HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
7 July 2015

Subject: **2015/16 CAPITAL OUTTURN AND ANNUAL TREASURY MANAGEMENT REVIEW**

All Wards

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

---

1.0 PURPOSE AND BACKGROUND:

1.1 The purpose of this report is to present to Members the capital outturn position for the year ending 31 March 2016 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 This Council currently does not borrow for a capital purpose; instead capital expenditure is funded by revenue contributions, capital receipts, capital grants and contributions. The use of revenue contributions, capital grants, capital receipts received in the year and the use of the capital receipts reserve 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 2015/16;
- Inform Cabinet of any capital under or over spends and seek approval for any resulting changes to the programme;
- Inform the 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 Members of the funding position of the capital programme;
- Inform Cabinet of urgent capital schemes in 2016/17 that need to be approved and will be included in quarter 1 monitoring

(b) Treasury Management:-

- Update Members on the treasury management legislative requirements;
- Inform Cabinet of the treasury management position at 31 March 2016;
- Reflect on current economic interest rate environment and the treasury management strategy set prior to the beginning of the 2015/16 financial year;
- Inform Cabinet of the Borrowing and Investment Position for 2015/16

(c) Prudential Indicators – Capital & Treasury Management

- Review the capital and treasury management indicators for 2015/16 outturn

2.0 CAPITAL OUTTURN 15/16, UNDER / OVER SPENDS AND RE-PROFILING OF CAPITAL SCHEMES:

2.1 The 2015/16 capital programme was approved by Cabinet on 10 February 2015 at £37,854,300. During the financial year, further capital schemes were approved, some schemes were removed and the revised Capital budget at quarter 3 was £14,237,403.

2.2 The 2015/16 capital programme final outturn was £13,951,716, which resulted in a variance of £285,687. This comprised of 3 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 to or from future years in line with a changing timetable of delivery for a specific schemes. This totals £305,505;

(b) the second is a revision to the existing capital schemes budget where there is a request for increased funding to finalise the schemes. This totals £49,703;

(c) the third 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 £29,885

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 2015/16.

Council Portfolio's during 2015/16	**Revised Budget at Outturn**	**Total Expenditure**	**Variance**	**Budget re-profiled to 2016/17**	**Over Spend - Request for additional funding**	**Under Spend - Funding no longer required**
Environmental & Planning Services	1,033,238	991,527	(41,711)	(19,082)	5,077	(27,706)
Customer & Leisure Services	590,954	545,073	(45,881)	(57,256)	12,692	(1,317)
Support Services	965,961	754,052	(211,909)	(222,877)	11,830	(862)
Economic Development Fund	1,647,250	1,661,064	13,814	(6,290)	20,104	0
Loan to Broadacres	10,000,000	10,000,000	0	0	0	0
Total	**14,237,403**	**13,951,716**	**(285,687)**	**(305,505)**	**49,703**	**(29,885)**

Table 1: Capital programme outturn 2015/16

2.4 The capital programme has been monitored during 2015/16 on a quarterly basis and reported to Cabinet. The total capital programme expenditure for 2015/16 compared to the revised budgeted capital programme at quarter 3 was 98%.

2.5 The capital programme and supporting information setting out the variances and the requirements for re-profiling schemes into 2015/16 are detailed in Annex A.

2.6 Twelve schemes are categorised in table 1 as being over spent in 2015/16 totalling £49,703 and approval is sort by Members in this report. The twelve schemes can be analysed into 3 components which overall results in only 6 schemes actually being over spent. This is described below:

(a) Four schemes that started early were already approved in the capital programme 2016/17 at £27,042. Overall in the 10 year capital programme, no additional funding is required.

(b) Two schemes started where external funding was provided in quarter 4 at £11,932 and therefore there is no additional cost to the Council.

(c) Six schemes that over spent at £10,729 require additional funding from the capital receipts reserve

2.7 Further information on the twelve schemes is detailed in table 2 below, where 3 schemes only over spent by 5%, with the remaining 3 schemes being 10% to 12% over spent. Further work in 2016/17 is occurring to ensure over spent schemes is kept below the 5% tolerance.

