Item 5

NORTH YORKSHIRE COUNTY COUNCIL

EXECUTIVE

25 August 2020

QUARTERLY PERFORMANCE MONITORING REPORT

Report of the Chief Executive

EXECUTIVE SUMMARY

Revenue Budget 2020/21

1. There is an overall projected net overspend of £3,875k against budget for 2020/21 **(paragraph 2.1.2).** The direct impact of COVID-19 is leading to 'headline' overspends in all directorates. Issues of note include:

    - An improvement in the underlying budget position of CYPS and HAS mainly reflecting the additional funding provided as part of the 2020/21 approved budget.
    - Significant one off costs in Corporate Miscellaneous, in particular the creation of a provision to offset the potential loss of local taxation income which will impact in financial year 2021/22.
    - The above issues are significantly offset by the receipt of government funding for additional Covid-19 costs

2. A breakdown of each Directorates forecast variance is provided in **Appendices B to F** with the financial position for NYES provided in **Appendix G**.

3. The longer term impact of the Covid-19 crisis remains a critical issue. The potential long term impacts on levels of local tax funding, the wider economy and local markets represent very significant areas of uncertainty with potential major repercussions for the county council's budget and cash flow.

Capital Plan

1. The Council is currently planning to invest £176.8m on capital schemes across the County in 2020/21 and £256.1m, in total, over the next 5 years. Covid-19 is impacting on a number of schemes and re-profiling is required.

2. Executive is asked to approve: additional funding of £8m to purchase vehicles in advance on behalf of the NY Highways company (**paragraph 4.2.27)**; the increase in loan facility for the NY Highways company (**paragraph 4.2.29**); the establishment of a recurring annual short term cashflow arrangement of up to £2m to support the effective profiling of the highways programme (**paragraph 4.3.8**); and the expired approvals in relation to Technology and Change be held for a further 12 months pending a review (**paragraph 4.3.9**).

3. Planned financing of the capital spend in 2020/21 **(paragraph 4.5.9 & Appendix E)** includes £4.9m capital receipts. After utilising other estimated capital income (grants, contributions and revenue contributions) totalling £164m, the balancing figure of £13.4m is planned to be funded from internal borrowing which has the impact of running down investments.

4. £15.6m potential surplus capital resources are available over the Capital Plan period **(paragraph 4.5.9)**. This could be used to fund capital expenditure or to reduce the Council's outstanding debt.

Treasury Management

1. Investments outstanding at 30 June 2020 were £509.9m **(paragraph 3.14)** of which £228.1m belonged to other organisations who are part of NYCC's investment pool arrangements (**Appendix A**),

2. The daily average balance was £481.09 over Q1 of 2020/21 and an average rate of return of 0.76% was achieved (**paragraph 3.14**) which compares well against benchmarks (**paragraph 3.15**).

3. External debt stood at £263.1m at 30 June 2020. The average interest rate of this debt was 4.39% (**paragraph 3.18**).

4. The forecast capital borrowing requirement for 2020/21 is £24m (**paragraph 3.20**).

Prudential Indicators

1. The Prudential Indicators have been updated to reflect the latest Capital Plan. During Q1 2020/21 the Council operated within the approved Prudential Indicators and limits were not exceeded.

RICHARD FLINTON
Chief Executive

Gary Fielding
Corporate Director, Strategic Resources

County Hall
Northallerton
25 August 2020

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2.0 REVENUE BUDGET 2020/21

2.1 BACKGROUND AND SUMMARY

2.1.1 This section of the report presents details of the projected revenue outturn for the 2020/21 financial year. The latest in-year 2020/21 budget is £393,410k with the net movement since the budget approved by Executive and County Council in February 2020 shown in **Appendix A.**

2.1.2 At the end of Q1, there is a projected net overspend of £3,875k (1%) against operational budgets. Further detail is provided in **section 2.2.**

2.2 OPERATIONAL BUDGETS

2.2.1 The table below identifies the operational budgets for each of the Directorates in 2020/21. The projected revenue outturn indicates a number of variances, which together produce a net projected overspend of £3,875k. Issues of note include:

- The direct impact of COVID-19 leading to ‘headline’ overspends in all directorates
- An improvement in the underlying budget position of CYPS and HAS mainly reflecting the additional funding provided as part of the 2020/21 approved budget.
- Significant one off costs in Corporate Miscellaneous, in particular the creation of a provision to offset the potential loss of local taxation income which will impact in financial year 2021/22.
- The above issues are significantly offset by the receipt of government funding for additional Covid-19 costs

Directorate	Budget (£k)	Projected Outturn (£k)	Variance (£k)	*2019/20 Outturn Variance (£k)*
HAS	**168,064**	**179,223**	**11,159**	*199*
BES	**73,198**	**74,565**	**1,366**	*(3,355)*
CYPS	79,007	80,727	1,720	*8,243*
LA Provision for High Needs	4,211	4,211	-	*(3,748)*
Adjustments for 19/20 only	-	-	-	*(3,643)*
CYPS Net	**83,218**	**84,938**	**1,720**	*852*
Central Services	**66,599**	**74,475**	**7,876**	*94*
Corporate Misc.	**2,330**	**13,607**	**11,277**	*(4,367)*
Directorate Totals	**393,410**	**426,808**	**33,398**	*(6,577)*
Covid19 Grant Funding	-	(29,523)	(29,523)	-
TOTAL	**393,410**	**397,285**	**3,875**	*(6,577)*

It is also worth noting that this budget figure is already supported by a £3.9m transfer from reserves.

2.2.2 A summary of the overall **Health and Adult Services (HAS)** position across public health and adult social care (ASC) is outlined in **Appendix B.** This shows that the Directorate has utilised the £2.4m of Winter Pressures funding allocated by central government and £0.6m of iBCF (improved Better Care Fund) to meet Adult Social Care Pressures. A further £1.6m of growth allocated by the County Council has also been used.

2.2.3 It should be noted that the winter pressures funding and iBCF is only *guaranteed* to continue for the current financial year (2020/21) and, whilst there is some expectation of similar funding continuing to offset budget pressures in the future, this is not guaranteed.

2.2.4 Overall, adult social care is forecasting a net overspend of £11.2m (net of projected £9.5m covid-linked CCG funding). This reflects COVID-19 related budget pressures of £13.9m and non-COVID net underspends of £2.7m relating to business as usual activity.

COVID-19

2.2.5 There is a £9.8m overspend forecast in relation to supporting the adult social care market and additional demand as a consequence of COVID:

- During the emergency period, care packages for people discharged from hospital or to avoid hospital admissions have been funded by the NHS. However once the emergency is declared over it is likely that the Council will need to cover these costs (£4.8m) and the CCG packages of care agreed during the emergency are typically more expensive than the usual cost to the council. Although presently covered by NHS funding, at the moment, the average cost of a spot purchased bed during the emergency has been between £850 and £900 per week, compared with a pre-covid average of £600 per week.
- A further £4.1m relates to 5% compensatory and hardship payments to care providers.
- In addition, we are forecasting an increase (£0.9m) in Mental Health care packages, placements and increases in the workforce with the additional use of agency staff as a direct consequence of the pandemic.

2.2.6 Other COVID-19 related budget pressures totalling £4.1m include workforce pressures, additional materials and the loss of income.

	£m
Increased staffing costs	2.3
Loss of client income	0.3
Loss of CHC income	0.3
Delayed Savings	1.6
Infection Control Grant	(0.4)
Other COVID related budget pressures	**4.1**

Adult Social Care and Cross-Directorate Budgets - business as usual

2.2.7 Although there continue to be significant pressures on the Care and Support budgets the additional funding provided as part of the approved 2020/21 budget, together with supplementary funding from the iBCF, currently more than offset these pressures (-£1.8m). However, as noted, not all elements of this funding are guaranteed into future years. In addition, there are a series of other minor savings/overspends forecast which together produce a further net underspend of -£0.9m.

2.2.8 Market pressures, particularly in Harrogate, continue to be a major issue and this is exacerbated as people use up their own funds, with the Council then picking up any further costs. Remedial action as identified in previous reports is underway to reduce this pressure, however this has been delayed due to our responsibilities in response to the coronavirus pandemic.

