

Hambleton District Council

Report To: Cabinet

Date: 7 July 2020

Subject: **2019/20 Capital Outturn & Annual Treasury Management Review**

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 present to Cabinet the capital outturn position for the year ending 31 March 2020 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 Cabinet on the Council's capital programme final outturn position for 2019/20;
 - Inform Cabinet of any capital under or over spend 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; and
 - Inform Cabinet of the funding position of the capital programme.
- (b) Treasury Management:-
- Update Cabinet on the treasury management legislative requirements;
 - Inform the Cabinet of the treasury management position at 31 March 2020;
 - Reflect on current economic interest rate environment and the treasury management strategy set prior to the beginning of the 2019/20 financial year; and
 - Inform the Cabinet of the Borrowing and Investment Position for 2019/20.
- (c) Prudential Indicators – Capital & Treasury Management:-
- Review the capital and treasury management indicators for 2019/20 outturn.

2.0 Capital Outturn 2019/20, Under / Over Spends and Re-profiling of Capital Schemes

2.1 The 2019/20 capital programme was approved by Cabinet on 12 February 2019 at £43,883,526. During the financial year, further capital schemes were approved, some schemes were removed and the revised Capital budget at Quarter 3 was £21,834,415.

2.2 The 2019/20 capital programme final outturn was £7,402,915, which resulted in a variance of £14,431,500. This comprised of four 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 which require moving from 2019/20 in line with a changing timetable of delivery for specific schemes. This totals £15,970,257;
- (b) The second component of the variation is a request for re-profiling that represents scheme budgets that currently approved in future years of the 10 Year Capital Programme, which require moving to 2019/20 to fund capital schemes in line with a changing timetable of delivery for specific schemes. This totals £721,173;
- (c) The third component is a revision to the existing capital schemes budget where there is a request for increased funding to finalise the schemes. This totals £822,809; and
- (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 £5,225.

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 2019/20.

Council Portfolio's during 2019/20	Revised Budget at Outturn	Total Expenditure	Variance	Budget re-profiled from 2019/20	Budget re-profiled to 2019/20	Over Spend - Request for additional funding	Under Spend - Funding no longer required
Leisure & Communities	1,619,441	1,004,863	(614,578)	(667,822)	14,811	41,126	(2,693)
Environment	160,821	115,990	(44,831)	(45,936)	3,600	-	(2,495)
Economy & Planning	1,185,278	2,058,010	872,732	(63,984)	155,070	781,683	(37)
Finance & Commercial	698,808	586,740	(112,068)	(120,068)	8,000	-	-
Economic Development Fund	57,762	17,050	(40,712)	(40,712)	-	-	-
Corporate Schemes	18,112,305	3,620,262	(14,492,043)	(15,031,735)	539,692	-	-
Total	21,834,415	7,402,915	(14,431,500)	(15,970,257)	721,173	822,809	(5,225)

Table 1: Capital programme outturn 2019/20

- 2.4 The capital programme has been monitored during 2019/20 on a quarterly basis and reported to Cabinet. The total capital programme expenditure for 2019/20 compared to the revised budgeted capital programme of £21,834,415 at Quarter 3 was 108% when the Property fund of £15m is excluded.
- 2.5 The capital programme and supporting information setting out the variances and the requirements for re-profiling schemes into 2019/20 are detailed in Annex A.
- 2.6 Thirteen schemes are categorised in Table 1 as being over spent in 2019/20. These are the schemes that have been re-profiled to 2019/20 at £721,173 and overspends requested at £822,809. Approval is sought by Cabinet in this report for the total of £1,543,982. The thirteen schemes can be analysed into 2 components as described below:
- (a) Nine schemes that started early re-profiled to 2019/20 were already approved in the 10 Year Capital Programme for future years at £721,173. Overall in the 10 Year Capital Programme, no additional funding is required.
- (b) Four schemes require additional funding totalling £822,809, of which two schemes are externally funded to the value of £791,663. The two remaining schemes are overspent by £31,146, however this will be covered by the under spends of £5,225 elsewhere in the 2019/20 capital programme and additional funding of 25,921.
- 2.7 Information on the thirteen schemes is detailed in Table 2 below, where the Council's aim is to ensure over spent schemes are kept below the 5% tolerance. In the table below nine schemes totalling £721,173 is rolled back from 2020/21 and two schemes totalling £791,663 are fully external funded and therefore a tolerance level is not applied. However, the table shows two schemes that have exceeded the 5% tolerance. The All Leisure Centres - Pool access has overspent by £702 due to increased work required and LED Lantern replacement Scheme of £30,444 due to contractors being able to completed further works with funding still available.

