

## **HAMBLETON DISTRICT COUNCIL**

**Report To:** Cabinet  
4 July 2017

**Subject:** 2016/17 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 BACKGROUND:**

- 1.1 The purpose of this report is to present to Members the capital outturn position for the year ending 31 March 2017 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:
- 1.4 (a) Capital:-
- Update Members on the Councils capital programme final outturn position for 2016/17;
  - 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;
  - Inform Cabinet of urgent capital schemes in 2017/18 that need to be approved and will also be notified 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 2017;
  - Reflect on current economic interest rate environment and the treasury management strategy set prior to the beginning of the 2016/17 financial year;
  - Inform Cabinet of the Borrowing and Investment Position for 2016/17
- (c) Prudential Indicators – Capital & Treasury Management
- Review the capital and treasury management indicators for 2016/17 outturn

### **2.0 CAPITAL OUTTURN 17/18, UNDER / OVER SPENDS AND RE-PROFILING OF CAPITAL SCHEMES:**

- 2.1 The 2016/17 capital programme was approved by Cabinet on 9 February 2016 at £16,758,070. During the financial year, further capital schemes were approved, some schemes were removed and the revised Capital budget at quarter 3 was £19,187,330
- 2.2 The 2016/17 capital programme final outturn was £18,951,104, which resulted in an under spend of £236,226. This is 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 2016/17 in line with a changing timetable of delivery for a specific schemes. This totals £742,706;
- (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 2016/17 to fund capital schemes in line with a changing timetable of delivery for a specific schemes. This totals £419,871;
- (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 £147,477
- (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 £60,868

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 2016/17.

<b>Council Portfolio's during 2016/17</b>	<b>Revised Budget at Outturn</b>	<b>Total Expenditure</b>	<b>Variance</b>	<b>Budget re-profiled from 2016/17</b>	<b>Budget re-profiled to 2016/17</b>	<b>Over Spend - Request for additional funding</b>	<b>Under Spend - Funding no longer required</b>
Leisure & Environment	338,338	515,848	177,510	(87,100)	190,946	104,630	(30,966)
Economy & Planning	1,150,020	1,064,913	(85,107)	(300,709)	222,015	8,337	(14,750)
Finance	413,132	288,472	(124,660)	(144,018)	0	34,510	(15,152)
Economic Development	1,085,840	881,871	(203,969)	(210,879)	6,910	0	0
Loan to Broadacres	16,200,000	16,200,000	0	0	0	0	0
<b>Total</b>	<b>19,187,330</b>	<b>18,951,104</b>	<b>(236,226)</b>	<b>(742,706)</b>	<b>419,871</b>	<b>147,477</b>	<b>(60,868)</b>

Table 1: Capital programme outturn 2016/17

- 2.4 The capital programme has been monitored during 2016/17 on a quarterly basis and reported to Cabinet. The total capital programme expenditure for 2016/17 compared to the revised budgeted capital programme at quarter 3 was 95%.
- 2.5 The capital programme and supporting information setting out the variances and the requirements for re-profiling schemes into 2016/17 are detailed in Annex A.
- 2.6 Thirteen schemes are categorised in table 1 as being over spent in 2016/17. These are the schemes that have been reprofiled to 2016/17 at £419,871 and overspends requested at £147,477. Approval is sort by Members in this report for the total of £567,348. The thirteen schemes can be analysed into 3 components as described below:
  - (a) Three schemes that started early reprofiled to 2016/17 were already approved in the 10 year capital programme for future years at £419,871. Overall in the 10 year capital programme, no additional funding is required.
  - (b) One scheme started where external funding was provided in quarter 4 at £75,428 and therefore there is no additional cost to the Council.

- (c) Nine schemes over spent at £72,049, however five schemes that were over spent at £55,375 have been funded from under spends elsewhere in the 2016/17 capital programme and only four schemes require additional funding of £16,674 from the capital receipts reserve not previously allocated.

2.7 Information on the thirteen schemes is detailed in table 2 below, and further work in 2017/18 is occurring to ensure over spent schemes are kept below the 5% tolerance.

