HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
3 July 2018

Subject: **2017/18 CAPITAL OUTTURN AND ANNUAL TREASURY MANAGEMENT REVIEW**

All Wards

Portfolio Holder for Economic Development and Finance: Councillor P R Wilkinson

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1.0 PURPOSE AND BACKGOUND:

1.1 The purpose of this report is to present to Members the capital outturn position for the year ending 31 March 2018 and also update on the annual treasury management position. 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.

1.2 Capital expenditure is funded by revenue contributions, capital receipts, capital grants and contributions, reserves as well as borrowing. The use of funding to support capital expenditure affects the treasury management daily cash flow position.

1.3 The report is split into three distinct areas:

(a) Capital:-

- Update Members on the Councils capital programme final outturn position for 2017/18;
- Inform Cabinet of any capital under or over spends and seek approval for any resulting changes to the programme;
- Inform Cabinet of any capital slippage on schemes and seek approval for the associated funding to be slipped to or from the financial years to reflect this;
- Inform Cabinet of the funding position of the capital programme;

(b) Treasury Management:-

- Update Members on the treasury management legislative requirements;
- Inform Cabinet of the treasury management position at 31 March 2018;
- Reflect on current economic interest rate environment and the treasury management strategy set prior to the beginning of the 2017/18 financial year;
- Inform Cabinet of the Borrowing and Investment Position for 2017/18

(c) Prudential Indicators – Capital & Treasury Management

- Review the capital and treasury management indicators for 2017/18 outturn

2.0 CAPITAL OUTTURN 2017/18, UNDER / OVER SPENDS AND RE-PROFILING OF CAPITAL SCHEMES:

2.1 The 2017/18 capital programme was approved by Cabinet on 7 February 2017 at £14,885,622. During the financial year, further capital schemes were approved, some schemes were removed and the revised Capital budget at Quarter 3 was £6,087,595.

2.2 The 2017/18 capital programme final outturn was £5,319,469, which resulted in a variance of £768,126. This comprised of 4 components:

(a) the first component of the variation is a request for re-profiling that represents scheme budgets that are currently approved in the capital programme but require moving from 2017/18 in line with a changing timetable of delivery for a specific schemes. This totals £947,076;

(b) the second component of the variation is a request for re-profiling that represents scheme budgets that are currently approved in future years of the 10 year capital programme but require moving to 2017/18 to fund capital schemes in line with a changing timetable of delivery for a specific schemes. This totals £81,092;

(c) the third is a revision to the existing capital schemes budget where there is a request for increased funding to finalise the schemes. This totals £155,005

(d) the fourth component is an under spend where the scheme has completed for less than the original budget or the forecast funding is no longer required. This stands at £57,147

2.3 Table 1 below shows the revised budget compared to outturn, including the variance. The format of the table reflects the portfolios of the Council during 2017/18.

Council Portfolio's during 2017/18	**Revised Budget at Outturn**	**Total Expenditure**	**Variance**	**Budget re-profiled from 2017/18**	**Budget re-profiled to 2017/18**	**Over Spend - Request for additional funding**	**Under Spend - Funding no longer required**
Leisure & Environment	2,918,011	2,931,748	13,737	(57,360)	66,943	13,384	(9,230)
Economy & Planning	1,066,877	1,041,669	(25,208)	(158,885)	14,149	126,029	(6,501)
Finance	293,530	206,903	(86,627)	(71,553)	0	604	(15,678)
Economic Development	709,177	491,332	(217,845)	(207,095)	0	14,988	(25,738)
Corporate Schemes	1,100,000	647,817	(452,183)	(452,183)	0	0	0
Total	**6,087,595**	**5,319,469**	**(768,126)**	**(947,076)**	**81,092**	**155,005**	**(57,147)**

Table 1: Capital programme outturn 2017/18

2.4 The capital programme has been monitored during 2017/18 on a quarterly basis and reported to Cabinet. The total capital programme expenditure for 2017/18 compared to the revised budgeted capital programme at Quarter 3 was 87%. If the Dalton Bridge scheme was excluded due to progress not being made as a result of bad weather then 96% of the capital programme would have been incurred.

2.5 The capital programme and supporting information setting out the variances and the requirements for re-profiling schemes into 2017/18 are detailed in Annex A.

2.6 Eighteen schemes are categorised in Table 1 as being over spent in 2017/18. These are the schemes that have been re-profiled to 2017/18 at £81,092 and overspends requested at £22,788. Approval is sought by Members in this report for the total of £236,097. The eighteen schemes can be analysed into two components as described below:

(a) Four schemes that started early re-profiled to 2017/18 were already approved in the 10 year capital programme for future years at £81,092. Overall in the 10 year capital programme, no additional funding is required.