Capital Scheme	Expenditure at Outturn 31/03/2020	Variance	% Over	Over / External Funding / Brought Forward (B/Fwd)
Nine Schemes re-profiled to 2019/20				
Public Lighting replacement	42,778	6,548	N/A	B/Fwd 2019/20
Car Parking Improvement scheme	40,935	8,263	N/A	B/Fwd 2019/20
WASS – Digital Depot System	3,600	3,600	N/A	B/Fwd 2019/20
Northallerton Connections	637,205	116,312	N/A	External Funding
Disabled Facilities Grant	589,730	38,758	N/A	External Funding
ICT – Civica Estore and Icon upgrade	8,500	8,000	N/A	B/Fwd 2019/20
Treadmills Phase 1	3,012,851	262,214	N/A	B/Fwd 2019/20
Treadmills Phase 2	209,026	209,026	N/A	B/Fwd 2019/20
Crematorium	368,632	68,452	N/A	B/Fwd 2019/20
TOTAL	4,913,257	721,173		

Four schemes require additional funding in the three categories below				
<u>Two Schemes with External Funding</u>				
Northallerton Sports Village	9,980	9,980	N/A	External Funding
North Northallerton Bridge	781,683	781,683	N/A	External Funding
SUB TOTAL	791,663	791,663		
<u>One Scheme Over Spent - funded from underspend</u>				
All Leisure Centres - Pool access	6,602	702	10.6%	Over
SUB TOTAL	6,602	702		
<u>One Scheme Over Spent - funded from additional funding from Salix Loan</u>				
LED Lantern replacement Scheme	109,580	30,444	27.8%	Over
SUB TOTAL				
Total Additional Funding	907,845	822,809		

Table 2: Increased expenditure at Quarter 4

- 2.8 The underspend on the capital programme in 2019/20 is £5,225, which is no longer required, and will therefore be used to cover some of the overspend of £822,809 in 2019/20 as detailed in Annex A.
- 2.9 The schemes to be carried forward from Quarter 4 in to the 2020/21 capital programme total £15,970,257. These schemes are detailed in Annex A, are categorised as 'Roll forward' and approval is sought by Cabinet in this report.
- 2.10 In addition, it was already recognised earlier than Quarter 4 that some schemes would not be completed in 2019/20, therefore these schemes of £25,365,617 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 2020/21.
- 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 2020/21, the schemes to be carried forward from 2019/20 will be combined to commence the consolidated Capital programme for monitoring in 2020/21. However, it is recognised that the Crematorium scheme will require additional funding of £138,632 to further develop the scheme to tender stage for the principal contractor. This is due to additional assessments required for the planning application as well as the need for additional surveys and investigations that feed into the tender documentation. It would also allow some third party legal agreements to be progressed which are necessary at this stage. In due course a further report will be brought to Cabinet with the total cost of the Crematorium and how it will be financed.

3.0 Funding the Capital Programme

- 3.1 The capital programme expenditure of £7,402,915 has been funded as detailed below:

Capital programme 2019/20	£
Repairs & Renewals Fund	29,823
Computer Fund	635,740
Economic Development Fund	17,050
Council Tax Payers Reserve	59,102
One Off Reserve	50,000
Revenue Contributions	149,368
Grants	2,950,354
Capital Receipts	89,568
External Borrowing	3,390,083
Dalton BID Bridge Funding	31,827
Total Funding	<u>7,402,915</u>

- 3.2 The Dalton Bridge scheme in the capital programme 2019/20 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 therefore it is requested that the Council bank roll the funding until the full amount has been collected in the next two years. The amount to be bank rolled in 2019/20 is £1,898, which is included in the table above under Dalton BID Bridge Funding, for the Business Improvement District 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 2019/20 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 2019/20. 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 2019/20 the minimum reporting requirements were that the full Council should receive the following reports:
- an annual treasury strategy in advance of the year (Cabinet 12 February 2019)
 - a mid-year (minimum) treasury update report (Council 3 December 2019)
 - 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 3 September 2019 and 11 February 2020 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. Formal member training on treasury management issues was last undertaken two years ago during 2017/18 in order to support members' scrutiny role. Treasury management training can take place for the Members of the Audit, Governance & Standards Committee in 2020/21 to further support their understanding.