2.2.9 Public Health are forecasting an underspend of £0.4m which is matched by a reduced reserve draw down requirement. The reduced reserve drawdown reflects the net impact of both the delays to savings and the lower activity on Public Health contracts due to COVID. Although earmarked reserves, built up from underspends in previous years, are currently used to support the budget there is a planned programme of savings over the medium term which is necessary to ultimately bring annual expenditure in line with government funding levels.

2.2.10 **Appendix C** includes details of the projected variance within **Business and Environmental Services**. Factors which are currently impacting the service and could serve to impact the service further throughout the year, are;

COVID-19

2.2.11 Concessionary fares – as expected COVID-19 has had a significant impact on public transport to date. Whilst NYCC continues to financially support bus operators in North Yorkshire, there is a residual saving from reduced fare payments of £490k. Current trends are seeing a recovery in public transport numbers, however COVID-19 measures could serve to impact further into the Autumn and Winter months at an average saving of between £150k (Summer) and £100k (Winter) per month.

2.2.12 Permits and penalty notice income on the road network – £415k Impact of COVID-19 has reduced the charges throughout the highways network budget where demand for works to be carried out has reduced, and causes pressure where teams are funded by the fees charged.

2.2.13 Civil Parking Enforcement – Whilst the charges received are re-invested into the highways network and therefore do not affect the outturn position, the impact of COVID-19 has reduced the expected level of charges collected by £1.2m in the first quarter, this will in turn determine the prioritisation of future projects due to reduced investment from this source.

2.2.14 Waste Management – COVID-19 impact was greatest whilst HWRCs were closed and through the process of re-opening them. Traffic management costs to support safety on site were £320k. Loss of waste fees and additional kerbside collections throughout the COVID-19 lockdown periods is £540k.

Non-COVID-19

2.2.15 Concessionary fares – Over the last few years, concessionary travel numbers have been declining resulting in in-year underspends due to decreased payments to operators and reduced levels of printing. The current forecast is based on 2019/20 demand levels outside of COVID-19 lockdown periods.

2.2.16 Street lighting – The LED replacement scheme continues to deliver savings in line with expectations, however, rate of installation could further affect energy and maintenance costs, currently expected to deliver in year savings of £250k.

2.2.17 Waste management – recyclate processing continues to increase in cost and the decreasing market prices reduce the income received to offset the costs, causing pressures of £495k. Also additional charges from Yorwaste for Landfill Restoration and Interest are expected to be £1,050k, offset partially by increased recharges for commercial tonnage provided by Yorwaste into AWRP (£185k).

2.2.18 A summary of the projected revenue outturn for **Children and Young Peoples Services (CYPS)** is shown at **Appendix D** and forecasts a net overspend position of £1.7m by the end of the 2020/21 financial year.

2.2.19 COVID-19 has impacted on a number of services which do not normally impact on the Local Authority's bottom line including:

- Outdoor Learning Service, where there has been a significant drop in traded income from schools (net c.£0.9m)
- Adult Learning & Skills Service, where provision for £0.5m has been made to recognise the one-off nature of the in-year deficit position.
- Additional costs (£0.5m) associated with Home to School Transport. A number of management actions identified from the SEND transport focussed review were in train before the start of this financial year; however, their progress has been slowed due to the ongoing COVID-19 pandemic. These include measures such as expanding the independent travel training service to enable young people to travel on their own, and reviewing the current single-occupancy transports (taxis) to identify possible efficiencies.
- Financial pressure has also continued in the cost of looking after children totalling c.£0.8m – the cost of provision of North Yorkshire children and young people who attend a residential out of authority education/care provider.
- Provision (£0.2m) for the cost of delays in conversion for schools sponsored to become academies where the LA is expected to pick up any deficit balances.

2.2.20 Non-covid

Previous reports to the Executive have highlighted a number of budget pressures which were recognised in part in setting the approved budget in February 2020. Based on the information available as at the end of June 2020, the key areas include:

- Significant financial pressure in High Needs – a more than 70% rise in Education, Health and Care Plans (EHCPs) since 2015 has not been met by a matching increase in High Needs Block funding in the Dedicated Schools Grant (DSG), which has led to a projected £3.6m in-year underlying overspend. The High Needs budget allocates funding for mainstream and special schools to support children and young people with special educational needs. Note that this overspend does not form part of the Council's net revenue outturn position as changes in government regulations since January 2020 now prohibit the local authority from using its general resources to fund shortfalls in the DSG. Management action to address the financial pressure has been ongoing since 2019 as part of the implementation of the NYCC Strategic Plan for SEND 0-25.
- Pressure within occupational therapy and Direct Payment Support costs have continued within Disabled Children's Services, amounting to £0.4m of projected overspend. A peer review is planned to identify further efficiencies and ensure that spending is reduced to meet the available budget.
- There are also a number of in-year savings that offset other financial pressures. These include in-year savings within Children and Families (£0.8m) and School Improvement (£0.3m) linked to vacancies and the delayed financial impact of the implementation of local service strategies.

2.2.21 **Central Services** variance details are included within **Appendix E**. Factors which are currently impacting the service and could serve to impact the service further throughout the year, are;

COVID-19

2.2.21 To help support the Council's management of COVID-19, services across the Directorate have needed to increase staffing levels with an associated cost of £300k to September. The forecast is based on current easing of lockdown measures, however if there is a second wave then there will be a further pressure on the outturn position of up to £100k per month.

2.2.22 PPE – The forecast expects an annual spend of £5.6m and assumes a continued level of social distancing measures, a second wave would increase the requirement for PPE and based on trends from the first wave, up to £2.6m would be required to support a 3 month period.

2.2.23 Registrars Service – Whilst restrictions on wedding ceremonies remain in place, ceremony bookings are being cancelled or re-booked for dates in the future. The forecast reflects the current bookings and the impact of this is £600k. Ceremony fees are therefore not currently expected to cover the cost of the registrar's team. The impact of this is partially offset by additional demand above budget for registration certificates and licensing fees (£100k). If restrictions remain in place a further decline in bookings could result in further loss of charges of up to £100k per month.

2.2.24 Policy & Partnerships – Community Support payments, small grants and food voucher scheme is administered from this budget and expected to cost £700k based on current levels of COVID-19 restrictions and assuming they continue to ease. The level of support required could rise should there be further social distancing restrictions implemented, based on trends from the first wave, this could be up to £125k per month.

Non-COVID-19

2.2.25 Staffing levels - In addition to the pressures created by COVID-19, the Directorate was already experiencing increased demand and has a total forecast overspend position of £700k on staffing (excluding COVID-19).

2.2.26 The Coroners Service is forecast to spend in line with 2019/20, however salary increases set by the chief coroner are not covered by current budget and increased NHS cost pressures for use of mortuaries result in an expected overspend position of £318k.

2.2.27 **Corporate Miscellaneous** is shown at **Appendix F**. As with the other service areas, Covid is impacting heavily – forecast variances include:

- £9,173k overspend on general provisions reflecting in particular the creation of a provision of £11.9m for future Council Tax and Business rates losses linked to Covid.
- Investment and commercial income losses of £3,266k.
- Government Covid emergency funding income of £29,523k is also held on a Corporate Miscellaneous code and shown in Appendix F.

2.2.28 The outturn statement for the County Council's NYES traded service is also attached at **Appendix G** for information**.** These services are mainly provided to schools in the County and the figures reported do not have any further impact on those in the above table because, where relevant, the charges are already incorporated in Directorate forecast budget outturn positions.