Capital Scheme	Expenditure at Outturn 31/03/2016	Variance	% Over	Over / External Funding / Brought Forward (B/Fwd)
Four Schemes Started Early - B/Fwd from 2016/17				
Adoption of Roads - Leeming Bar	800	800	N/A	B/Fwd 2016/17
Car Parks machines - upgrade Pay & Display	6,138	6,138	N/A	B/Fwd 2016/17
Improvement Infrastructure Central Northallerton	1,501,081	6,681	N/A	B/Fwd 2016/17
ED Improvement Infrastructure Dalton Bridge	137,273	13,423	N/A	B/Fwd 2016/17
Two Schemes with External Funding				
Thirsk & Sowerby Sports Village	13,788	7,040	N/A	External Funding
Inspire ICT Software	4,892	4,892	N/A	External Funding
Six Schemes Over Spent				
Purchase of bins and boxes for refuse and recycling	40,136	4,136	11%	Over
Central Depot - Fuel Safety system	6,141	141	2%	Over
Stokesley Depot - Security Fencing	8,800	800	10%	Over
Web / Intranet Development	37,130	1,600	5%	Over
Thirsk & Sowerby Leisure Centre - Roof & Ceiling	12,337	1,337	12%	Over
Thirsk & Sowerby Leisure Centre	92,715	2,715	3%	Over

Table 2: Additional Capital Expenditure Schemes

2.8 The under spend on the capital programme in 2015/16 is £29,885 and represents four schemes; these funds are no longer required and are returned to the capital receipts reserve. £27,706 of the saving related to the waste strategy new kerbside bins project.

2.9 The schemes to be carried forward in to the 2016/17 capital programme total £305,505. These schemes are detailed in Annex A, are categorised as 'C/Fwd' and approval is sort 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 2015/16, therefore these schemes of £4,061,574 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 2016/17.

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 2016/17, the schemes to be carried forward from 2015/16 will be combined to commence the consolidated Capital programme for monitoring in 2016/17.

3.0 FUNDING THE CAPITAL PROGRAMME:

3.1 The 2015/16 capital programme expenditure of £3,951,716 has been funded as detailed in table 2 below:

Capital programme 2015/16	£
Repairs & Renewals Fund	164,882
Computer Fund	206,746
Economic Development Fund	1,573,318
S 106 Contributions	4,205
Grants	314,060
Capital Receipts	1,688,505
Internal Borrowing / Surplus Funds	10,000,000
Total Funding	**13,951,716**

3.2 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 2015/16 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 2015/16. 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 2015/16 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Cabinet 10 February 2015)
- a mid-year (minimum) treasury update report (Council 1 December 2015)
- 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 1 September 2015 and 9 February 2016 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 also confirms that it has complied with the requirement under the Code to give 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 is also key to members to support their scrutiny role and further training is being prepared.

4.5 Throughout 2015/16, the Council's treasury position (excluding finance leases) was to continue to be debt free. No borrowing has been taken prior to or during 2015/16. With regards to finance leases the position at the beginning of the finance year was zero and no further finance leases have been taken in the year.

4.6 The capital financing requirement, which is the amount of borrowing required to support the capital expenditure programme, is £10 million for this Council. It should be noted that whilst there is a £10 million capital financing requirement, no external borrowing was taken as the Council used its surplus funds to support the Loan in Broadacres Housing Association. This however is still classified as capital expenditure and therefore resulted in a capital financing requirement. The following table shows the treasury management position as at 31 March 2016:-

Table 1: Borrowing and Investment position at 31 March 2016	31-Mar-16 £m	Rate %	31-Mar-15 £m	Rate %
Capital Financing Requirement	10.0		0	
Borrowing	0		0	
Investments	10.98	0.62	24.11	0.77

Table 3: Borrowing and Investment position at 31 March 2016

5.0 THE ECONOMY AND INTEREST RATES:

5.1 Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at quarter 3 2015 but soon moving back to quarter 1 2016. However, by the end of the year, market expectations had moved back radically to quarter 2 2018 due to many fears including concerns that China's economic growth could be heading towards a hard landing; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties.

5.2 These concerns have caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields due to safe haven flows. Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year. Economic growth (Gross Domestic Product-GDP) in 2015/16 has been disappointing with growth falling steadily from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 4.

5.3 The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back. In addition, a notable trend in the year was that several central banks introduced negative interest rates as a measure to stimulate the creation of credit and hence economic growth.

