Management Strategy Statement including the Minimum Revenue Provision Policy Statement, the Annual Investment Strategy and Prudential and Treasury Management Indicators is attached at Annex C. The Treasury Management Strategy specifically sets out:

- the statutory and regulatory requirements of the Local Government Act 2003, the CIPFA (Chartered Institute of Public Finance and Accounts) Prudential Code 2017, the CIPFA Treasury Management Code of Practice 2017 and the Department for Levelling Up, Housing and Communities (DLUHC) Statutory Guidance on Minimum Revenue Provision and 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;
- the calculations of the Prudential and Treasury Management Indicators based on the Capital Programme funding requirements; including the Authorised Borrowing limit

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, Link Asset Services, in constructing this strategy.

4.3 The Capital Strategy 2022/23 is reported elsewhere on this agenda and is separate from the Treasury Management Strategy Statement, where non-treasury investments will be reported through the Capital Strategy and treasury investments through this report. This ensures the separation of the core treasury function under the security, liquidity and yield principles and the policy and commercialism investments usually driven by capital expenditure on an asset.

4.4 It should be noted that in the Treasury Management Strategy Statement which includes the Prudential Indicators, reference is made to commercial activities / non-financial investments which can also be called non-treasury investments. These are mainly incorporated in the Capital Strategy however reference is made in this report to provide a full understanding of how the capital expenditure decisions on non-treasury investments affects the Council's treasury management activities. An example of this would be the purchase of property with a view to generating income. Such purchases could involve undertaking external borrowing to raise the cash to finance these purchases, or the use of existing cash balances. Both actions would affect treasury management.

4.5 The Treasury Management Strategy Statement for 2022/23 reflects the improved stability of the banking sector, as well as a more risk adverse approach to the system of credit ratings. The proposed Strategy is influenced by the Capital expenditure plans for 2022/23 and the next 4 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 Link Asset Services' credit worthiness criteria;
- Investments of surplus funds can be made in foreign Banks and institutions of AA- sovereign rated countries subject to Link 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 35% of total investments or £7m 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 and Natwest – (and therefore are more secure) there will be a 40% limit or £7m 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 £7m 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.

- 4.6 The Scheme of Delegation is attached at Annex D and the role of the Interim Director of Finance (s151 Officer) is attached at Annex E. This is in accordance with the revised Codes and details that the specific roles of the chief financial officer - Interim Director of Finance (s151 Officer) at this Council - have been extended in respect of investment in non-treasury investments (non-financial assets) as well as the responsibility in relation to Treasury Management, that those charged with governance are responsible for Treasury Management activities within the organisation; it is recommended to be 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 2022/23 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 2022/23:

Risk	Implication	Gross Prob	Gross Imp	Gross Total	Preventative action	Net Prob	Net Imp	Net Total
Proposed capital schemes for 2022/23 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.	2	5	10
Treasury management function is a high risk area due to the volume and level of large investment of 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, supporting regulations, the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice 2017 are all adhered to as required	3	5	15

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 4 Year Capital Plan to assist with medium term financial planning, budget and Council Tax setting for 2022/23 and future years. This report provides detail of the Capital Programme 2022/23 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 2017 and the CIPFA Treasury Management Code of Practice 2017. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance has been updated by the Secretary of State under section 21(1A) of the Local Government Act 2003 which came into effect for 1 April 2019.

9.0 Equality/Diversity Issues:

9.1 The equality and diversity implications of the individual schemes will be assessed by individual departments once the Capital Programme 2022/23 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 4 Year Capital Programme 2022/23 to 2025/26 at £22,102,903 be approved, as detailed in paragraph 2.4 and attached at Annex A;
- 2) the new schemes for 2022/23 at £2,374,420 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 Treasury Management Scheme of Delegation at Annex D be approved; and
- 7) the Treasury Management role of the S151 Officer attached at Annex E be approved.

Noel O'Neill
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Background papers: None
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