2.3 BUDGET/ MTFS SAVINGS TARGETS

2.3.1 The 2020/21 revenue budget reflects previously agreed and updated 2020 North Yorkshire savings targets and these are incorporated into Directorate 2020/21 budget control totals shown in the table in **paragraph 2.2.1.** These challenging 2020/21 savings targets (which are in addition to savings targets reflected in previous year's budgets) total £8,900k, and consist of:

Item	**£m**
Budget Savings in 2020/21 agreed in the February 2020 budget and earlier years MTFS savings targets:	
BES	1.0
CYPS	1.2

HAS CS Shortfall	1.9 0.9 3.9
Total savings reflected in 2020/21 budget	**8.9**

2.3.2 Assessment of progress against the targets indicates that there are some areas of the programme where savings are unlikely to be achieved within expected timescales for 2020/21, these delays are almost entirely driven by the Covid-19 situation. These are outlined in the table below but it should be noted that the impact of these delays are already incorporated into the projected outturn position in **paragraph 2.2.1**

At Risk/ Cash-funding of Projects in 2020/21	**£000's**
BES – Winter Salt Heaps & Bins	75
HAS – Working Practices	100
HAS – Reablement19	250
HAS – CHC Funding	300
HAS – Extra Care Housing & SPHs	497
HAS – Brokerage	50
CYPS – SEND Transport	390
CYPS – SEN Transport – Solo Travellers	35
CYPS – Safeguarding Unit Review	60
TOTAL	**1,757**

2.3.3 In addition part of the savings from schemes in earlier years totalling £522k: Strength-based Assessments (£400k), Disabled Children's Services (£67k), Income and Debt Management (£35k) and Developer's One Stop Shop (£20k) will remain unrealised in 2020-21. Again it should be noted that these are already incorporated into the forecast outturn position in **paragraph 2.2.1**

2.3.4 Variances from the 2020/21 Budget are being tracked as part of the governance of the 2020 North Yorkshire savings programme. The net position is always reported within the quarterly Revenue Budget monitoring report and details of the variances are included in **Appendices B to F**.

2.3.5 As further savings are required the schemes to achieve these will become more challenging and inevitably contain a higher level of uncertainty and risk. Therefore, it is imperative that delivery of each saving is closely monitored. Due to the long term risk to delivery of some of the savings, a Corporate Savings Contingency for non-delivery of savings continues to be included in the 2020/21 Budget. This will be able to be released if savings are ultimately delivered on target and could potentially contribute to the overall MTFS Shortfall identified as £19m in February 2020.

2.4 GENERAL WORKING BALANCE

2.4.1 A key feature of the Revenue Budget for 2020/21 and Medium Term Financial Strategy, approved by County Council on 19 February 2020, is to maintain the General Working Balance (GWB) at a defined minimum acceptable level.

2.4.2 For 2020/21, the defined minimum level has been a policy target as follows:

(i) Maintenance of a minimum of 2% of the net revenue budget for the GWB in order to provide for unforeseen emergencies etc. supplemented by;
(ii) An additional (and reviewable) cash sum of £20m to be held back in the event of a slower delivery of savings targets;

and reflects:

(i) The increased number of risk factors which the County Council is facing as set out in Section 9 of the 2020/21 Budget report and in particular;
(ii) Savings targets not being delivered on time;

2.4.3 Taking into account the GWB policy on minimum balances – 2% of the net revenue budget plus £20m – GWB at year-end amounts to £28m. This is held at “policy” level and any unallocated balance in excess of this level is transferred to ‘Strategic Capacity – Unallocated’. The projected overspend against operational budgets in 2020/21 of £3,875k, as outlined in **paragraphs 2.2.1 to 2.2.12** will, if confirmed and approved, be transferred to the Strategic Capacity – Unallocated Reserve.

2.4.4 The anticipated movement in the balance of the Strategic Capacity – Unallocated reserve over 2020/21 is as follows:

Strategic Capacity – Unallocated	
Actual Balance as at 31.03.20	£47,557k
Planned MTFS contribution to reserve	(£3,921k)
Release of reserves following review	-
New 2020 Savings Projects	-
Net projected overspend	(£3,875k)
Forecast Balance as at 31.03.21	£39,761k

2.4.5 The balance of the Strategic Capacity – Unallocated Reserve as at 31 March 2020 was £47,557k. The following table provides an initial longer-term forecast for this reserve.

Year End		Latest Forecast			
	Start Year	MTFS	Other base budget contributions	Other use of reserve	End-Year
	£000	£000	£000	£000	£000
31 March 2021	47,557	(3,921)	-	(3,875)	39,761
31 March 2022	39,761	(13,387)	-	-	26,374
31 March 2023	26,374	(15,957)	-	-	10,417
31 March 2024	10,417	(19,002)	-	-	(8,585)

2.4.6 The figures in the table above are based purely on the cumulative shortfalls identified in the current MTFS and show that the strategic capacity reserve would be insufficient to fund the shortfalls over the existing MTFS period unless there are further savings and/or other funding identified.

2.4.7 In addition, the longer term impact of the Covid-19 crisis remains a critical issue. The potential long term impacts on levels of local tax funding, the wider economy and local markets represent very significant areas of uncertainty with potential major repercussions for the county council's budget and cash flow. In partial recognition of this the figures in the table at 2.2.1 include the creation of a provision (£11.9m) to meet potential shortfalls in local taxation receipts which will impact in 2021-22. This figure is based on early national evidence of % reductions in receipts and will be revised as more local data becomes available.

2.5 Recommendation

That the Executive

(i) notes the latest position for the County Council's 2020/21 Revenue Budget, as summarised in **paragraph 2.1.2.**

(ii) notes the position on the GWB (**paragraphs 2.4.1 to 2.4.3)**

(iii) notes the position on the 'Strategic Capacity – Unallocated' reserve **(paragraphs 2.4.4 to 2.4.6)**

REVENUE BUDGET APPENDICES

A	2019/20 Latest Revenue Budgets
B	Health and Adult Services
C	Business and Environmental Services
D	Children and Young Peoples' Service
E	Central Services
F	Corporate Miscellaneous
G	NYES

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2020-21 REVISED ESTIMATE REVENUE BUDGETS AT 30/06/2020

	Original Budgets agreed by Cty Cncl on 19/02/2020 £000s	Other agreed transfers and adjustments £000s	Latest Revised Budgets £000s
Children & Young Peoples' Service	84,601	(1,383)	83,218
Business & Environmental Services	73,051	147	73,198
Health & Adult Services	167,789	275	168,064
Central Services Directorate	66,265	334	66,599
Corporate Miscellaneous	1,703	627	2,330
NYES	-	-	-
Total Directorate Spending	393,410	-	393,410
Contribution From (-) General Working Balances	(3,921)	-	(3,921)
Net Revenue Budget	**389,489**	**-**	**389,489**
Revenue support grant	-		-
Business Rates DCLG Top Up	(48,441)		(48,441)
Business Rates from District Councils	(19,323)		(19,323)
Business Rates Collection Fund Deficit	-		-
Precept on District Councils - Current Year	(321,725)		(321,725)
Council Tax Collection Fund Surpluses	-		-
Transitional Grant			-
=Net Budget Requirement	**(389,489)**	**-**	**(389,489)**

