

Hambleton District Council

Report To: Cabinet

Date: 6 December 2022

Subject: **2022/23 Quarter 2 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 2 update at 30 September 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 Quarter 1, a number of changes were reported which resulted in an increase to the capital programme of £404,149. In this Quarter 2 monitoring report, a further net increase to the capital programme of £70,228 has arisen, resulting in a total revised capital programme of £21,643,093.
- 2.4 The net increase of £70,228 in Quarter 2 to be approved in this report is detailed in Annex B and is made up of:-
- a) increase in expenditure of £83,665 supported from reserves and borrowing;
 - b) increase in expenditure of £78,563 due to schemes rolled back from 2023/24; and
 - c) decrease in expenditure of £92,000 due to scheme rolled forward to 2023/24.
- 2.5 Table 2 below outlines the variances reported against each portfolio area.

Portfolio	Current Approved Expenditure	Revised Expenditure Q2	Variance Increase/ (decrease)	Expenditure at 30 September 2022
	£	£	£	£
Leisure and Communities	7,640,011	7,558,231	(81,780)	3,431,462
Environment	236,232	270,412	34,180	134,168
Economy and Planning	3,478,638	3,566,466	87,828	799,095
Finance and Commercial	361,847	361,847	-	74,334
Corporate Schemes	9,856,137	9,886,137	30,000	2,804,499
Total	21,572,865	21,643,093	70,228	7,243,558

Table 2: Capital Programme Q2 2022/23

- 2.6 To 30 September 2022 capital expenditure of £7,243,558 has been incurred or committed representing 33.5% of the revised Quarter 2 capital programme position of £21,643,093. It is expected that the capital programme will come in on target at the end of the financial year.
- 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 2, the capital programme of £21,643,093 is being funded from £10,330,476 external borrowing, £9,267,443 external grants/contributions, £1,016,850 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. At Quarter 2 it is estimated that £310,000 of reserve funding will be used.
- 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 2, 30 September 2022 was £15,450,000 with an average interest rate return of 0.98% 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 30 September 2022 were as follows:

Instant Access - Money Market Funds	£8,360,000
Call Accounts – Santander / Lloyds	£7,090,000

- 4.4 The current economic climate has seen investment interest rates rise throughout the year, due to a number of increases in the Bank of England Bank Rate. To date, there have been five rate increases this financial year, ranging between 0.25% in May and June, 0.50% increases in August and September and more recently a 0.75% increase in November. At November 2022, the official Bank Rate stood at 3.00%.
- 4.5 Latest economic forecasts expect the Bank Rate to be increased to 3.5% in December 2022, with further increases in February and March 2023, taking the projected Bank Rate to a new level of 4.25% by the end of March 2023. Current market forecasts predict a peak for Bank Rate of 4.50% by the middle of 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 2 Budget Monitoring report estimates an additional £122,980 of interest will be received during 2022/23, in addition to the £87,500 reported in Quarter 1, increasing the Investment Interest Budget for the year to £210,480.
- 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. It is estimated that there will be a saving of £274,370 relating to borrowing costs that have been reported in the Quarter 1 and Quarter 2 Revenue Monitoring report.
- 4.9 At Quarter 2 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 in the first quarter from the £33,600,000 loaned to the Local Housing association is £357,440 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 2 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 increase of £70,228 in the capital programme to £21,643,093 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 £70,228 funded from borrowing; and
- (3) the funding allocation to the capital programme as detailed in paragraph 3.1 and 3.2 of the report.

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Background papers: None

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