Capital Scheme	Expenditure at Outturn 31/03/2017	Variance	% Over	Over / External Funding / Brought Forward (B/Fwd)
<b>Three Schemes reprofiled to 2016/17</b>				
Hambleton Leisure Centre Improvement Scheme	190,946	190,946	N/A	B/Fwd 2016/17
Evolution Car Park	222,015	222,015	N/A	B/Fwd 2016/17
Economic Development Fund Improvement Infrastructure Dalton Bridge	231,486	6,910	N/A	B/Fwd 2016/17
<b>Budget re-profiled from 2016/17</b>		<b>419,871</b>		
<b>One Scheme with External Funding</b>				
Thirsk & Sowerby Sports Village	75,428	75,428	N/A	External Funding
<b>Five Schemes Over Spent - funded from underspend in the Capital Programme</b>				
Stokesley Leisure Centre Heat Exchangers	13,289	13,289	100%	Over
Springboard Car Park resurface with Tarmac	19,892	7,392	59%	Over
ICT Server Room Civic Centre & Springboard	90,752	15,152	20%	Over
Roller Shutter Doors - Depot	8,184	184	2%	Over
Business Improvement District Software (Northgate)	19,358	19,358	100%	Over
<b>Four Schemes Over Spent</b>				
Purchase of bins and boxes for refuse and recycling	74,897	14,897	25%	Over
Waste & Street Scene – Training Room	15,422	832	6%	Over
Civic Centre Food Lab	5,857	192	3%	Over
Civic Centre Refurbishment of Kitchenettes	47,488	753	5%	Over
<b>Total Overspend Request for additional funding</b>		<b>147,477</b>		

Table 2: Additional Capital Expenditure Schemes

- 2.8 The under spend on the capital programme in 2016/17 is £60,868 of which £5,493 is no longer required and will be returned to the capital receipts reserve, since £55,375 is to be requested to fund over spend in 2016/17.
- 2.9 The schemes to be carried forward from quarter 4 in to the 2017/18 capital programme total £742,706. 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 2016/17, therefore these schemes of £3,326,742 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 2017/18.
- 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 2017/18, the schemes to be carried forward from 2016/17 will be combined to commence the consolidated Capital programme for monitoring in 2017/18.

### **3.0 FUNDING THE CAPITAL PROGRAMME:**

- 3.1 The 2016/17 capital programme expenditure of £18,951,104 has been funded as detailed below:

<b>Capital programme 2016/17</b>	<b>£</b>
Repairs & Renewals Fund	99,756
Computer Fund	164,962
Economic Development Fund	865,395
One Off Fund	43,523
Revenue Contributions	67,260
Grants	274,406
Capital Receipts	1,235,802
External Borrowing	1,200,000
Internal Borrowing / Surplus Funds	15,000,000
<b>Total Funding</b>	<b><u>18,951,104</u></b>

- 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 USE OF CAPITAL RESERVES**

- 4.1 The Council is in the process of developing the Hambleton Leisure Centre with an initial estimated spend of £2,050,000 approved at Cabinet on 7<sup>th</sup> June 2016. The scheme has now increased with the additional funding of £213,000 from Sports England as well as pooling together other already approved capital schemes in relation to Hambleton Leisure Centre such as the pool changing village and wave machine. The new estimated spend for the overall Hambleton Leisure Centre project is £2,606,222 with £190,946 already spent in 2016/17. The estimated completion for the project is late December 2017.
- 4.2 The Economic Development Fund supports numerous projects across the district. Increased funding is required for two specific projects where Cabinet approval is required in this report and the funding will be from the Economic Development Fund. Further detail will be included in the usual quarter 1 2017/18 report:
- (a) The Dalton Bridge project will incur additional expenditure of £715,819 due to higher tendering costs. The increased cost is split between Hambleton District Council of £308,526, with match funding from NYCC of £308,526 and additional voluntary contributions from the Dalton Businesses of £98,767.
  - (b) During the demolition of parts of the Northallerton Prison, additional asbestos has been identified. The estimated cost for the removal of the asbestos is £33,000. In addition £30,576 is required for the completion of the management of the Demolition site due to a bat survey being procured, the complexities of the asbestos removal and extension of time to complete the works over the winter period.

### **5.0 TREASURY MANAGEMENT POSITION 2016/17 AND THE LEGISLATIVE REQUIREMENT**

- 5.1 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 2016/17. 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).

- 5.2 During 2016/17 the minimum reporting requirements were that the full Council should receive the following reports:
- an annual treasury strategy in advance of the year (Cabinet 9 February 2016)
  - a mid-year (minimum) treasury update report (Council 6 December 2016)
  - 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 6 September 2016 and 7 February 2017 which were received by Cabinet.

- 5.3 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.
- 5.4 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 25<sup>th</sup> October 2016 in order to support members' scrutiny role.

