

Hambleton District Council

Report To: Cabinet

Date: 6 July 2021

Subject: **2020/2021 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 2021 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 2020/21;
- 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 2021;
- Reflect on current economic interest rate environment and the treasury management strategy set prior to the beginning of the 2020/21 financial year; and
- Inform the Cabinet of the Borrowing and Investment Position for 2020/21.

(c) Prudential Indicators – Capital & Treasury Management:-

- Review the capital and treasury management indicators for 2020/21 outturn.

2.0 Capital Outturn 2020/21, Under/ Over Spends and Re-profiling of Capital Schemes

- 2.1 The 2020/21 capital programme was approved by Cabinet on 11 February 2020 at £36,321,583. At outturn in 2019/20 the actual capital programme for 2020/21 started the year at £51,570,667. The main reduction during the year was the suspension of the £30,000,000 Commercial Investment strategy at Cabinet in September 2020. Further capital schemes during the year were approved, some schemes were removed and the revised Capital budget at Quarter 3 was £19,745,917.
- 2.2 The 2020/21 capital programme final outturn was £17,554,253, which resulted in a variance of £2,191,664. This is comprised of five 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 2020/21 to 2021/22 in line with a changing timetable of delivery for specific schemes. This totals £8,138,284;
 - (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 2020/21 to fund capital schemes in line with a changing timetable of delivery for specific schemes. This totals £1,039,398;
 - (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 £150,904;
 - (d) The fourth component consists of schemes of £4,787,138 that require additional spend however which are funded by external grants or contributions and therefore does not require internal resource allocation. Two of the schemes, Leisure Centres – Decarbonisation Fund of £4,724,763 and Disabled Facilities Grant of £6,000, are also included in the request to roll forward funds to 2021/22 in (a) above; and
 - (e) The fifth 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 £30,820.
- 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 2020/21.

Council Portfolio's during 2020/21	Revised Budget at Outturn	Total Expenditure	Variance	Budget re-profiled from 2020/21	Budget re-profiled to 2020/21	Over Spend -Request for additional funding	Request for additional spend externally funded	Under Spend- Funding no longer required
Leisure & Communities	2,722,115	2,264,401	(457,714)	(5,279,494)	106,894	87	4,724,763	(9,964)
Environment	314,303	246,488	(67,815)	(81,565)	-	13,750	-	-
Economy & Planning	3,919,270	3,292,345	(626,925)	(837,481)	106,301	100,699	6,000	(2,444)
Finance & Commercial	396,018	273,934	(122,084)	(180,345)	1,811	75	56,375	-
Economic Development Fund	29,484	11,072	(18,412)	-	-	-	-	(18,412)
Corporate Schemes	12,364,727	11,466,013	(898,714)	(1,759,399)	824,392	36,293	-	-
Total	19,745,917	17,554,253	(2,191,664)	(8,138,284)	1,039,398	150,904	4,787,138	(30,820)

Table 1: Capital programme outturn 2020/21

- 2.4 The capital programme has been monitored during 2020/21 on a quarterly basis and reported to Cabinet. The total capital programme expenditure for 2020/21 compared to the revised budgeted capital programme of £19,745,917 at Quarter 3 was 88.9%.
- 2.5 The capital programme and supporting information setting out the variances and the requirements for re-profiling schemes into 2020/21 are detailed in Annex A.
- 2.6 Fourteen schemes are categorised in Table 1 as being over-spent in 2020/21. These are the schemes that have been re-profiled to 2020/21 at £1,039,398 and overspends requested at £150,904. Four schemes are categorised as requesting additional spend of £4,787,138 for which external funding has been received. Approval is sought by Cabinet in this report for the total of £5,977,440. The eighteen schemes can be analysed into 3 components as described below:
- (a) Nine schemes that started early re-profiled to 2020/21 were already approved in the 10 Year Capital Programme for future years at £1,039,398. Overall, in the 10 Year Capital Programme, no additional funding is required.
 - (b) Four schemes require additional spend of £4,787,138 which for external funding have been received. Two of these schemes, Leisure Centres – Decarbonisation Fund of £4,724,763 and Disabled Facilities Grant of £6,000 has had no spend in 2020/21 and a request to roll forward these to 2021/22 is included in the Budget Re-profile from 2020/21.
 - (c) Five schemes require additional funding totalling £150,904, however this will be covered by the under spends of £30,820 elsewhere in the 2020/21 capital programme and additional funding of 120,084.
- 2.7 Information on the eighteen 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 £1,039,398 is rolled back from 2021/22 and four schemes totalling £4,787,138 are fully external funded and therefore a tolerance level is not applied. However, the table shows three schemes that have exceeded the 5% tolerance. The purchase of bins and boxes for refuse and recycling has overspent by £13,750 since additional household bins were required due to increased number of houses built, Northallerton Connection of £100,699 due to increased work required and Dalton Bridge Phase 2 of £36,293 to complete additional work.