(b) Fourteen schemes require additional funding totalling £155,005, of which three schemes are externally funded to the value of £132,217. Eleven schemes are overspent by £22,788, however this will be covered by the under spends elsewhere in the 2017/18 capital.

2.7 Information on the eighteen schemes is detailed in Table 2 below, and further work in 2018/19 is occurring to ensure over spent schemes are kept below the 5% tolerance.

Capital Scheme	Expenditure at Outturn 31/03/2018	Variance	% Over	Over / External Funding / Brought Forward (B/Fwd)
Four Schemes re-profiled to 2017/18				
Hambleton Leisure Centre Improvement Scheme	66,208	66,208	N/A	B/Fwd 2017/18
Stokesley Leisure Centre – Re-design of reception area	500	500	N/A	B/Fwd 2017/18
Bedale Public Art	20,210	235	N/A	External Funding
Disabled Facilities Grant	294,934	14,149	N/A	External Funding
TOTAL	381,852	81,092		

Fourteen schemes require additional funding in the two categories below				
- Three Schemes with External Funding				
Dalton Bridge Additional Voluntary	41,949	120,938	N/A	External Funding
Northallerton Leisure Centre – Improvement Scheme	2,392,677	11,193	N/A	External Funding
Northallerton Leisure Centre – Further Works	59,086	86	N/A	External Funding
SUB TOTAL	2,493,712	132,217		
- Eleven Schemes Over Spent - funded from underspend				
Upgrading lockers at Leisure Centres	19,191	221	1.15%	Over
Bedale Leisure Centre – Gas Boiler Refurbishment	24,180	180	0.74%	Over
Thirsk Swimming Pool – Storage Plant	8,087	87	1.08%	Over
Civic Centre Toilets	112,820	2,632	2.33%	Over
CCTV Camera Replacement Programme	17,910	1,617	9.03%	Over
Evolution Car Park	79,755	2,036	2.55%	Over
Leeming Bar Business Park Phase IV	360,819	423	0.12%	Over
ICT – Leisure improvements	56,041	104	0.19%	Over
ICT – Northgate System	7,500	500	6.67%	Over
Economic Development Fund (EDF) - Central Northallerton scheme	274,704	4,988	1.82%	Over
Economic Development Fund (EDF) – Industrial Estates	32,613	10,000	30.7%	Over
SUB TOTAL	993,620	22,788		
TOTAL ADDITIONAL FUNDING	3,487,332	155,005		

Table 2: Additional Capital Expenditure Schemes

2.8 The under spend on the capital programme in 2017/18 is £57,147, which is no longer required, and will therefore be used to cover the overspend of £22,788 in 2017/18.

2.9 The schemes to be carried forward from Quarter 4 in to the 2018/18 capital programme total £947,076. These schemes are detailed in Annex A, are categorised as 'Roll forward' and approval is sought by Members in this report.

2.10 In addition, it was already recognised earlier than Quarter 4 that some schemes would not be completed in 2017/18, therefore these schemes of £11,304,295 were removed from the capital programme and are attached at Annex B. In order to provide a transparent position at outturn, these schemes also need to be approved to be carried forward into 2018/19.

2.11 Capital schemes are monitored on a monthly basis and reported to Cabinet quarterly, ensuring that the majority of schemes are held within budget or reported to Council at the earliest opportunity. At Quarter 1 2018/19, the schemes to be carried forward from 2017/18 will be combined to commence the consolidated Capital programme for monitoring in 2018/19.

3.0 FUNDING THE CAPITAL PROGRAMME:

3.1 The 2017/18 capital programme expenditure of £5,319,469 has been funded as detailed below:

Capital programme 2017/18	**£**
Repairs & Renewals Fund	113,065
Computer Fund	206,903
Economic Development Fund	491,332
One Off Fund	200,000
Council Tax Payers Reserve	1,941,208
Revenue Contributions	80,120
Grants	798,413
Capital Receipts	940,154
External Borrowing	-
Dalton BID Voluntary contributions	32,619
Dalton Bridge BID Funding	311,130
Internal Borrowing / Surplus Funds	204,525
Total Funding	**5,319,469**

3.2 The Dalton Bridge scheme in the capital programme 2017/18 was to be funded from the Business Improvement District at Dalton as well as additional voluntary contributions from the Dalton businesses. Due to timing, the collection of the contributions will partly occur after the capital scheme has been completed and the Council is therefore requesting to bank roll the funding until the full amount has been collected in the next four years. The amount to be bank rolled in 2017/18 is £195,195 for the Business Improvement District and £9,330 for the additional voluntary contributions.