## **6.0 Overall Treasury Position as at 31 March 2017**

- 6.1 At the beginning and the end of 2016/17 the Council's treasury position was as follows:

<b>Borrowing and Investment position at 31 March 2017</b>	<b>31-Mar-16</b>	<b>Rate</b>	<b>31-Mar-17</b>	<b>Rate</b>
	<b>£m</b>	<b>%</b>	<b>£m</b>	<b>%</b>
<b>Long Term Borrowing – Total Debt</b>	-	-	1.20	1.05
<b>Capital Financing Requirement (CFR)</b>	10.0		26.20	
<b>Over / (under) borrowing</b>	(10.0)		(25.00)	
<b>Short Term Borrowing</b>	-	-	5.50	0.30
<b>Total Investments</b>	10.98	0.62	1.57	0.44

Table 3: Overall treasury position

- 6.2 '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 incurring interest payments.

## **7.0 THE ECONOMY AND INTEREST RATES:**

- 7.1 The two major landmark events that had a significant influence on financial markets in the 2016-17 financial year were the UK EU referendum on 23 June 2016 and the election of President Trump in the USA on 9 November 2016.
- 7.2 The first event had an immediate impact in terms of market expectations of when the first increase in Bank Rate would happen, pushing it back from quarter 3 2018 to quarter 4 2019.

- 7.3 At its 4 August 2016 meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016. The Monetary Policy Committee (MPC) also warned that it would be considering cutting Bank Rate again towards the end of 2016 in order to support growth. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and also introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks.
- 7.4 In the second half of 2016, the UK economy confounded the Bank's pessimistic forecasts of August 2016. After a disappointing quarter 1 of only +0.2% Gross Domestic Product (GDP) growth, the three subsequent quarters of 2016 came in at +0.6%, +0.5% and +0.7% to produce an annual growth for 2016 overall, compared to 2015, of no less than 1.8%, which was very nearly the fastest rate of growth of any of the G7 countries. Needless to say, this meant that the Monetary Policy Committee (MPC) did not cut Bank Rate again after August but, since then, inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum.

## **8.0 THE STRATEGY FOR 2016/17**

- 8.1 The expectation for interest rates within the treasury management strategy for 2016/17 anticipated low but rising Bank Rate, with 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.
- 8.2 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.
- 8.3 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.
- 8.4 During 2016/17 there was major volatility in Public Works Loan Board (PWLB) rates with rates falling during quarters 1 and 2 to reach historically very low levels in July and August, before rising significantly during quarter 3, and then partially easing back towards the end of the year. The 2016/17 Council strategy set a target of 3.8% for borrowing between 1 to 50 years.

## **9.0 The Borrowing Requirement and Debt**

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

	31 March 2016 Actual	31 March 2017 Budget	31 March 2017 Actual
Capital Financing Requirement (CFR) General Fund (£m)	10.0 m	25.0 m	26.2 m

Table 4: The Borrowing requirement and debt

## 10.0 **BORROWING RATES IN 2016/17**

- 10.1 The Council had short term borrowing of £5,500,000 and long term borrowing of £1,200,000 at the year end of 2016/17, the graph below shows how PWLB certainty rates have fallen to historically very low levels during the year.