Capital Scheme	Expenditure at Outturn 31/03/2021	Variance	% Over	Over/ External Funding/ Brought Forward (B/Fwd)
Nine schemes re-profiled to 2020/21				
T&SLC - Improvement Project	1,024,451	24,451	N/A	Externally Funded
Thirsk & Sowerby Sports Village	442,626	19,510	N/A	Externally Funded
Northallerton Sports Village	92,890	52,268	N/A	Externally Funded
Air Conditioning - Legislation requirement	3,890	3,803	N/A	B/Fwd 20/2021
Car Park Reinstatements	40,862	6,862	N/A	B/Fwd 20/2021
Springboard Boilers	10,733	8,233	N/A	B/Fwd 20/2021
Town Square Enhancement scheme	1,348,068	98,068	N/A	B/Fwd 20/2021
ICT - Finance System	11,810	1,811	N/A	B/Fwd 20/2021
Treadmills Phase 2 including eCampus	4,019,792	824,392	N/A	Externally Funded and B/Fwd 2020/21
Total	6,995,122	1,039,398		

Capital Scheme	Expenditure at Outturn 31/03/2021	Variance	% Over	Over/ External Funding/ Brought Forward (B/Fwd)
Four schemes re-profiled to 2020/21				
<u>Four schemes with External Funding</u>				
Leisure Centres - Decarbonisation Fund	-	4,724,763	N/A	Externally Funded
Disabled Facilities Grant	445,603	6,000	N/A	Externally Funded
ICT Improvements 2020/21 - Covid-19	84,134	51,897	N/A	Externally Funded
ICT - Finance System – Covid -19	59,486	4,478	N/A	Externally Funded
Total	589,223	4,787,138		

Five schemes require additional funding in the three categories below	Expenditure at Outturn 31/03/2021	Variance	% Over	Over/ External Funding/ Brought Forward (B/Fwd)
<u>Two schemes overspent – funded from underspend</u>				
Air Conditioning - Legislation requirement	3,890	87	2.2	Over
Purchase of bins and boxes for refuse and recycling	93,067	13,750	14.8	Over
SUB TOTAL	96,957	13,837		
<u>Three schemes overspent – additional funding required</u>				
Northallerton Connections	1,374,387	100,699	7.3	Over
EHO - Management Information System (MIS)	5,245	75	1.4	Over
Dalton Bridge Phase 2	336,293	36,293	10.8	Over
SUB TOTAL	1,715,925	137,067		
Total Additional Funding	1,812,882	150,904		

Table 2: Increased expenditure at Quarter 4

- 2.8 The underspend on the capital programme in 2020/21 is £30,820, which is no longer required, and will therefore be used to cover some of the overspend of £150,904 in 2020/21 as detailed in Annex A.
- 2.9 The schemes to be carried forward from Quarter 4 in to the 2021/22 capital programme total £8,138,284. 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 2020/21, therefore these schemes of £7,547,672 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 2021/22.

3.0 Funding the Capital Programme

- 3.1 The capital programme expenditure of £17,554,253 has been funded as detailed below:

Capital programme 2020/21	£
Grants	6,777,511
Capital Receipts	3,101,401
External Borrowing	7,550,788
Covid-19 Tranche Funding	124,553
Total Funding	17,554,253

- 3.2 During 2020/21, the Council's investment in the Treadmills development in Northallerton generated a £1.4m return to the Council £1.4m. This was received as a capital receipt which has been partially used in 2020/21 to fund the capital programme and will also be used in 21/22, where a funding swap has occurred with revenue reserves which had been allocated to support the capital programme. This is advantageous to the Council as the revenue reserves – Economic Development Fund, Computer Fund and Repairs and Renewals Fund – have been transferred to the Council Tax Payers reserve which increases the reserves position that can now be used to support other revenue projects and scheme requirements.
- 3.3 It should also be noted in 2020/21 that it was decided the Bedale Gateway Car Park project would no longer proceed and therefore the capital expenditure £90,290 in previous years needs to be written out as an abortive cost and supported from revenue funding rather than capital. A funding swap has therefore occurred whereby the economic development fund revenue reserve that was funding a scheme in the capital programme has been used to support the abortive costs and the previous capital receipt funding has been used to support the economic development fund project. In this way there is no additional cost to the Council from the £90,290 abortive cost.
- 3.4 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 Capital Programme 2021/22

4.1 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 2021/22, the schemes to be carried forward from 2020/21 will be combined to commence the consolidated Capital programme for monitoring in 2021/22. However, it is recognised that the Treadmills Phase 2 scheme will require additional funding £600,000 to further develop the cinema and restaurants as the tenders received from the contractors is greater than budgeted due increased cost of materials as well as supply and demand impacted from Brexit and the covid-19 pandemic. In the recommendations section of this report approval is sought from Cabinet and Council to increase the capital expenditure of Treadmills Phase 2 by £600,000.