5.4 The European Central Bank (ECB) commenced a full blown quantitative easing programme of purchases of Eurozone government and other bonds starting in March at €60bn per month. This put downward pressure on Eurozone bond yields. There was a further increase in this programme of Quantitative Easing (QE) in December 2015.

5.5 As for America, the economy has continued to grow healthily on the back of resilient consumer demand. The first increase in the central rate occurred in December 2015 since when there has been a return to caution as to the speed of further increases due to concerns around the risks to world growth.

5.6 The UK elected a majority Conservative Government in May 2015, removing one potential concern but introducing another due to the promise of a referendum on the UK remaining part of the European Union (EU). The government maintained its tight fiscal policy stance but the more recent downturn in expectations for economic growth has made it more difficult to return the public sector net borrowing to a balanced annual position within the period of this parliament.

6.0 THE STRATEGY FOR 2015/16

6.1 The expectation for interest rates within the treasury management strategy for 2015/16 anticipated low but rising Bank Rate, (starting in quarter 1 of 2016), and gradual rises in medium and longer term fixed borrowing rates during 2016/17. 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.

6.2 The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back.

7.0 BORROWING RATES IN 2015/16

7.1 The Council remained debt free in 2015/16. For completeness of the report and to ensure Members are kept up to date with regards to borrowing rates, the graph below shows borrowing rates from the Public Works Loan Board.