5.0 Treasury Position as at 31 March 2020

- 5.1 Table 3 below shows the treasury position of the Council at the beginning and the end of 2019/20:

Borrowing and Investment position at 31 March 2020	31-Mar-19 Principal £m	Rate %	31-Mar-20 Principal £m	Rate %
Fixed rate funding:				
Total Debt – Public Works Loan Board (PWLB)	12.70	2.39	27.70	2.21
Capital Financing Requirement (CFR)	38.17		41.56	
Over / (under) borrowing	(25.47)		(13.86)	
Short Term Borrowing	2.0	0.95	-	-
Total Investments	1.55	0.65	13.97	0.87

Table 3: Overall treasury position

- 5.2 The maturity structure of the debt portfolio can be seen in Table 4 below:

	31 March 2019 Actual £m	31 March 2020 Actual £m
Under 12 months	-	-
12 months and with 24 months	-	1.20
24 months and within 10 years	1.20	5.00
10 years and within 20 years	-	7.50
40 years and within 50 years	11.50	14.00
Total	12.70	27.70

Table 4: Maturity structure of debt portfolio

- 5.3 '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.
- 5.4 Investment Portfolio – At 31 March 2019 and 31 March 2020 the Council's investment portfolio consisted of treasury investments in banks that were managed in-house. The maturity structures of these treasury investments were held in call accounts and were callable on demand and therefore classified as held up to one year

6.0 The Economy and Interest Rates

- 6.1 UK
Brexit. The main issue in 2019 was the repeated battles in the House of Commons to agree on one way forward for the UK over the issue of Brexit. This resulted in the resignation of Theresa May as the leader of the Conservative minority Government and the election of Boris Johnson as the new leader, on a platform of taking the UK out of the EU on 31 October 2019.
- 6.2 The House of Commons duly frustrated that renewed effort and so a general election in December settled the matter once and for all by a decisive victory for the Conservative Party: that then enabled the UK to leave the EU on 31 January 2020. However, this still leaves much uncertainty as to whether there will be a reasonable trade deal achieved by the target deadline of the end of 2020. It is also unclear as to whether the coronavirus outbreak may yet impact on this deadline; however, the second and third rounds of negotiations have already had to be cancelled due to the virus.
- 6.3 Economic growth in 2019 has been very volatile with Quarter 1 unexpectedly strong at 0.5%, Quarter 2 dire at -0.2%, Quarter 3 bouncing back up to +0.5% and Quarter 4 flat at 0.0%, +1.1% year on year (y/y). 2020 started with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty as a result of the decisive result of the general election in December settled the Brexit issue. However, the three monthly Gross Domestic Product (GDP) statistics in January were disappointing, being stuck at 0.0% growth.
- 6.4 Since then, the whole world has changed as a result of the coronavirus outbreak. It now looks likely that the closedown of whole sections of the economy will result in a fall in Gross Domestic Product (GDP) of at least 15% in Quarter two. What is uncertain, however, is the extent of the damage that will be done to businesses by the end of the lock down period, when the end of the lock down will occur, whether there could be a second wave of the outbreak, how soon a vaccine will be created and then how quickly it can be administered to the population. This leaves huge uncertainties as to how quickly the economy will recover.
- 6.5 After the Monetary Policy Committee (MPC) raised Bank Rate from 0.5% to 0.75% in August 2018, Brexit uncertainty caused the Monetary Policy Committee (MPC) to sit on its hands and to do nothing until March 2020; at this point it was abundantly clear that the coronavirus outbreak posed a huge threat to the economy of the UK. Two emergency cuts in Bank Rate from 0.75% occurred in March, first to 0.25% and then to 0.10%. These cuts were accompanied by an increase in quantitative

easing (QE), essentially the purchases of gilts (mainly) by the Bank of England of £200bn.