HEALTH AND ADULT SERVICES
Appendix B

2020-21 REVENUE BUDGET OUTTURN REPORT

BUDGET HEAD	REVISED BUDGET 2020-21 £000	FORECAST OUTTURN 2020-21 £000	VARIANCE (-) = saving £000	COMMENTS
Care & Support - Area Budgets				
Care & Support - Hambleton & Richmond	27,725	27,877	153	The outturn shows that Care and Support continues to be impacted by wider demographic pressures, particular in the Harrogate area, including increased demand for services, increases in average costs, Continuing Health Care (CHC) funding and young people transitioning into Care and Support with high costs. There are additional cost pressures attributable to the COVID-19 crisis including increased staffing costs to meet our revised operating model and delays in the delivery of savings The overspend will be financed by supplementary Adult Social Care Funding (see below).
Care & Support - Selby	14,433	14,776	342	
Care & Support - Scarborough, Whitby & Ryedale	44,962	45,314	352	
Care & Support - Harrogate	39,552	43,407	3,855	
Care & Support - Craven	12,804	13,581	777	
CHC Income and Other Budgets	-	(545)	(545)	
Area Budgets	139,477	144,412	4,934	
Provider Services & EC/PCAH	15,096	15,914	818	Overspend due to COVID-19 pressures including requirement for additional cost of staffing and materials, loss of income due to the closure of day care services and respite care and delays in the Extra Care Housing programme delivery. Excluding COVID-19 related costs there would be a small underspend (-£124k) mainly relating to increases in income from client contributions and CHC in residential care homes.
Targeted Prevention	1,510	1,463	(46)	Underspend due mainly to staffing vacancies
Mental Health Services	9,186	10,111	925	Overspend due to the expectation of increased care packages, placements, increases in the workforce and in the use of agency staff within the Mental Capacity Act Deprivation of Liberty Safegaurds due to COVID-19.
Assistant Director/Cross-area budgets	(10,768)	(10,783)	(15)	
COVID-19 Costs	-	9,619	9,619	Overspend directly attributable to the COVID-19 pandemic including the 5% compensatory payment to support providers, costs of care packages made by the CCG for clients discharged from/or to avoid admission to hospital which are likely to need to funded by the Council after the emergency period, additional staffing and hardship payments.
Area Budgets Total	**154,500**	**170,735**	**16,235**	
Public Health				
- Spend	23,518	23,106	(412)	Reduced spend resulting from lower activity due to the service model for smoking ceasation and reduced take up of demand-led schemes against orignal targets. This is matched by a reduced reserve draw down requirement.
- Income	(23,518)	(23,106)	412	
Commissioning & Quality	7,912	7,437	(475)	Some one-off savings due to contract negotiations and underspends due to contract efficiencies offset by additional COVID-19 costs such as increased staffing costs to support the new operating model and due to delays in delivery of savings
Integration & Engagement	895	851	(43)	Underspend primarily due to staffing vacancies
Resources Unit	561	544	(17)	
Pooled funds	-	-	-	
Director & Cross-Directorate	197	205	8	
TOTAL	**164,064**	**179,773**	**15,709**	
Supplementary Adult Social Care Grant Funding & Growth	4,000	-	(4,000)	
Supplementary Adult Social Care Grant Funding (IBCF)	-	(550)	(550)	
REVISED TOTAL	**168,064**	**179,223**	**11,159**	

BUSINESS & ENVIRONMENTAL SERVICES

Appendix C

2020-21 REVENUE BUDGET OUTTURN REPORT

BUDGET HEAD	REVISED BUDGET 2020-21 £000	FORECAST OUTTURN 2020-21 £000	VARIANCE (-) = saving £000	COMMENTS
Highways & Transportation	23,725	23,604	(121)	Road Lighting (250k) - Energy and Maintenance cost reduction due to LED replacement scheme Road Traffic Signals (50k) - Energy savings Reduced income from licensing, inspections and notices (COVID), partially offest by Development management Team professional fees and Expenses in year reduction
Integrated Passenger Transport	9,425	8,485	(941)	Staffing Vacancies, Ticket printing costs and reduced demand for concessionary Fares
Trading Standards & Planning Services	2,508	2,673	164	COVID impact on fees and charges, Staffing costs for proceeds of crime act team
Waste & Countryside Services	36,806	39,024	2,219	Landfill Restoration & Interest £1,050k, Traffic management costs for HWRCs £320k (COVID), Additional impact of COVID from closure of HWRCs, loss of commercial waste charges, and increased cost of kerbside collections £540k, Reduced income for recyclates due to decreasing market prices & increasing costs for disposal 495k, recharges to Yorwaste for additional commercial tonnage into AWRP (185k)
Economic Partnership Unit	215	215	-	
Resources, Performance & Improvement	5	5	-	
Corporate Director of BES	514	559	45	Additional vehicle costs to support COVID activities
TOTAL	**73,198**	**74,565**	**1,366**	

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CENTRAL SERVICES
Appendix E

2020-21 REVENUE BUDGET OUTTURN REPORT

BUDGET HEAD	REVISED BUDGET 2020-21 £000	FORECAST OUTTURN 2020-21 £000	VARIANCE (-) = saving £000	COMMENTS
Strategic Resources				
Financial Services	3,978	3,931	(47)	Temporary Vacancy
Insurances	2,527	2,527	-	
Property Services	11,252	11,298	46	Reduced maintenance and building closure
Technology & Change	15,051	15,248	197	30k Additional Network Requirements (COVID) and staffing pressures £170k
Customer Services	2,584	2,638	54	Additional staffing requirements (COVID)
Business Support & HR				
Business Support Services	14,162	19,544	5,382	5.3m PPE (COVID) and additional staffing requirements £680k offset by savings on venues, transport & stationary supplies (675k)
HR Services	3,289	3,337	49	
Chief Executives Office				
CEO Support Services, Grants & Subscriptions	445	424	(21)	
Communications Unit	770	853	83	Staffing pressures & photography costs
Policy & Partnerships	3,510	4,393	883	£126k Staffing pressures, £700k COVID Small Grants, Community Support and Food Voucher Scheme (COVID)
Centralised COVID19	-	472	472	£330k PPE, Technology Costs and storage facilities lease costs
Legal & Democratic Services				
Democratic Services	495	489	(7)	
Legal Services	2,358	2,309	(49)	
Members Services	1,205	1,148	(57)	
Library, Customer & Community Services				
Archives & Records Management	399	399	-	
Coroners	760	1,078	318	Coroners Salaries, set by chief Coroner. NHS Cost pressures for use of facilities
Public Library Service	4,231	4,306	75	£196k Loss of income due to closures throughout COVID period, offset partially by lower staff costs (£100k)
Registrars	(418)	81	499	£600k Cost of Registrars team not covered whilst restrictions in place for wedding ceremonies, offset by additional demand for licenses and certificates (£100k)
TOTAL	**66,599**	**74,475**	**7,876**	

CORPORATE MISCELLANEOUS

Appendix F

2020-21 REVENUE BUDGET OUTTURN REPORT

BUDGET HEAD	REVISED BUDGET 2020-21 £000	FORECAST OUTTURN 2020-21 £000	VARIANCE (-) = saving £000	COMMENTS
ANNUAL BUDGETS AND FUNDING (Excluding PIP)				
Contingencies				
General Provision	16,618	26,791	10,173	Inflation provision and for the PSVAR impact on school transport offset by making early provision for covid loss of Council tax and NNDR monies (£11.9m) which will not impact until the following year.
HAS Corporate Contingency	6,100	5,100	(1,000)	Assume HAS market pressures monies will be utilised in this financial year
Brexit Contingency	2,000	2,000	-	
2020 North Yorkshire	3,000	3,000	-	
	27,718	**36,891**	**9,173**	
Treasury Management				
Capital Financing Costs	23,307	23,025	(282)	
Dividends & Interest Earned	(2,242)	(417)	1,825	Current forecast reflects lower interest rates achieved on investments due to ecomonic downturn
MTFS - Commercial Investments	(512)	(364)	148	
MTFS - Treasury Management Savings	(3,114)	(3,014)	100	
	17,439	**19,230**	**1,791**	
Corporate Budgets				
Corporate Funds	400	387	(13)	
Other Corporate Budgets	(859)	334	1,193	Shortfall in commercial challenge contribution linked to covid
	(459)	**721**	**1,180**	
Corporate Funding				
Corporate Grant Funding	(38,798)	(38,831)	(33)	
Other Corporate Funding	(1,495)	(31,018)	(29,523)	Covid grant
	(40,293)	**(69,849)**	**(29,556)**	
Business Rates & Council Tax				
Business Rates Funding	(2,896)	(3,731)	(835)	
	(2,896)	**(3,731)**	**(835)**	
TOTAL	**1,509**	**(16,737)**	**(18,246)**	
Waste Budget Strategy Provision	821	821	-	
OVERALL TOTAL	**2,330**	**(15,916)**	**(18,246)**	