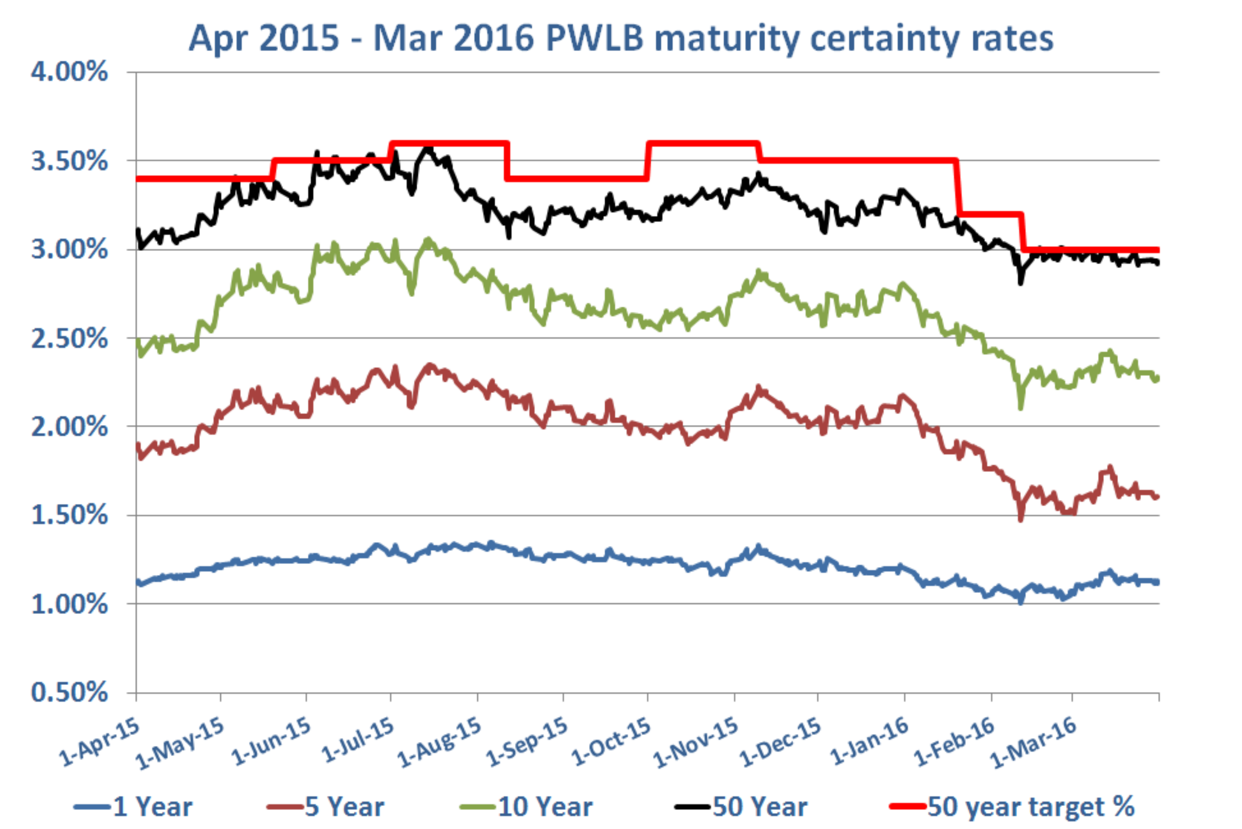

Figure 1: Public Works Loan Board Borrowing Rates 2015/16

7.2 **Treasury Borrowing** – the Council remains debt free and undertook no external borrowing for cash flow purposes or capital financing purposes during 2015/16.

7.3 **Rescheduling of Borrowing** – the Council has no debt and therefore undertook no rescheduling of debt during 2015/16.

7.4 **Repayment of borrowing** – the Council has no external loans and therefore no repayments were necessary.

8.0 INVESTMENT RATES IN 2015/16

8.1 Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for seven years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2016 but then moved back to around quarter 2 2018 by the end of the year. Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme and due to the continuing weak expectations as to when Bank Rate would start rising.

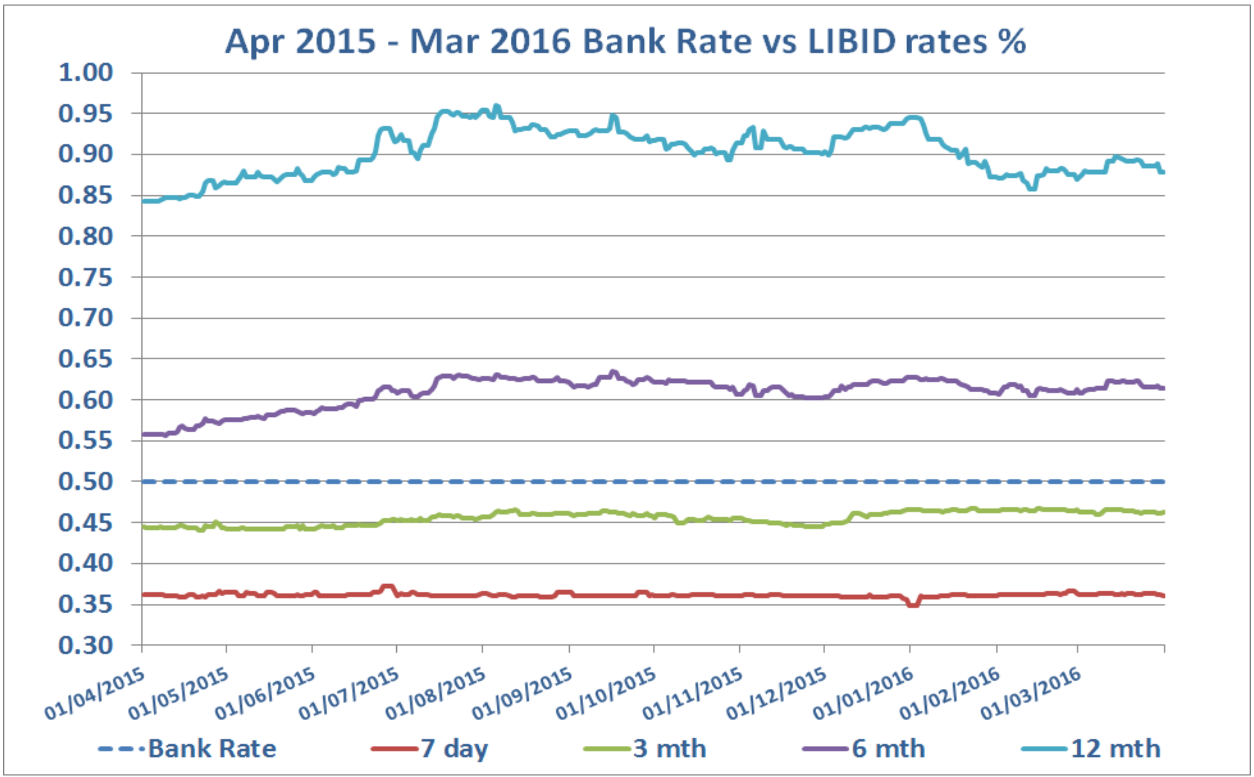

Figure 2: Investment Interest Rates 2015/16

9.0 <u>INVESTMENT OUTTURN FOR 2015/16</u>

9.1 **Investment Policy** – the Council's investment policy is governed by the Department of Communities & Local Government guidance, which was been implemented in the annual investment strategy approved by Cabinet on 10 February 2015. 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.).