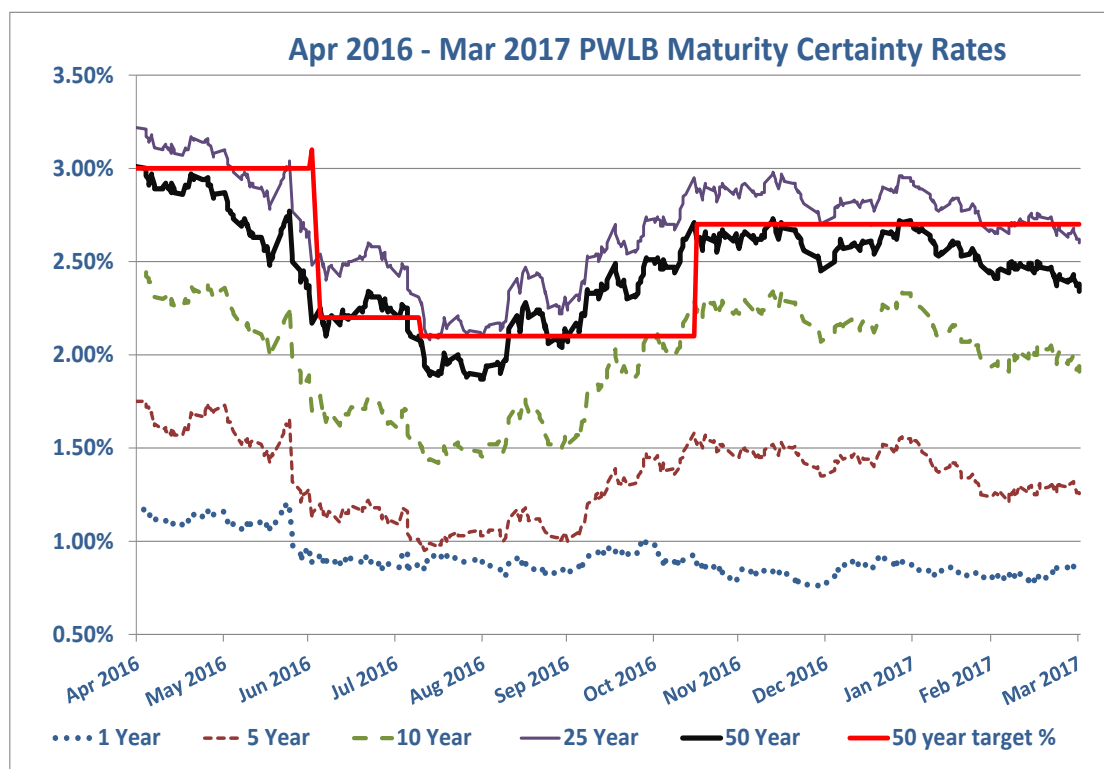


Table 5: Public Works Loan Board (PWLB) Borrowing Rates 2016/17

- 11.1 Borrowing – the following loans were taken 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	£15,000,000	Fixed Interest Rate	0.50%	09/05/16	26/07/16
North Yorkshire County Council	£5,500,000	Fixed interest rate	0.30%	17/03/17	03/04/17

Table 6: Long term and short term borrowing 2016/17

- 11.2 The borrowing incurred by the Council reflects the historically low rates for borrowing and compares favourably with a budget assumption of borrowing at an interest rate of 3.8%.
- 11.3 **Rescheduling of Borrowing** – No rescheduling was done during the year. Public Works Loan Board (PWLB) cannot be rescheduled for the first 12 months.
- 11.4 **Repayment of long term borrowing** – The Council did not repay any long term borrowing during 2016/17.
- 11.5 **Repayment of short term borrowing** – on 26 July 2016 the Council repaid £15,000,000 at a rate of 0.50% using investment balances. There were no breakage costs and this was in line with the cash flow needs of the Council.

## 12.0 **INVESTMENT RATES IN 2016/17**

- 12.1 After the European Union referendum, Bank Rate was cut from 0.5% to 0.25% on 4 August 2016 and remained at that level for the rest of the year. Market expectations as to the timing of the start of monetary tightening started the year at quarter 3 2018, but then moved back to around the end of 2019 in early August 2016 before finishing the year back at quarter 3 2018.
- 12.2 Deposit rates continued into the start of 2016/17 at previous depressed levels but then fell during the first two quarters and fell even further after the 4 August Monetary Policy Committee meeting resulted in a large tranche of cheap financing being made available to the banking sector by the Bank of England. Rates made a weak recovery towards the end of 2016 but then fell to fresh lows in March 2017.