- 6.6 The Government and the Bank were also very concerned to stop people losing their jobs during this lock down period. Accordingly, the Government introduced various schemes to subsidise both employed and self-employed jobs for three months while the country is locked down. It also put in place a raft of other measures to help businesses access loans from their banks, (with the Government providing guarantees to the banks against losses), to tide them over the lock down period when some firms may have little or no income. However, at the time of writing, this leaves open a question as to whether some firms will be solvent, even if they take out such loans, and some may also choose to close as there is, and will be, insufficient demand for their services. At the time of writing, this is a rapidly evolving situation so there may be further measures to come from the Bank and the Government in July and beyond.
- 6.7 The measures to support jobs and businesses already taken by the Government will result in a huge increase in the annual budget deficit in 2020/21 from 2%, to nearly 11%. The ratio of debt to Gross Domestic Product (GDP) is also likely to increase from 80% to around 105%. In the Budget in March, the Government also announced a large increase in spending on infrastructure; this will also help the economy to recover once the lock down is ended. Provided the coronavirus outbreak is brought under control relatively swiftly, and the lock down is eased, then it is hoped that there would be a sharp recovery, but one that would take a prolonged time to fully recover previous lost momentum.
- 6.8 Inflation has posed little concern for the Monetary Policy Committee (MPC) during the last year, being mainly between 1.5 – 2.0%. It is also not going to be an issue for the near future as the world economy will be heading into a recession which is already causing a glut in the supply of oil which has fallen sharply in price. Other prices will also be under downward pressure while wage inflation has also been on a downward path over the last half year and is likely to continue that trend in the current environment. While inflation could even turn negative in the Eurozone, this is currently not likely in the UK.
- 6.9 Employment had been growing healthily through the last year but it is obviously heading for a big hit in March – April 2020. The good news over the last year is that wage inflation has been significantly higher than Consumer Price Index (CPI) inflation which means that consumer real spending power had been increasing and so will have provided support to Gross Domestic Product (GDP) growth. However, while people cannot leave their homes to do non-food shopping, retail sales will also take a big hit.
- 6.10 USA
Growth in Quarter 1 of 2019 was strong at 3.1% but growth fell back to 2.0% in Quarter 2 and 2.1% in Quarters 3 and 4. The slowdown in economic growth resulted in the Fed cutting rates from 2.25-2.50% by 0.25% in each of July, September and October. Once coronavirus started to impact the US in a big way, the Fed took decisive action by cutting rates twice by 0.50%, and then 1.00%, in March, all the way down to 0.00 – 0.25%. Near the end of March, Congress agreed a \$2trn stimulus package (worth about 10% of Gross Domestic Product (GDP)) and new lending facilities announced by the Fed which could channel up to \$6trn in

temporary financing to consumers and firms over the coming months. Nearly half of the first figure is made up of permanent fiscal transfers to households and firms, including cash payments of \$1,200 to individuals.

- 6.11 The loans for small businesses, which convert into grants if firms use them to maintain their payroll, will cost \$367bn and 100% of the cost of lost wages for four months will also be covered. In addition there will be \$500bn of funding from the Treasury's Exchange Stabilization Fund which will provide loans for hard-hit industries, including \$50bn for airlines.
- 6.12 However, all this will not stop the US falling into a sharp recession in Quarter 2 of 2020; some estimates are that growth could fall by as much as 40%. The first two weeks in March of initial jobless claims have already hit a total of 10 million and look to be heading for a total of 15 million by the end of March.
- 6.13 **EUROZONE**
The annual rate of Gross Domestic Product (GDP) growth has been steadily falling, from 1.8% in 2018 to only 0.9% year on year (y/y) in Quarter 4 in 2019. The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in Eurozone growth, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), prompted the European Central Bank (ECB) to take new measures to stimulate growth. At its March 2019 meeting it announced a third round of Targeted Longer-Term Refinancing Operations (TLTROs); this provided banks with cheap two year maturity borrowing every three months from September 2019 until March 2021.
- 6.14 However, since then, the downturn in Eurozone and world growth has gathered momentum so at its meeting in September 2019, it cut its deposit rate further into negative territory, from -0.4% to -0.5% and announced a resumption of quantitative easing purchases of debt to start in November at €20bn per month, a relatively small amount, plus more Targeted Longer-Term Refinancing Operations (TLTROs) measures. Once coronavirus started having a major impact in Europe, the European Central Bank (ECB) took action in March 2020 to expand its quantitative easing (QE) operations and other measures to help promote expansion of credit and economic growth. What is currently missing is a coordinated EU response of fiscal action by all national governments to protect jobs, support businesses directly and promote economic growth by expanding government expenditure on e.g. infrastructure; action is therefore likely to be patchy.
- 6.15 **CHINA**
Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium-term risks have also been increasing. The major feature of 2019 was the trade war with the US. However, this has been eclipsed by being the first country to be hit by the coronavirus outbreak; this resulted in a lock down of the country and a major contraction of economic activity in February-March 2020. While it appears that China has put a lid on the virus by the end of March, these are still early days to be confident and it is clear that the economy is going to take some time to recover its previous rate of growth. Ongoing economic issues remain, in needing to make major progress to eliminate excess