5.0 Treasury Management Position 2020/21 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 2020/21. 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 Formal member training on treasury management issues was last undertaken three years ago during 2017/18 in order to support members' scrutiny role. Training was scheduled to take place in 2020/21 however due to the Covid-19 pandemic this did not occur. Members of Audit, Governance & Standards Committee have agreed to undertake training during 2021/22 to further support their understanding.

5.3 Attached at Annex C is detailed information regarding the Council's treasury management position for 2020/21 with a brief synopsis included in eh paragraphs below.

6.0 Treasury Position as at 31 March 2021

6.1 Table 3 below shows the treasury position of the Council at the beginning and the end of 2020/21:

Borrowing and Investment position at 31 March 2021	31-Mar-20 Principal £m	Rate %	31-Mar-21 Principal £m	Rate %
Long term borrowing - Public Works Loan Board (PWLB)	27.700	2.21	27.700	2.21
Capital Financing Requirement (CFR)	41.737		49.288	
Over/ (under) borrowing	(14.037)		(21.588)	
Short term borrowing	-		-	
Total Investments	13.971	0.87	14.864	0.13
Net Debt – Borrowing less Investments	13.729		12.836	

Table 3: Overall treasury outturn position

6.2 'Capital Financing Requirement' is the amount of borrowing required to support the capital programme. '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, capital receipts or grant contributions and therefore not incurring interest payments.

7.0 The Economy and Interest Rates

7.1 Further information is included in Annex C of the report.

8.0 Borrowing and Investment Outturn Position 2020/21

8.1 During 2020/21, 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 Borrowing – The Council did not make any borrowing during 2020/21 and had a balance of long term borrowing of £27,700,000 with an average 2.21% interest rate. This is lower than the borrowing target interest rate set at Council in February 2020 for the 2020/21 financial year of 3.5%.

8.3 Investments - the Council maintained an average balance of £20,036,301 of internally managed funds. This balance is higher than previous years due to the additional grant funding received by the Council in relation to COVID-19 to pay business grants and also to support the finances of the Council. The internally managed funds earned an average rate of return of 0.13%. The comparable performance indicator is the average 7-day LIBID rate, which was -0.0706%. The actual investment income received in 2020/21 was £25,421 compared to a revised budget at Quarter 4 of £24,500.

8.4 Investment Portfolio – At 31 March 2020 and 31 March 2021 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.

8.5 The interest received from the loan to a local housing association, which is classed as capital expenditure, totalled £1,458,650. The amount the Council invested in the Housing Association at 31 March 2021 was £34,000,000; £1,000,000 was repaid by the Housing Association during 2020/21.

8.6 The Council also has investment in third party companies. Annex E, 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.

9.0 Prudential Indicators

- 9.1 The Prudential Indicators which control the borrowing and treasury management position of the Council are attached at Annex D. The Council has operated within the treasury and prudential indicators. The approved limits were not breached during 2020/21.
- 9.2 Specifically the authorised limit prudential indicator is the “affordable borrowing limit” of the Council and is required every year under s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. Annex D demonstrates that during 2020/21 the Council has maintained gross borrowing within its authorised limit.

10.0 Links to the Council Priorities

- 10.1 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.

11.0 Risk Assessment

- 11.1 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.

12.0 Financial Implications

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

13.0 Legal Implications

- 13.1 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.

14.0 Equality/Diversity Issues

- 14.1 The capital programme seeks to address key equality issues that affect the Council and the public. The main schemes that specifically addressed equalities in 2020/21 were the disabled facilities grant scheme.

15.0 Recommendations

- 15.1 That Cabinet approves and recommends to Council:
- (a) note the 2020/21 capital outturn position of £17,554,253 at paragraph 2.3 and attached at Annex A of the report;
 - (b) approve the over spend of £150,904 at paragraph 2.6 of the report and under spend of £30,820;

- (c) approve the requests at paragraph 2.9 for re-profiling the capital schemes totalling £8,138,284 from 2020/21 programme to 2021/22 and at paragraph 2.6 of the report for re-profiling £1,039,398 from 2021/22 to 2020/21;
- (d) approve the request at paragraph 2.10 for re-profiling the additional capital schemes totalling £7,547,672 from 2020/21 programme to 2021/22 as attached in Annex B of the report;
- (e) approve the increase in capital expenditure £600,000 in 2021/22 for the Treadmills Phase 2 scheme as detailed in paragraph 4.1 of the report;
- (f) note the treasury management outturn position 2020/21 detailed at paragraph 6.1 of the report and Annex C;
- (g) note the Prudential Indicators attached at Annex D of the report; and
- (h) note the position of the Council's third-party companies at Annex E of the report.

Louise Branford-White
Director of Finance and Commercial (S151 OFFICER)

Background papers: Annual Financial Report 2020/21
Outturn Position 2020/21 Finance Ledger
Capital Monitoring Reports in 2020/21
Treasury Management Reports in 2020/21

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