3.3 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.

4.0 TREASURY MANAGEMENT POSITION 2017/18 AND THE LEGISLATIVE REQUIREMENT

4.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2017/18. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

4.2 During 2017/18 the minimum reporting requirements were that the full Council should receive the following reports:
- an annual treasury strategy in advance of the year (Cabinet 7 February 2017)
- a mid-year (minimum) treasury update report (Council 5 December 2017)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

In addition, this Council has received quarterly treasury management update reports on 5 September 2017 and 6 February 2018 which were received by Cabinet.

4.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

4.4 This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports before they were reported to the full Council. This scrutiny role was carried out by Cabinet and Audit, Governance & Standards Committee. Member training on treasury management issues was undertaken during the year on 27th June 2017 in order to support members' scrutiny role.

5.0 <u>Overall Treasury Position as at 31 March 2018</u>

5.1 At the beginning and the end of 2017/18 the Council's treasury position was as follows:

Borrowing and Investment position at 31 March 2018	31-Mar-17 £m	Rate %	31-Mar-18 £m	Rate %
Long Term Borrowing – Total Debt	1.20	1.05	1.20	1.05
Capital Financing Requirement (CFR)	26.20		26.40	
Over / (under) borrowing	(25.00)		(25.20)	
Short Term Borrowing	5.50	0.30	5.00	0.85
Total Investments	1.57	0.44	2.18	0.28

Table 3: Overall treasury position

5.2 'Under borrowing' means the Council did not need to borrow up to the level of the estimated capital financing requirement and was able to fund capital expenditure from its own reserves and therefore not incur interest payments.

6.0 <u>THE ECONOMY AND INTEREST RATES:</u>

6.1 During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon Bank Rate would start on a rising trend.

6.2 After the United Kingdom economy performed better than anticipated with strong growth in the second half of 2016, growth in 2017 was disappointingly weak in the first half of the year which meant that growth was the slowest for the first half of any year since 2012.

6.3 The main reason for this was the sharp increase in inflation caused by the devaluation of sterling after the European Union referendum, feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases. Consequently, the services sector of the economy, accounting for around 75% of Gross Domestic Product, saw weak growth as consumers responded by cutting back on their expenditure.

6.4 However, growth did pick up modestly in the second half of 2017. Consequently, market expectations during the autumn, rose significantly that the Monetary Policy Committee would be heading in the direction of imminently raising Bank Rate. The minutes of the Monetary Policy Committee meeting of 14 September 2017 indicated that the Monetary Policy Committee was likely to raise Bank Rate very soon. The 2 November 2017 Monetary Policy Committee quarterly Inflation Report meeting duly delivered by raising Bank Rate from 0.25% to 0.50%.

6.5 The 8 February Monetary Policy Committee meeting minutes then revealed another sharp hardening in Monetary Policy Committee warnings on a more imminent and faster pace of increases in Bank Rate than had previously been expected.

6.6 Market expectations for increases in Bank Rate, therefore, shifted considerably during the second half of 2017-18 and resulted in investment rates from 3 – 12 months increasing sharply during the spring quarter.

6.7 Public Works Loan Board borrowing rates increased correspondingly to the above developments with the shorter term rates increasing more sharply than longer term rates.

6.8 In addition, UK gilts have moved in a relatively narrow band this year, (within 25 basis points for much of the year), compared to US treasuries. During the second half of the year, there was a noticeable trend in treasury yields being on a rising trend with the Fed raising rates by 0.25% in June, December and March, making six increases in all from the floor. The effect of these three increases was greater in shorter terms around 5 year, rather than longer term yields.

6.9 The major UK landmark event of the year was the inconclusive result of the general election on 8 June 2017. However, this had relatively little impact on financial markets.

7.0 THE STRATEGY FOR 2017/18

7.1 The expectation for interest rates within the treasury management strategy for 2017/18 anticipated that Bank Rate would not start rising from 0.25% until Quarter 2 2019 and then only increase once more before 31 March 2020. There would also be gradual rises in medium and longer term fixed borrowing rates during 2017/18 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates. In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

8.0 The Borrowing Requirement and Debt

8.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

	31 March 2017 Actual	31 March 2018 Budget	31 March 2018 Actual
Capital Financing Requirement (CFR) General Fund (£m)	26.2 m	36.2 m	26.4 m

Table 4: The Borrowing requirement and debt

9.0 BORROWING RATES IN 2017/18

9.1 The Council had short term borrowing of £5,000,000 and long term borrowing of £1,200,000 at the year end of 2017/18, the Public Works Loan Board interest rates from 1 year to 50 year rates have all been volatile during the year with little consistent trend. However shorter rates were on a rising trend during the second half of the year and reached peaks in February / March.