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

9.2 **Investments held by the Council** - the Council maintained an average balance of £29,020,574 of internally managed funds. The internally managed funds earned an average rate of return of 0.62%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.361%. This performance exceeded the benchmark.

Annualised Returns 2015/16			
	Actual %	Excess over Benchmark %	Excess over Target %
Core Cash	0.79		
Cash Flow	0.41		
TOTAL	**0.62**	**0.259**	**0.02**
Benchmark	0.361		
Target	0.60		

Table 4: Rate of Return on Investments compared to Benchmark & Target 2015/16

9.3 Hambleton District Council is a member of the Capita Asset Management Benchmarking group. The quarter 4 report showed Hambleton District Council had a weighted average rate of return of 0.66%. This compared to 91 other Non-Met Districts which had an average of 0.74%. The timing uncertainty of when the capital expenditure of £10 million for the loan to the third party would occur resulted in investments being kept short and therefore the return received for 2015/16 was slightly lower than the average.

9.4 The Investment position can also be split between core investments and cash flow investments. Average balance on core investments was £15,955,191 which earned an average interest rate of 0.79% and interest of £126,583. Cash flow investments had an average investment balance of £13,065,383 which earned an average investment balance of 0.41% and interest of £53,588. Both these rates exceeded the 7 Day LIBID (London Inter Bank Bid) Rate at 0.361%.

9.5 In cash terms the actual returns in 2015/16 – for core investments of £126,583 and cash flow investments of £53,588 which totalled £180,171 - compared to the budget and benchmark are shown:-

Budget £	Actual £	Benchmark Return £	Excess Over Benchmark £
170,390	180,171	104,764	75,407

Table 4: Actual Return on Investments compared to Benchmark & Target 2015/16

9.6 The income provided in the revenue budget for 2015/16 for interest earned on investment balances compared to the budget has resulted in a small surplus of £9,781. This was as a result of increased balances of funds due to timings of capital expenditure.

9.7 The loan to the third party is reported as capital expenditure under the Local Government Act 2003. However, if the interest earned on the £10 million loan to the third party is considered in treasury management terms then at 31 March 2016 the interest earned was 2.40%.

10.0 PRUDENTIAL INDICATORS:

10.1 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 2015/16.

11.0 LINK TO COUNCIL PRIORITIES

11.1 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.

12.0 RISK ASSESSMENT:

12.1 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.

13.0 FINANCIAL IMPLICATIONS:

13.1 The financial implications are dealt with in the body of the report.

14.0 LEGAL IMPLICATIONS:

14.1 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

15.0 EQUALITIES AND DIVERSITY ISSUES:-

15.1 The capital programme seeks to address key equality issues that affect the Council and the public. The main scheme that specifically addressed equalities in 2015/16 was the disabled facilities grant scheme.

16.0 RECOMMENDATIONS

16.1 It is recommended that Cabinet approves and recommends to Council to:-

(a) note the 2015/16 capital outturn position of £13,951,716 at paragraph 2.3 and attached at Annex A;

(b) approve the under spend of £29,885 at paragraph 2.6 and over spend of £49,703 at paragraph 2.8;

(c) approve the requests at paragraph 2.9 for re-profiling the capital schemes totalling £305,505 from 2015/16 programme to 2016/17;

(d) Approve the request at paragraph 2.10 for re-profiling the additional capital schemes totalling £4,061,574 from 2015/16 programme to 2016/17 as attached in Annex B;

(e) note the treasury management outturn position 2015/16 detailed at paragraph 9.2; and

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

DR JUSTIN IVES

Author ref: LBW

Contact: Louise Branford-White
Head of Finance (s151 Officer)
Direct Line No: 01609 767024

Background papers: Annual Financial Report 2015/16
Outturn Position 15/16 Finance Ledger
Capital Monitoring Reports in 2015/16
Treasury Management Reports in 2015/16