industrial capacity and to switch investment from property construction and infrastructure to consumer goods production. It also needs to address the level of non-performing loans in the banking and credit systems.

6.16 JAPAN

Japan has been struggling to stimulate consistent significant Gross Domestic Product (GDP) growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. It appears to have missed much of the domestic impact from coronavirus in 2019/20 but the virus is at an early stage there.

6.17 WORLD GROWTH

The trade war between the US and China on tariffs was a major concern to financial markets and was depressing worldwide growth during 2019, as any downturn in China would spill over into impacting countries supplying raw materials to China. Concerns were particularly focused on the synchronised general weakening of growth in the major economies of the world. These concerns resulted in government bond yields in the developed world falling significantly during 2019. In 2020, coronavirus is the big issue which is going to sweep around the world and have a major impact in causing a world recession in growth in 2020.

7.0 The Strategy for 2019/20

7.1 Investment strategy and control of interest rate risk

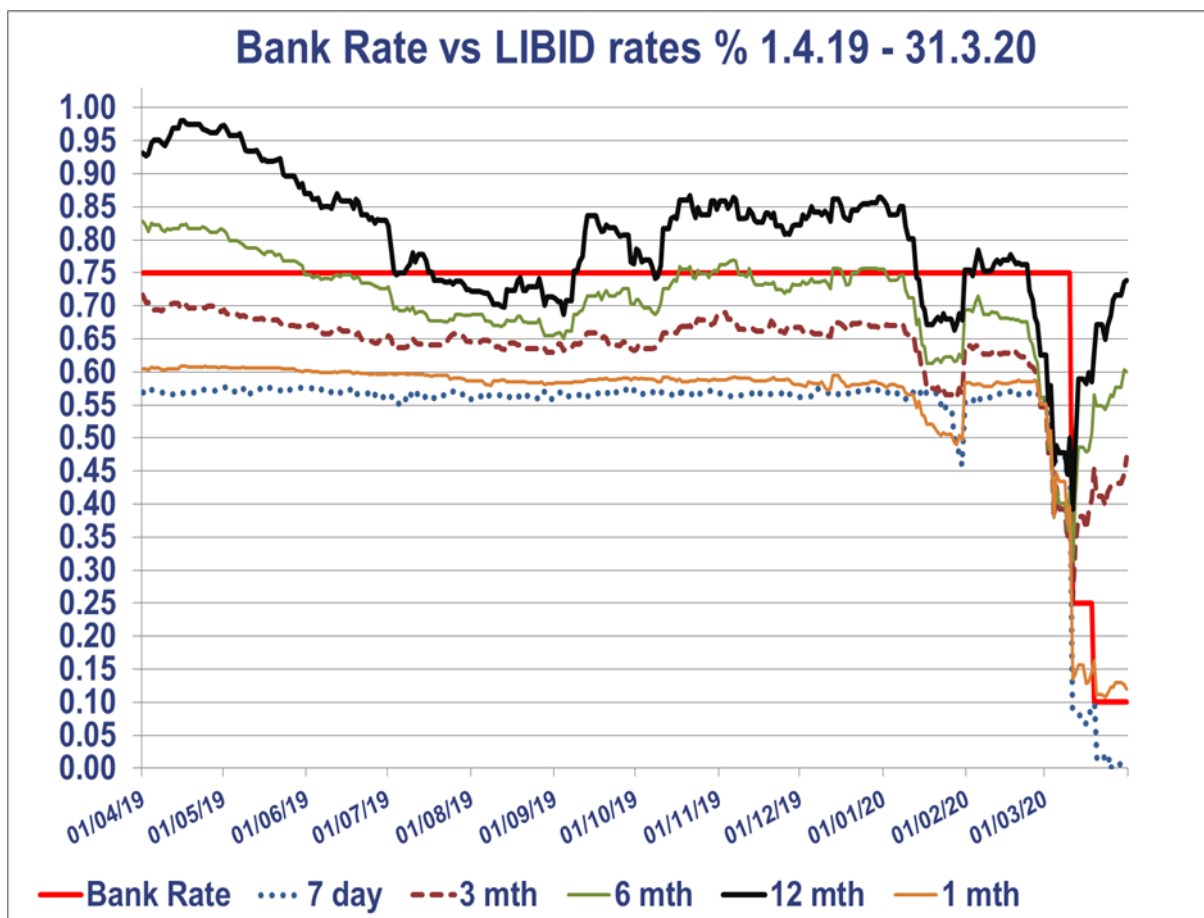


Table 5: Bank Rate vs LIBID Rate

- 7.2 Investment returns remained low during 2019/20. The expectation for interest rates within the treasury management strategy for 2019/20 was that Bank Rate would stay at 0.75% during 2019/20 as it was not expected that the Monetary Policy Committee (MPC) would be able to deliver on an increase in Bank Rate until the Brexit issue was finally settled. However, there was an expectation that Bank Rate would rise after that issue was settled, but would only rise to 1.0% during 2020. Shorter term interest rates were fairly flat during most of the year until the two cuts in Bank Rate in March 2020 caused investment rates to fall sharply.
- 7.3 This Council does not have sufficient cash balances available to be placed with deposits for more than a month so as to earn higher rates from longer deposits. While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.
- 7.4 Investment balances have been kept low through the agreed strategy of using reserves and balances to support internal borrowing, however the Council has taken external borrowing during the year to take advantage of favourable interest rates.

8.0 Borrowing Strategy and Control of Interest Rate Risk

- 8.1 During 2019/20, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.
- 8.2 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns. This occurred in 2019/20 due to the favourable interest rates from Public Works Loan Board (PWLB) available, making it an attractive proposition for the Council.
- 8.3 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, borrowing was taken during 2019/20 to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.