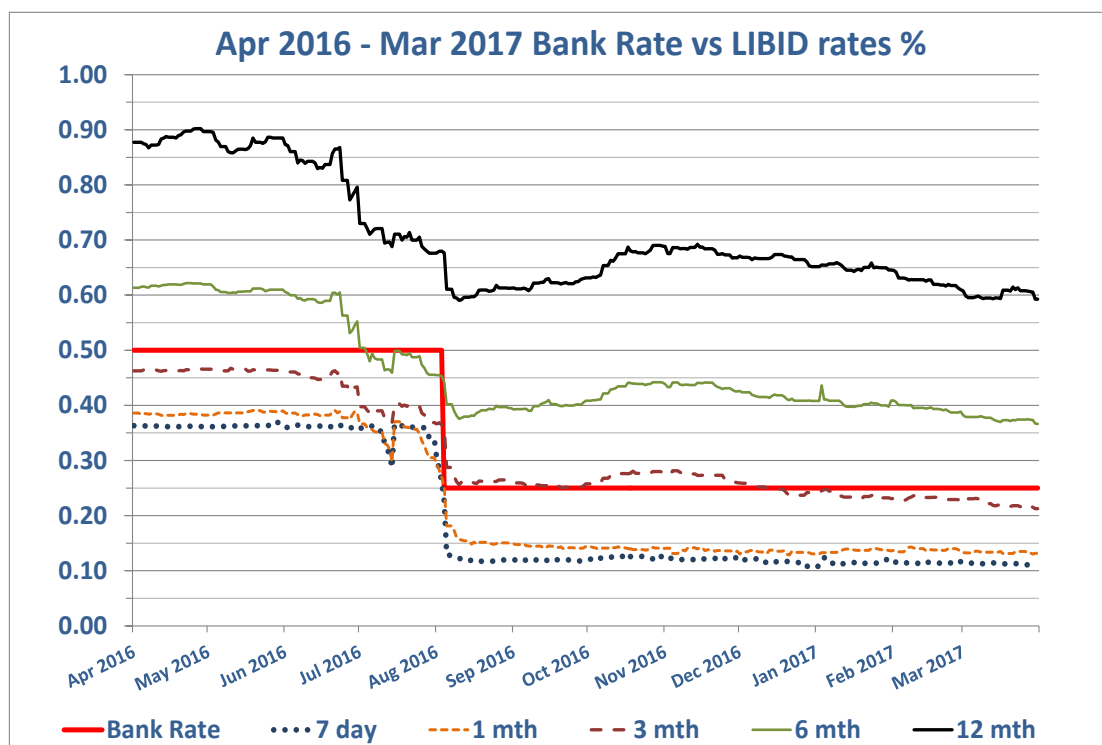


Table 7: Investment Interest Rates 2016/17



### **13.0 INVESTMENT OUTTURN FOR 2016/17**

- 13.1 Investment Policy – the Council's investment policy is governed by The Department for Communities and Local Government (DCLG) guidance, which has been implemented in the annual investment strategy approved by the Council on 9 February 2016. 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.).
- 13.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.
- 13.3 Investments held by the Council - the Council maintained an average balance of £11,404,274 of internally managed funds. The internally managed funds earned an average rate of return of 0.44%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.20%. The performance exceeded the benchmark.
- 13.4 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%.
- 13.5 The Council's Investment balances have reduced considerably compared to 2015/16. This is due to the loans to the Local Housing Association being financed from surplus funds. In 2015/16 £10,000,000 and in 2016/17 £16,200,000 was loaned to the Local Housing Association, giving an overall total of £26,200,000. These loans earned the council interest of £1,039,056 at an average rate of 4.37% in 2016/17 (£123,230, 2015/16 at an average rate of 4.21%). However interest received from the loans to the local Housing Association is not included in this section of the report because it is classed as capital expenditure under economic development to support local businesses.

### **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 2016/17.

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

## **18.0 LEGAL IMPLICATIONS:**

- 18.1 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

## **19.0 EQUALITY/DIVERSITY ISSUES**

- 19.1 The capital programme seeks to address key equality issues that affect the Council and the public. The main scheme that specifically addressed equalities in 2016/17 was the disabled facilities grant scheme.

## **18.0 RECOMMENDATIONS:**

- 18.1 That Cabinet approves and recommends to Council to:
- (a) note the 2016/17 capital outturn position of £18,951,104 at paragraph 2.3 and attached at Annex A;
  - (b) approve the over spend of £567,348 at paragraph 2.6 and under spend of £60,868 at paragraph 2.08;
  - (c) approve the requests at paragraph 2.9 for re-profiling the capital schemes totalling £742,706 from 2016/17 programme to 2017/18;
  - (d) approve the request at paragraph 2.10 for re-profiling the additional capital schemes totalling £3,326,742 from 2016/17 programme to 2017/18 as attached in Annex B;
  - (e) note the Hambleton Leisure Centre Scheme total is £2,606,222 as detailed in paragraph 4.1
  - (f) approve the request at paragraph 4.2 for the additional contribution of £308,526 for the Dalton Bridge Scheme and £33,000 for the demolition at Central Northallerton from the Economic Development fund and £30,576 for the management of the demolition site;
  - (g) note the treasury management outturn position 2016/17 detailed in the report; and
  - (h) note the Prudential Indicators attached at Annex C.

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**Background papers:** Annual Financial Report 2016/17  
Outturn Position 2016/17 Finance Ledger  
Capital Monitoring Reports in 2016/17  
Treasury Management Reports in 2016/17