

Hambleton District Council

Report To: Cabinet

Date: 7 February 2023

Subject: **2022/23 Quarter 3 Capital Monitoring and Treasury Management Report**

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 3 update to 31 December 2022 on the progress of the capital programme 2022/23 and the treasury management position. A full schedule of the capital programme 2022/23 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 2022/23 capital programme was approved by Cabinet on 8 February 2022 at £18,412,724. This included roll forwards for schemes originally approved in the 2021/22 programme which totalled £14,176,832. At 2021/22 outturn, a further £2,755,992 capital expenditure was carried forward to the new financial year revising the capital programme 2022/23 to £21,168,716.

2.2

| Portfolio | Original 2022/23 £ | 2021/22 Carried Forward £ | Revised 2022/23 £ |
|-----------------------|-----------------------------------|--|----------------------------------|
| Leisure & Communities | 513,250 | 6,896,993 | 7,410,243 |
| Environment | 60,000 | 176,232 | 236,232 |
| Economy & Planning | 1,043,110 | 2,291,101 | 3,334,211 |
| Finance & Commercial | 258,060 | 103,787 | 361,847 |
| Corporate Schemes | 500,000 | 9,326,183 | 9,826,183 |
| Total | 2,374,420 | 18,794,296 | 21,168,716 |

Table 1: Capital Programme 2022/23

- 2.3 At both Quarter 1 and Quarter 2, a number of changes were reported which resulted in an increase to the capital programme of £474,377. In this Quarter 3 monitoring report, there is net reduction of £2,348,003, resulting in a total revised capital programme of £19,295,090. The majority of the changes in Quarter 3 relate to slippage into 2023/24 as outlined further below.
- 2.4 The net reduction of £2,348,003 in Quarter 3 to be approved in this report is detailed in Annex B and is made up of:-
- a) increase in expenditure of £51,262 supported from reserves and borrowing;
 - b) increase in expenditure of £95,000 supported by external grants;
 - c) increase in expenditure of £35,000 due to schemes rolled back from 2023/24; and
 - d) decrease in expenditure of £2,529,265 due to three schemes slipping into 2023/24, the main element of which is expenditure relating to the latest Phase of the Treadmills Development.
- 2.5 Table 2 below outlines the variances reported against each portfolio area.

| Portfolio | Current Approved Expenditure | Revised Expenditure Q3 | Variance Increase/ (decrease) | Expenditure at 30 December 2022 |
|-------------------------|---|---------------------------------------|--|--|
| | £ | £ | £ | £ |
| Leisure and Communities | 7,558,231 | 7,598,308 | 40,077 | 4,606,094 |
| Environment | 270,412 | 270,412 | - | 127,000 |
| Economy and Planning | 3,566,466 | 3,670,066 | 103,600 | 1,187,637 |
| Finance and Commercial | 361,847 | 270,167 | (91,680) | 93,531 |
| Corporate Schemes | 9,886,137 | 7,486,137 | (2,400,000) | 4,734,995 |
| Total | 21,643,093 | 19,295,090 | (2,348,003) | 10,749,257 |

Table 2: Capital Programme Q3 2022/23

- 2.6 To 31 December 2022, capital expenditure of £10,749,257 has been incurred or committed representing 55.7% of the revised Quarter 3 capital programme position of £19,295,090. The programme continues to be monitored on a regular basis, with attention focussed on delivering projects and spend in the run up to the financial year-end. Some additional slippage into 2023/24 is however likely relating to completion of current schemes and settlement of final accounts.
- 2.7 The proposed changes to the Capital Programme, which require approval by this Cabinet, are detailed for each of the four portfolio areas and Corporate Schemes at Annex B.