NORTH YORKSHIRE EDUCATION SERVICES
APPENDIX G

2020-21 REVENUE BUDGET OUTTURN REPORT

BUDGET HEAD	BUDGET Profit(-) / Loss(+) 2020-21 £000	FORECAST Profit (-) / Loss (+) 2020-21 £000	VARIANCE Increase(-) / Decrease (+) £000	COMMENTS
TRADED SERVICES PROFIT & LOSS SUMMARY				
Building Cleaning Services	(487)	(459)	28	Overspend on mobiles - additional hours covering sickness/shielding
County Caterers Service	(741)	(756)	(15)	This is currently the most likely scenario. There are some losses expected from reduced meal numbers but these have been offset by the unexpected profit arising from lockdown over the summer months (which would ordinarily return a
Grounds Maintenance Service	(28)	(5)	24	Staffing restructure due later in the year to fit in with the less busy winter period, so benefits will be delayed.
Arbor Service	0	-	(0)	
Health and Safety Service (HandS)	(39)	(39)	-	
Health and Safety Commercial	(38)	(38)	-	
Energy Traded Service	(24)	(24)	-	
Property Service - Traded	0	-	(0)	
Broadband Traded	-	-	-	
Maintenance and Servicing Scheme	(167)	(167)	-	
Property & Facilities	**(1,523)**	**(1,487)**	**36**	
CYC	-	-	-	No longer traded
School Improvement Service	(175)	197	372	Includes approx. £150-160k for Traded SEAs working on Covid-19 response. SLAs extended from Aug 20 to Dec 20. Assumes: Schools closed 5 months of the year, reopen Sept 2020. Autumn term- delivered online (decision made for this), Spring term- back to normal.
LA Clerking Service	(36)	(28)	8	Income from additional meetings reduced.
Education Psychology & STS	(20)	(12)	8	Staffing costs set at 95% of income. No other expenditure.
Specailist Careers Service	-	28	28	3 employees were redeployed to HR for 1 month- costs for staff not recharged. 2 people furloughed (June until end Aug), 2 remaining people delivering traded work, 1 of these leaving end July. Estimating refund to schools of approx 40
Education & Skills	**(230)**	**185**	**415**	
School Admissions & Appeals	-	-	-	
Document Management Centre	-	-	-	
Employment Support Service - Traded	(139)	(129)	10	Some costs lower due to Covid. Added in additional posts in expenditure but no income added in yet so expect net profit to improve
Financial Management Services	(198)	(107)	92	Income lower partly due to SMRA Programme on hold (Dfe programme) as we can't go into schools to deliver programme (Other external customers) and unable to achieve new customers target due to lockdown (Other income)
Health and Wellbeing Service	(72)	(55)	18	Reduced external income of £17.5k due to Covid
HR Advisory Service	(119)	(69)	50	Schools income forecast to be £30k lower and commissioned work forecast to be £35k lower due to Covid
Legal Services Traded	(23)	(10)	13	Expect staffing costs to be higher than budget as per 19/20
North Yorkshire Procurement Service	(52)	(117)	(65)	Income higher due to winning 2 big contracts Harrogate & Ryedale.
Schools ICT Service	(255)	(198)	57	Income is forecast to be approx. 5% lower due to Covid
Prevention	-	-	-	
Performance and Intelligence	-	-	-	
Training and Learning	(8)	(8)	-	
Professional Support Services	**(866)**	**(692)**	**174**	
	(2,619)	**(1,993)**	**626**	
Balance of Risks	-	-	-	
Insurance Services	-	-	-	
Staff Absence Scheme	-	-	-	
	-	-	-	
Central Traded Establishment	1,337	832	(505)	
Unallocated	-	-	-	
North Yorkshire Education Solutions (NYES)	1,283	1,162	(121)	
TOTAL	-	-	-	

3.0 **TREASURY MANAGEMENT**

Overview

3.1 This section of the report presents details of the County Council's Treasury Management Activity during Q1 2020/21, changes to the Approved Lending List and other current policy issues and considerations.

3.2 Treasury Management in Local Government is governed by the CIPFA Code of Practice on Treasury Management in the Public Services and in this context is the management of the County Council's borrowing, cash flows, its banking and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks. The County Council has adopted the Code and complies with its requirements.

3.3 The CIPFA Code of Practice for Treasury Management recommends that Members should be informed of Treasury Management activities at least twice a year but preferably quarterly. This report ensures, therefore, that the County Council is adopting Best Practice in accordance with CIPFA's Code of Practice.

Economic Update

3.4 The Council's treasury advisors Link Asset Services – Treasury Solutions summarised the key points associated with economic activity in Q1 2020/21 up to 30 June 2020**:**

- Impact from coronavirus lockdown;
- Two emergency bank rate cuts, first to 0.25% and then to 0.10%;
- Uncertainties around economic recovery;
- UK Government rejection of the extension of the Brexit transition period beyond 31 December 2020;
- Increase in quantitative easing;
- Measures to support jobs and businesses which have resulted in an increase in the annual budget deficit in the current year; and
- Annual inflation rate could reach zero by the end of the year.

A more detailed economic commentary on developments during Q1 2020/21 is included in **Appendix E.**

Interest Rate Forecasts

3.5 The current interest rate forecasts (last update 6 July 2020) of Link Asset Services – Treasury Solutions are as follows

Link Group Interest Rate View	6.7.20											
	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 Month LIBID	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-	-	-	-
6 Month LIBID	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	-	-	-	-
12 Month LIBID	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	-	-	-	-
5yr PWLB Rate	1.90	1.90	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.20	2.20	2.20	2.20	2.20	2.30	2.30	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.70	2.70	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.50	2.50	2.50	2.50

* PWLB Rates are shown net of certainty rate 0.2% discount

3.6 Uncertainty over Brexit caused the MPC to leave Bank Rate unchanged during 2019 and at its January 2020 meeting. However, since then the coronavirus outbreak has transformed the economic landscape: in March, the MPC took emergency action twice to cut Bank Rate first to 0.25%, and then to 0.10%. Current forecasts predict that Base Rate is unlikely to rise until 2023/24 at the earliest.

3.7 Gilt yields had therefore already been on a falling trend during the last year up until the coronavirus crisis hit western economies. Since then, we have seen gilt yields fall sharply.

3.8 Major western central banks started massive quantitative easing purchases of government bonds which has acted to maintain downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds.

3.9 As the interest forecast table for PWLB certainty rates above shows, there is likely to be little upward movement in PWLB rates over the next two years as it will take economies a prolonged period to recover. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020/21.

Annual Investment Strategy

3.10 The Treasury Management Strategy Statement (TMSS) for 2020/21, which includes the Annual Investment Strategy, was approved by the County Council on 19 February 2020. It sets out the County Council’s investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

3.11 The County Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using our suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

3.12 Although the credit rating agencies changed their outlook on many UK banks from stable to negative outlook during this quarter, due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic, the majority of ratings were affirmed due to the continuing strong credit profiles of UK banks. Although CDS prices, (these are market indicators of credit risk), for UK banks spiked upwards at the end of March due to the liquidity crisis throughout financial markets, those CDS prices have returned to more average levels since then.

3.13 The approved limits within the Annual Investment Strategy were not breached during the quarter ended 30 June 2020.

3.14 The investment activity up to Q1 2020/21 was as follows:

- Balance invested at 30 June 2020: £509.9m
- Average Daily Balance 2020/21 up to 30 June 2020: £481.9m
- Average Interest Rate Achieved up to 30 June 2020: 0.76%

These funds were available on a temporary basis and the level of funds available was mainly dependent on the timing of precept payments, receipt of grant and progress on the capital programme.

3.15 The average return to Q1 2020/21 of 0.76% compares with the average benchmark returns as follows:

- -0.04% 7 day
- 0.03% 1 month
- 0.26% 3 months
- 0.40% 6 months
- 0.50% 12 months

3.16 It is also a key requirement of the CIPFA Code of Practice that annual Treasury Management Strategies should be kept under constant review throughout the year and reported to Members as appropriate. Although there is now great uncertainty in the financial and banking market, both globally and in the UK, **it is considered that the Strategy approved in February 2020 is still fit for purpose in the current economic climate**. No changes are therefore considered necessary to the Strategy at this stage.

Approved Lending List

3.17 The Approved Lending List as at 30 June 2020 is attached as **Appendix B** with changes made during Q1 2020/21 being reported in **Appendix C**.