- 8.4 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Director of Finance and Commercial (s151) therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:

- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

8.5 Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2019/20 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

Link Asset Services Interest Rate View 31.3.20								
	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 Month LIBID	0.45	0.40	0.35	0.30	0.30	0.30	0.30	0.30
6 Month LIBID	0.60	0.55	0.50	0.45	0.40	0.40	0.40	0.40
12 Month LIBID	0.75	0.70	0.65	0.60	0.55	0.55	0.55	0.55
5yr PWLB Rate	1.90	1.90	1.90	2.00	2.00	2.00	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50

Table 6: Link Asset Services Interest Rate Forecast 31.3.20

9.0 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 2019 Actual	31 March 2020 Budget	31 March 2020 Actual
Capital Financing Requirement (CFR) General Fund (£m)	38.17m	77.67m	41.56m

Table 7: The Borrowing requirement and debt

10.0 Borrowing Rates in 2019/20

10.1 The Council had long term borrowing of £27,700,000 at the year end of 2019/20. HM Treasury has imposed two changes in the margins over gilt yields for Public Works Loan Board (PWLB) rates in 2019/20 without any prior warning; the first on 9 October 2019, added an additional 1% margin over gilts to all Public Works Loan Board (PWLB) rates. That increase was then partially reversed for some forms of borrowing on 11 March 2020, at the same time as the Government announced in the Budget a programme of increased spending on infrastructure expenditure.

11.0 Borrowing Outturn for 2019/20

11.1 Borrowing – the following loans were outstanding at 31 March 2020. Four long-term loans were taken out during 2019/20:

Long Term Borrowing

Lender	Principal	Type	Interest Rate	Start Date	Maturity Date
PWLB	£1,200,000	Fixed interest rate	1.05%	05/09/2016	05/09/2021
PWLB	£9,000,000	Fixed interest rate	2.45%	07/03/2019	07/03/2069
PWLB	£2,500,000	Fixed interest rate	2.24%	25/03/2019	25/03/2064
PWLB	5,000,000	Fixed interest rate	1.20%	02/09/2019	02/09/2029
PWLB	5,000,000	Fixed interest rate	1.43%	05/09/2019	05/09/2034
PWLB	2,500,000	Fixed interest rate	2.23%	16/03/2020	16/09/2067
PWLB	2,500,000	Fixed interest rate	2.19%	16/03/2020	16/09/2033

Table 8: Long term borrowing 2019/20

- 11.2 The borrowing incurred by the Council reflects the historically low rates for borrowing and compares favourably with a borrowing target rate for 2019/20 set at 3.30%.
- 11.3 **Borrowing in advance of need.** The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.
- 11.4 **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.
- 11.5 **Repayment of long term borrowing** – The Council did not repay any long term borrowing during 2019/20.
- 11.6 **Repayment of short term borrowing** – on 1 April 2019 the Council repaid £2,000,000 at a rate of 0.95% using investment balances. There were no breakage costs.