10.0 Borrowing Outturn for 2017/18

10.1 Borrowing – the following loans were outstanding at 31 March 2018 and no new long-term loans were taken out during the year:

Long Term Borrowing

Lender	Principal	Type	Interest Rate	Start Date	Maturity Date
PWLB	£1,200,000	Fixed interest rate	1.05%	05/09/16	05/09/21

Short Term Borrowing

Lender	Principal	Type	Interest Rate	Start Date	Maturity Date
North Yorkshire County Council	£5,000,000	Fixed interest rate	0.85%	19/03/18	01/05/18

Table 5: Long term and short term borrowing 2017/18

10.2 The borrowing incurred by the Council reflects the historically low rates for borrowing and compares favourably with a borrowing target rate for 2017/18 set at 3.0%.

10.3 Rescheduling of Borrowing – No rescheduling was done during the year as the average 1% differential between Public Works Loan Board (PWLB) new borrowing rates and premature rates made rescheduling unviable.

10.4 Repayment of long term borrowing – The Council did not repay any long term borrowing during 2017/18.

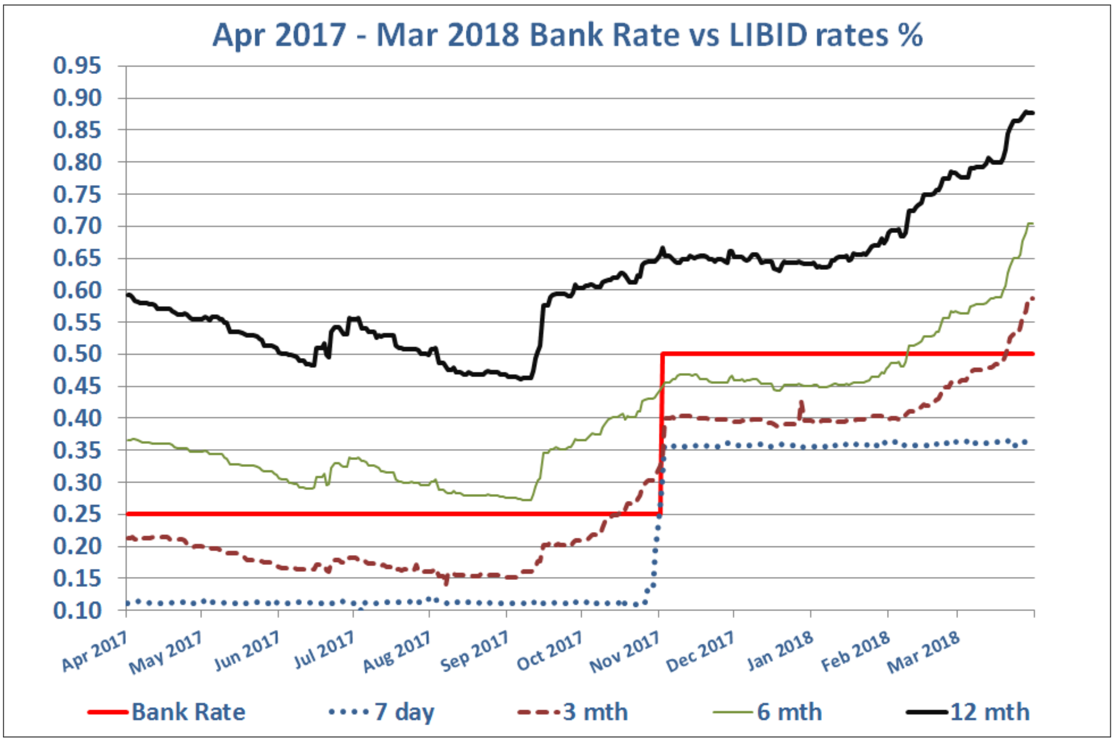
10.5 Repayment of short term borrowing – on 3 April 2017 the Council repaid £5,500,000 at a rate of 0.30% using investment balances. There were no breakage costs.