Debt and borrowing

3.18 The County Council's external debt outstanding at 30 June 2020 and forecast position for 2020/21 is as follows: -

Detail	PWLB		Money Market Loans		Total	
	£m	**%**	**£m**	**%**	**£m**	**%**
At 31 March 2020	**243.1**	**4.43**	**20.0**	**3.95**	**263.1**	**4.39**
Loan Repayments	0.0		0.0		0.0	
New Loans Taken	0.0		0.0		0.0	
= Loans Outstanding at 30 June 2020	**243.1**	**4.43**	**20.0**	**3.95**	**263.1**	**4.39**
Further Scheduled In Year Repayments	-27.1		0.0		-27.1	
Forecast Additional Loans to be Taken	0.0		0.0		0.0	
= Estimated Loans Outstanding at 31 March 2021	**216.0**	**4.51**	**20.0**	**3.95**	**236.0**	**4.46**

3.19 Any change to the forecast debt outstanding by the end of 2020/21 will be largely determined by whether the borrowing requirement for 2020/21 is ultimately financed by external borrowing or internal borrowing.

3.20 Based on the Q1 Capital Plan update the total external borrowing requirement for 2020/21 is currently forecast to be:-

Detail	**£m**
Internally Financed Capital Expenditure at 31 March 2020	
Internally Financed Borrowing from Previous Years	34.4
Less Company Loans to be Repaid	-12.0
Less Commercial Investments to be Repaid	-11.8
	10.6
2020/21 Borrowing Requirement	
Q1 2020/21 Borrowing Requirement	8.0
Less Company Loans advanced in year to be Repaid	0
Revenue Provision for Debt Repayment (MRP)	-11.1
Refinance 2021/22 PWLB Loan Repayments	27.1
= Total 2020/21 Borrowing Requirement	**24.0**

3.21 As shown in the table above, internal capital borrowing (use of cash balances) to part fund the County Council's Capital Financing Requirement was £34.4m at 31 March 2020. Over the next two to three years investment rates are expected to continue to be below long term borrowing rates. A value for money assessment would therefore indicate that value could be best obtained by avoiding/delaying new borrowing and continuing to use internal cash balances to finance new capital expenditure or to replace maturing external debt. This would maximise short term revenue savings and produce other benefits, but is not risk free.

3.22 This Internal Capital Financing option will therefore continue to be actively adopted on an ongoing basis in order to achieve short term revenue savings and mitigate the credit risk incurred by holding investments in the market.

3.23 New external borrowing rates (fixed interest maturity rates from the PWLB reflecting the 0.2% ‘certainty discounts’) during Q1 2020/21 were as follows:-

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.77%	1.74%	1.96%	2.40%	2.13%
Date	30/06/2020	30/06/2020	22/05/2020	18/06/2020	24/04/2020
High	1.94%	1.99%	2.19%	2.69%	2.45%
Date	08/04/2020	08/04/2020	08/04/2020	07/04/2020	07/04/2020
Average	1.84%	1.85%	2.07%	2.50%	2.26%

3.24 No early debt repayment or rescheduling exercises have been effected to date in 2020/21 or are in the pipeline but the situation continues to be monitored to identify any opportunities that may arise. Such opportunities, however, have been limited in the current economic climate and structure of interest rates.

Prudential Indicators

3.25 It is a statutory duty for the County Council to determine and keep under review its *Affordable Borrowing Limits*.

3.26 The Prudential Indicators for the three year period 2020/21 to 2022/23 were initially approved by Executive on 4 February 2020 and adopted by County Council on 19 February 2020. These Indicators were subsequently updated to reflect the 2019/20 outturn position and other factors arising in Q1 (see Section 5 of this report).

3.27 During the financial year to date, the County Council has operated within the latest Treasury Prudential Indicators approved and in compliance with the County Council’s Treasury Management Practices.

Impact of Treasury Management Activities on the Revenue Budget

3.28 Based on the Treasury Management activity at Q1 2020/21 and a forecast for the remainder of the year, the revenue impact is as follows:

While interest rates have remained low throughout 2020 to date, cash balances have continued at relatively high levels. The current forecast for investment returns is £0.4m which is £1.0m below budget, as investment returns are likely to be lower than anticipated with no further rise in bank rate expected in 2020/21. Returns will be reviewed in advance of Q2 as uncertainties over Coronavirus and Brexit continue.

The budget and forecast outturn for interest paid on long term borrowing is £11.0m.

The forecast outturn for the Minimum Revenue Provision (MRP) is £11.1m for 2020/21.

Capital Strategy

3.29 The Capital Strategy was included as part of the County Council’s Annual Treasury Management and Investment Strategy2020/21, approved in February 2020. The Capital Strategy sets out how capital expenditure, capital financing and treasury management contribute to the provision of Corporate and service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. It sets out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

3.30 Alternative non-treasury investments are considered as part of the Capital Strategy. Given the technical nature of potential alternative investments and strong linkages to the County Council's Treasury Management function, appropriate governance and decision making arrangements are needed to ensure robust due diligence in order to make recommendations for implementation. As a result, all investments are subject to consideration and where necessary recommendations of the Commercial Investment Board.

3.31 The alternative investments considered by the Commercial Investment Board are as follows:

Type of Investment	Maximum Limit £m	Invested as at 30/06/20 £m	Rate of Return %
Alternative Treasury Instruments			
Money Market Funds	20.0	20.0	0.14
Enhanced Cash Funds	20.0	-	-
Certificates of Deposit (CDs)	20.0	-	-
Property Funds	20.0	5.9	3.87
Total Alternative Treasury Instruments	**80.0**	**25.9**	**0.99**
Alternative Investments			
Loans to Council Companies			
- Yorwaste	25.0	6.4	4.10
- Nynet		2.7	3.10
- Brierley		4.6	4.10
- First North Law		0.1	4.10
Total Loans to Council Companies	**25.0**	**13.8**	**3.90**
Other Alternative Investments			
Spend to Save	5.0	-	-
Loans to Housing Associations	10.0	-	-
Local Economic Growth Projects	15.0	-	-
Solar Farm (or similar) Projects	5.0	-	-
Commercial Investments	20.0	11.9	3.06
Total Other Alternative Investments	**45.0**	**11.9**	**3.06**
Total Alternative Investments*	**60.0**	**25.7**	**3.52**

* Total Alternative Investments capped at £60m

3.32 While Property Funds continue to provide a strong revenue return as noted in the table above, the funds have experienced further minor capital losses in 2019/20 of £90k (£41k in 2018/19). Property funds are long term investments and valuations can, therefore, rise as well as fall, over the period they are held. Consideration will be given to hold any gains or losses in the capital value of investments in an unusable reserve on the balance sheet and to ensure there is no impact on the General Fund until units in the funds are sold.

3.33 The position on Property Funds at 30 June 2020 is as follows:-

In Year Performance

Fund	Bwd Investment Valuation	Valuation as at 31/03/20	In Year Performance Q1 2020/21			
			Capital Gain / (Loss)		Revenue Return	
	£000	£000	£000	%	£000	%
Blackrock	2,851.9	2,795.3	(56.6)	2.0	22.4	3.3
Threadneedle	2,769.7	2,662.5	(107.2)	3.9	27.7	4.4
Total	5,621.6	5,457.8	(163.8)	2.9	50.1	3.9

Total Fund Performance

Fund	Bwd Investment £k	Valuation as at 31/03/20	Total Performance			
			Capital Gain / (Loss)		Revenue Return	
		£000	£000	%	£000	%
Blackrock	3,003.0	2,795.3	(207.7)	6.9	166.5	5.5
Threadneedle	2,927.1	2,662.5	(264.6)	9.0	221.2	7.6
Total	5,930.1	5,457.8	(472.3)	8.0	387.7	6.5

Other Treasury Management Development and Issues

3.34 Public Works Loans Board

On 11 March 2020, the Government opened a period of consultation on revising the terms of PWLB lending to Local Authorities following the publication of a report from the National Audit Office on Local Authority borrowing. The County Council submitted a response to this consultation by end of the consultation period, 31 July 2020.

RECOMMENDATIONS

3.35 That Executive

(i) notes the position on the County Council's Treasury Management activities during the first quarter of 2020/21

(ii) refers this report to the Audit Committee for their consideration as part of the overall monitoring arrangements for Treasury Management.