12.0 Investment Outturn for 2019/20

- 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 12 February 2019.
- 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 £12,997,288 of internally managed funds. The internally managed funds earned an average rate of return of 0.87%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.53%. The actual investment income received in 2019/20 was £112,432 compared to a revised budget at Quarter 4 of £100,000.
- 12.5 The interest received from the loan to a local housing association, which is classed as capital expenditure, totalled £1,474,760. The amount of loan borrowed by the Housing Association from the Council as at 31 March 2020 was £35,000,000; this is the total amount of the agreement.
- 12.6 The council also has investment in third party companies. Annex F, in line with good practice on openness and transparency, explains the Council's relationship with its third party companies; it details the financial position of the Joint Venture Company and provides information on Commercial Portfolio and Crematorium projects.

13.0 Other Issues

- 13.1 International Financial Reporting Standard 9 (IFRS 9) is an accounting regulation that changed during 2018/19 which the Council needs to adhere. Part of this regulation is in relation to the management of risk for the valuation of different types of investment. At 31 March 2020 this Council only had short term investments that were callable on demand and therefore this type of investment does not attract significant risk to the Council.
- 13.2 In addition, the regulation has introduced the requirement to recognise any loss that occurs on loans that have not yet been realised i.e. investments in third parties. This is not material for treasury investments such as bank deposits but it has been considered for the loan to the third party housing association in 2019/20; where the Council undertakes quarterly due diligence reviews of the financial information provided by the housing associations to ensure the financial viability of repayment of the debt and that no expected loss will occur in the future.

- 13.3 It will also be a consideration in future years for other non-treasury management investments as detailed in the capital strategy for 2019/20. For example for the Commercial investment portfolio consideration will need to be given to the unrealised gains or losses (fair value movements) from investment funds. These unrealised gains or losses would now have to be expenditure or income that would be incurred by the Council; that said the Ministry for Housing Communities and Local Government has introduced a statutory override to the regulation for a period of 5 years from 1 April 2018 where unrealised gain or loss that occur will not be incurred by the Council as income or expenditure but be reversed out. This will be recorded in the Council's Statement of Accounts in an unusable reserve for transparency purposes.

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. One indicator was breached in 2019/20 in regards to the approved investment limits and reported at Quarter 2.

15.0 Links to the 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 Programme Management Board 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 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 schemes that specifically addressed equalities in 2019/20 were the disabled facilities grant scheme and the pool access scheme for the four leisure centres.

20.0 Recommendations

20.1 That Cabinet approves and recommends to Council:

- (a) note the 2019/20 capital outturn position of £7,402,915 at paragraph 2.3 and attached at Annex A;
- (b) approve the over spend of £822,809 at paragraph 2.6 and under spend of £5,225;
- (c) approve the requests at paragraph 2.9 for re-profiling the capital schemes totalling £15,970,257 from 2019/20 programme to 2020/21 and at paragraph 2.6 for re-profiling £721,173 from 2020/21 to 2019/20;
- (d) approve the request at paragraph 2.10 for re-profiling the additional capital schemes totalling £25,365,617 from 2019/20 programme to 2020/21 as attached in Annex B;
- (e) approve the request at paragraph 2.11 for the increased additional funding for the Crematorium of £138,632;
- (f) approve the request to enable the Council to bank roll the timing difference for the Dalton Bridge BID additional voluntary contributions in paragraph 3.2 of £1,898;
- (g) note the treasury management outturn position 2019/20 detailed at paragraph 12.4;
- (h) note the Prudential Indicators attached at Annex C; and
- (i) note the position of the Council's third party companies at Annex D.

Louise Branford-White
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Background papers: Annual Financial Report 2019/20
Outturn Position 2019/20 Finance Ledger
Capital Monitoring Reports in 2019/20
Treasury Management Reports in 2019/20

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