11.0 INVESTMENT RATES IN 2017/18

11.1 Investments rates for 3 months and longer have been on a rising trend during the second half of the year in the expectation of Bank Rate increasing from its floor of 0.25%, and reached a peak at the end of March 2017.

11.2 Bank Rate was duly raised from 0.25% to 0.50% on 2 November 2017 and remained at that level for the rest of the year. However, further increases are expected over the next few years.

11.3 Deposit rates continued into the start of 2017/18 at previous depressed levels due, in part, to a large tranche of cheap financing being made available under the Term Funding Scheme to the banking sector by the Bank of England; this facility ended on 28 February 2018.



12.0 INVESTMENT OUTTURN FOR 2017/18

12.1 Investment Policy – the Council's investment policy is governed by Ministry of Housing, Communities and Local Government guidance, which has been implemented in the annual investment strategy approved by the Cabinet on 7 February 2017.

12.2 This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

12.3 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

12.4 Investments held by the Council - the Council maintained an average balance of £6,826,000 of internally managed funds. The internally managed funds earned an average rate of return of 0.28%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.21%. The actual investment income received in 2017/18 was £19,201 compared to a budget of £13,610.

12.5 The interest received from the loan to a local housing association, which is classed as capital expenditure, totalled £1,138,400.

12.6 The Investment position can also be split between core investments and cash flow investments. Average balance on core investments was £3,857,534 which earned an average interest rate of 0.71% and interest of £27,446. Cash flow investments had an average investment balance of £7,546,740 which earned an average investment balance of 0.31% and interest of £23,265. Both these rates exceeded the 7 Day LIBID (London Inter Bank Bid) Rate at 0.20%

13.0 OTHER ISSUES:

13.1 Revised CIPFA Codes

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued a revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code. A particular focus of these revised codes was how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the Authority at a much higher level than can be attained by treasury investments. The Council will provide a report on the overall capital strategy and show how the cash resources of the Authority are apportioned between treasury and non-treasury investments. Officers will report to members when the implications of these new codes have been assessed as to the likely impact on this Authority

13.2 Markets in Financial Instruments Directive II (MiFID II)

The European Union set the date of 3 January 2018 for the introduction of regulations under Markets in Financial Instruments Directive II (MiFID II). These regulations govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. This has had little effect on this Council apart from having to fill in forms sent by each institution dealing with this Council and for each type of investment instrument we use, apart from for cash deposits with banks and building societies. The Council has opted to have professional status allowing access to a broader range of financial instruments.

14.0 PRUDENTIAL INDICATORS:

14.1 The Prudential Indicators which control the borrowing and treasury management position of the Council are attached at Annex C. None of the indicators were breached during 2017/18.

15.0 LINK TO COUNCIL PRIORITIES

15.1 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.

16.0 RISK ASSESSMENT:

16.1 The capital programme is regularly monitored as part of the corporate monitoring process on a quarterly basis. In addition to this the Capital Monitoring Group meets regularly to plan, monitor and review major capital schemes to ensure that all capital risks to the Council are minimised.

17.0 FINANCIAL IMPLICATIONS:

17.1 Financial - the financial implications are dealt with in the body of the report.

18.0 LEGAL IMPLICATIONS:

18.1 Legal – Treasury Management activities 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

19.0 EQUALITY/DIVERSITY ISSUES

19.1 Equalities - the capital programme seeks to address key equality issues that affect the Council and the public. The main scheme that specifically addressed equalities in 2017/18 was the disabled facilities grant scheme.

20.0 RECOMMENDATIONS:

20.1 That Cabinet approves and recommends to Council to:

(a) note the 2017/18 capital outturn position of £5,319,469 at paragraph 2.3 and attached at Annex A;

(b) approve the over spend of £236,097 at paragraph 2.6 and under spend of £57,147;

(c) approve the requests at paragraph 2.9 for re-profiling the capital schemes totalling 947,076 from 2016/17 programme to 2017/18;

(d) approve the request at paragraph 2.10 for re-profiling the additional capital schemes totalling £11,304,295 from 2017/18 programme to 2018/19 as attached in Annex B;

(e) approve the request to enable the Council to bank roll the timing difference for the Dalton Bridge BID contributions and additional voluntary contributions in paragraph 3.2 of £195,195 and £9,330

(f) note the treasury management outturn position 2017/18 detailed at paragraph 12.4

(g) note the Prudential Indicators attached at Annex C.

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Background papers: Annual Financial Report 2017/18
Outturn Position 2017/18 Finance Ledger
Capital Monitoring Reports in 2017/18
Treasury Management Reports in 2017/18