TREASURY MANAGEMENT APPENDICES

Appendix A   Analysis of investments placed as at 30 June 2020

Appendix B   Approved Lending List with counterparty limits

Appendix C   Changes to the Approved Lending List during Q1 2020

Appendix D   Treasury Management Monitoring and Reporting Arrangements 2020/21

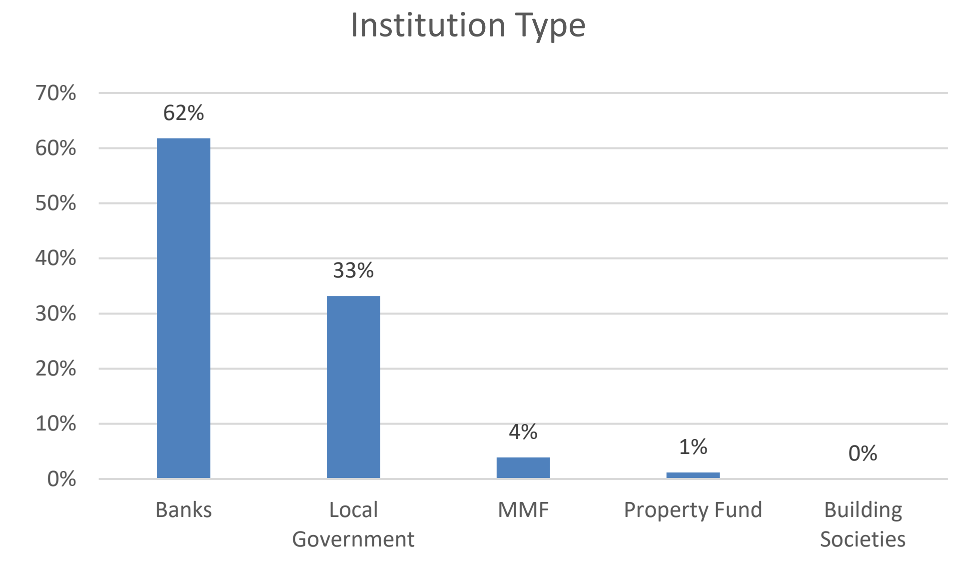
Appendix E   Detailed Economic Commentary on Developments during Q1 2020/21

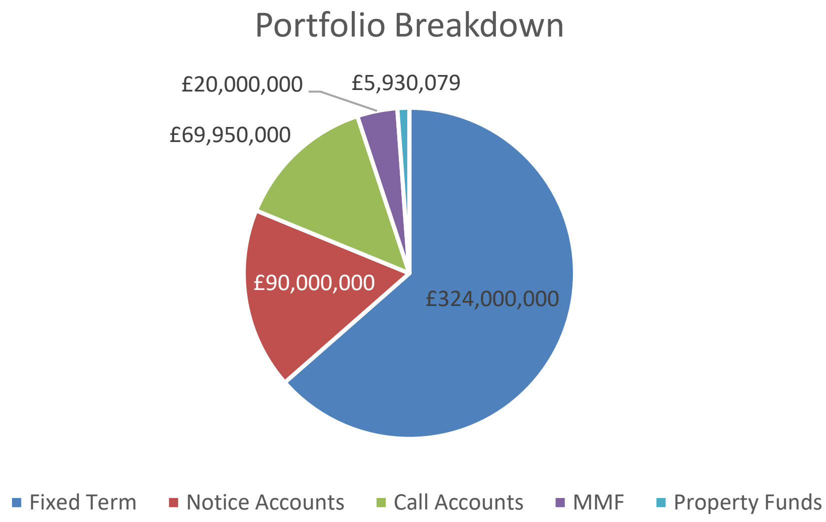
Analysis of loans outstanding as at 30 June 2020

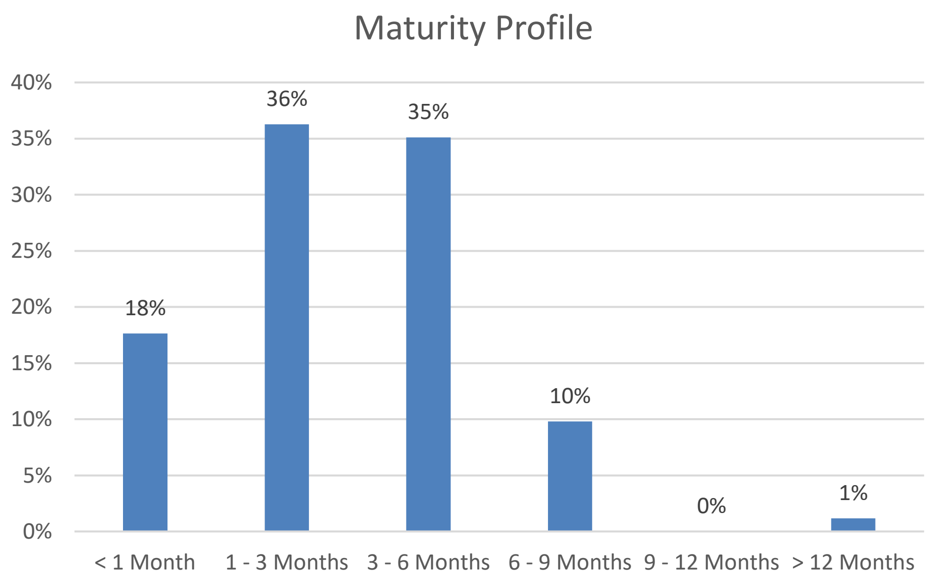
Actual Loans Outstanding Summarised by Organisation	
	£m
Bank of Scotland	45.0
Barclays Bank	50.0
State Street Global CNAV MMF	20.0
Prop Funds	5.9
Handelsbanken	40.0
Goldman Sachs	5.0
Santander	60.0
Standard Chartered Bank	50.0
National Westminster Bank	30.0
DBS	15.0
Helaba	20.0
Local Authority	169.0
	509.9

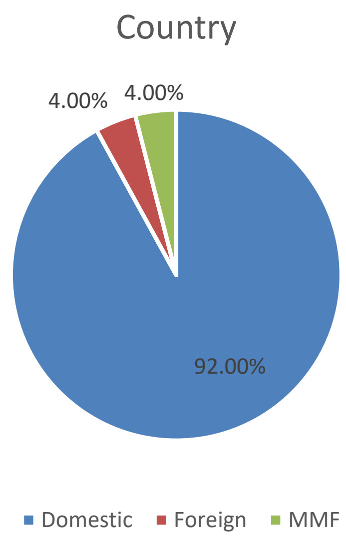
Other Bodies	31-Mar-20		30-Jun-20	
	£m	%	£m	%
NY Pension Fund	138.8	30	140.2	27
NY Fire and Rescue Authority	4.7	1	7.1	1
Yorkshire Dales National Park	3.3	1	3.9	1
North York Moors National Park	2.6	1	3.1	1
Peak District National Park	5.0	1	4.8	1
Selby District Council	66.7	14	68.1	13
National Parks England	0.1	0	0.2	0
Align Property Partners	0.9	0	0.6	0
= total other bodies	222.1	48	228.1	44
NYCC cash	242.3	52	281.7	56
Total Investment	464.4	100	509.9	100

Rates as at 30 June 2020		
		%
Bank Rate (change from 0.25% 19/03/20)		0.10
Investment Rates		
- NYCC overnight (on call)		0.00
- call accounts		0.00
- 1 month	Market Rates	0.04
- 6 months	Market Rates	0.18
- 1 year	Market Rates	0.30
- 3 year	Market Rates	0.70
- 5 year	Market Rates	0.90
Government's Debt Management Office Account (overnight)		0.01


Institution Type
70%
60%
50%
40%
30%
20%
10%
0%
62%
33%
4%
1%
0%
Banks
Local Government
MMF
Property Fund
Building Societies


Portfolio Breakdown
£20,000,000
£5,930,079
£69,950,000
£90,000,000
£324,000,000
Fixed Term
Notice Accounts
Call Accounts
MMF
Property Funds


Maturity Profile
40%
35%
30%
25%
20%
15%
10%
5%
0%
36%
35%
18%
10%
0%
1%
< 1 Month
1 - 3 Months
3 - 6 Months
6 - 9 Months
9 - 12 Months
> 12 Months