3.0 Funding the Capital Programme

- 3.1 For 2022/23, at Quarter 3, the capital programme of £19,295,090 is being funded from £8,056,954 external borrowing, £9,264,642 external grants/contributions, £945,170 from reserves, £910,000 from Capital Receipts and £118,324 from revenue contribution.
- 3.2 The capital receipts estimated to be received during 2022/23 are £600,000.
- 3.3 Therefore at year end, in accordance with accounting practice, the capital programme will be financed using all available in year funding prior to using borrowing and the Council's capital reserves.
- 3.4 The overall funding position continues to be closely monitored to ensure the overall capital programme remains affordable and sustainable over the 4-year approved capital plan.
- 3.5 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 2022/23:

- 4.1 The Treasury Management Strategy Statement (TMSS) for 2022/23 details the Council's approach to treasury management and was approved by this Council on 22 February 2022. This report provides an update on the progress to date against the agreed Strategy.
- 4.2 The investment position at Quarter 3, 31 December 2022 was £13,970,000 with an average interest rate return of 1.50% for the year to date. This is all invested in short-term investments for liquidity purposes, due to the numerous capital projects that are currently ongoing within the Council and resulting cashflow requirements.
- 4.3 Balances were invested throughout the year in line with the key treasury management principles of security, liquidity and yield and have been spread into different investments, so that the best yield is obtained whilst ensuring the money is available by the Council when required. Balances invested at 31 December 2022 were as follows:

| | |
|--------------------------------------|-------------|
| Instant Access - Money Market Funds | £13,740,000 |
| Call Accounts – Lloyds Banking Group | £ 230,000 |

- 4.4 The current economic climate has seen investment interest rates continue to rise throughout the year, due to a number of increases in the Bank of England Bank Rate. To date, there have been six rate increases this financial year, ranging between 0.25% in May and June, 0.50% increases in August, September, December and a 0.75% increase in November. At January 2023, the official Bank Rate stood at 3.50%.

- 4.5 Latest economic forecasts expect the Bank Rate to be increased to 4.0% in February and 4.25% in March 2023. Current market forecasts predict a peak for Bank Rate of 4.50% by September 2023. These projections will be dependent upon the strength of inflationary pressures and wider economic data over the coming months.
- 4.6 These increases in Bank Rate have resulted in an increase on interest received and the Quarter 3 Budget Monitoring report estimates an additional £60,000 of interest will be received during 2022/23, in addition to the £210,480 budgeted forecast reported in Quarter 2.
- 4.7 The total borrowing by the Council at the end of Quarter 1 was £36,500,000. £26,500,000 is with the Public Works Loan Board (PWLB) taken in previous financial years over six loans with varying maturity dates. £10,000,000 has been borrowed during Quarter 1 from North Yorkshire County Council. This was taken short-term on 20 April 2022 and is due to be repaid on 1 April 2023.
- 4.8 The borrowing requirement for the rest of 2022/23 will be closely monitored in line with the Council's capital programme and any additional borrowing will be reported if the need arises. Savings of £274,370 in borrowing costs for this financial year have previously been reported in the Quarter 1 and Quarter 2 Revenue Monitoring Reports.
- 4.9 At Quarter 3 the Council had given a total of £33,600,000 of loans to a local Housing Association. This has been made up of eight individual loans with varying maturity dates and fulfils the agreement taken out with the Housing Association.
- 4.10 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 to date this financial year from the £33,600,000 loaned to the Local Housing association is £1,072,320 and is on target for the annual budget of £1,429,760.
- 4.11 The Council has operated within the prudential indicators set down in the CIPFA Treasury Management Code of Practice and Prudential Code. The approved limits were not breached during the Quarter 3 in 2022/23.

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 first quarter of 2022/23 is the Disabled Facilities Grant scheme.

10.0 Recommendations:

- 10.1 That Cabinet approves and recommends to Council:-
- (1) the net reduction of £2,348,003 in the 2022/23 capital programme to £19,295,090 and all expenditure movements as detailed in Annex B and also in the capital programme attached at Annex A of the report;
 - (2) the decrease of capital expenditure of £2,348,003 be funded from reduced levels of borrowing than previously anticipated in this financial year, offset by additional external grants; and
 - (3) the funding allocation to the capital programme as detailed in paragraph 3.1 and 3.2 of the report.

David Chefneux
Interim Head of Finance

Background papers: None

Author ref: SC

Contact: Saskia Calton
Corporate Finance Manager
Direct Line No 01609 767226