Country
4.00%
4.00%
92.00%
Domestic
Foreign
MMF

APPROVED LENDING LIST Q1

Maximum sum invested at any time (The overall total exposure figure covers both Specified and Non-Specified investments)

<table>
<tr><th rowspan="2"></th><th rowspan="2">Country</th><th colspan="2">Specified Investments (up to 1 year)</th><th colspan="2">Non-Specified Investments (> 1 year £40m limit)</th></tr>
<tr><th>Total Exposure £m</th><th>Time Limit *</th><th>Total Exposure £m</th><th>Time Limit *</th></tr>
<tr><td colspan="6">UK "Nationalised" banks / UK banks with UK Central Government involvement</td></tr>
<tr><td>Royal Bank of Scotland PLC (RFB)</td><td>GBR</td><td rowspan="2">75.0</td><td rowspan="2">365 days</td><td rowspan="2">-</td><td rowspan="2">-</td></tr>
<tr><td>National Westminster Bank PLC (RFB)</td><td>GBR</td></tr>
<tr><td colspan="6">UK "Clearing Banks", other UK based banks and Building Societies</td></tr>
<tr><td>Santander UK PLC (includes Cater Allen)</td><td>GBR</td><td>60.0</td><td>6 months</td><td>-</td><td>-</td></tr>
<tr><td>Barclays Bank PLC (NRFB)</td><td>GBR</td><td rowspan="2">75.0</td><td rowspan="2">6 months</td><td rowspan="2">-</td><td rowspan="2">-</td></tr>
<tr><td>Barclays Bank UK PLC (RFB)</td><td>GBR</td></tr>
<tr><td>Bank of Scotland PLC (RFB)</td><td>GBR</td><td rowspan="3">60.0</td><td rowspan="2">365 days</td><td rowspan="3">-</td><td rowspan="3">-</td></tr>
<tr><td>Lloyds Bank PLC (RFB)</td><td>GBR</td></tr>
<tr><td>Lloyds Bank Corporate Markets PLC (NRFB)</td><td>GBR</td><td>6 months</td></tr>
<tr><td>HSBC Bank PLC (NRFB)</td><td>GBR</td><td rowspan="2">30.0</td><td rowspan="2">365 days</td><td rowspan="2">-</td><td rowspan="2">-</td></tr>
<tr><td>HSBC UK Bank PLC (RFB</td><td>GBR</td></tr>
<tr><td>Goldman Sachs International Bank</td><td>GBR</td><td>60.0</td><td>6 months</td><td></td><td></td></tr>
<tr><td>Sumitomo Mitsui</td><td>GBR</td><td>30.0</td><td>6 months</td><td></td><td></td></tr>
<tr><td>Standard Chartered Bank</td><td>GBR</td><td>60.0</td><td>6 months</td><td></td><td></td></tr>
<tr><td>Handlesbanken</td><td>GBR</td><td>40.0</td><td>365 days</td><td></td><td></td></tr>
<tr><td>Nationwide Building Society</td><td>GBR</td><td>40.0</td><td>6 months</td><td>-</td><td>-</td></tr>
<tr><td>Leeds Building Society</td><td>GBR</td><td>20.0</td><td>3 months</td><td>-</td><td>-</td></tr>
<tr><td colspan="6">High Quality Foreign Banks</td></tr>
<tr><td>National Australia Bank</td><td>AUS</td><td>30.0</td><td>365 days</td><td>-</td><td>-</td></tr>
<tr><td>Commonwealth Bank of Australia</td><td>AUS</td><td>30.0</td><td>365 days</td><td></td><td></td></tr>
<tr><td>Toronto-Dominion Bank</td><td>CAN</td><td>30.0</td><td>365 days</td><td></td><td></td></tr>
<tr><td>Credit Industriel et Commercial</td><td>FRA</td><td>30.0</td><td>6 months</td><td>-</td><td>-</td></tr>
<tr><td>Landesbank Hessen-Thueringen Girozentrale (Helaba)</td><td>GER</td><td>30.0</td><td>365 days</td><td></td><td></td></tr>
<tr><td>DBS (Singapore)</td><td>SING</td><td>30.0</td><td>365 days</td><td></td><td></td></tr>
<tr><td colspan="6">Local Authorities</td></tr>
<tr><td colspan="2">County / Unitary / Metropolitan / District Councils</td><td>20.0</td><td>365 days</td><td>5.0</td><td>2 years</td></tr>
<tr><td colspan="2">Police / Fire Authorities</td><td>20.0</td><td>365 days</td><td>5.0</td><td>2 years</td></tr>
<tr><td colspan="2">National Park Authorities</td><td>20.0</td><td>365 days</td><td>5.0</td><td>2 years</td></tr>
<tr><td colspan="6">Other Deposit Takers</td></tr>
<tr><td colspan="2">Money Market Funds</td><td>20.0</td><td>365 days</td><td>5.0</td><td>2 years</td></tr>
<tr><td colspan="2">Property Funds</td><td>5.0</td><td>365 days</td><td>5.0</td><td>10 years</td></tr>
<tr><td colspan="2">UK Debt Management Account</td><td>100.0</td><td>365 days</td><td>5.0</td><td>2 years</td></tr>
</table>

* Based on data 30 June 2020

CHANGES TO THE APPROVED LENDING LIST DURING Q1

Recommended max duration increased from 3 to 6 months for:

Barclays Bank PLC (NRFB) (on 15/05/2020)
Goldman Sachs International Bank (on 22/05/2020)

It should be noted, however, that changes can be made on a daily basis in reaction to market sentiment, with maximum investment durations being adjusted accordingly.

Maximum investment durations for other organisations have, therefore, been changed during this quarter, but have since returned to the level at 31 March 2020.

Treasury Management and Reporting Arrangements

The current monitoring and reporting arrangements in relation to Treasury Management activities are as follows:

(a) an annual report to Executive and County Council as part of the Budget/MTFS process that sets out the County Council's **Treasury Management and Investment Strategy and Policy** for the forthcoming financial year. For 2020/21 this report was submitted to Executive on 4 February 2020 followed by County Council on 19 February 2020;

(b) an annual report to Executive and County Council as part of the Budget/MTFS process that sets the various **Prudential Indicators** (submitted to Executive on 4 February 2020 and County Council on 19 February 2020)

(c) **annual outturn reports** to the Executive for both Treasury Management and Prudential Indicators setting out full details of activities and performance during the preceding financial year. The outturn reports for 2019/20 were submitted to Executive on 28 July 2020;

(d) a quarterly report on Treasury Management to the Executive (this report) as part of the **Quarterly Performance Monitoring** report;

(e) **periodic meetings** between the Corporate Director – Strategic Resources, the Corporate Affairs Portfolio Holder and the Chairman of the Audit Committee to discuss issues arising from the day to day management of Treasury Management activities;

(f) reports on proposed changes to the County Council's Treasury Management activities are submitted to the **Audit Committee** for consideration and comment. A copy of this report is also provided to Audit Committee Members.

Detailed Economic Commentary on Developments during Q1 2020/21

1. Economic Background

UK GDP

1.1 Coronavirus caused a significant fall in growth in April after the closedown of whole sections of the economy. What is uncertain, however, is the extent of the damage that will have been done to businesses by the end of the lockdown period, how consumer confidence and behaviour may be impacted afterwards, 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 uncertainties as to how quickly the economy will recover to what was formerly regarded as normality. However, some changes during lockdown are likely to be long lasting e.g. a shift to online purchasing, working from home, etc. The lockdown has also had a sharp effect in depressing expenditure by consumers which means their level of savings have increased and debt has fallen. This could provide fuel for a potential surge in consumer expenditure once some degree of normality returns.

1.2 Although the UK left the EU on 31 January 2020, uncertainty remains as to whether there will be a reasonable trade deal achieved by the end of 2020. At the end of June, the UK government rejected extending the transition period beyond 31 December 2020. This has increased the chances of a no-deal Brexit.

1.3 After the Monetary Policy Committee left Bank Rate unchanged at 0.75% in January 2020, the onset of the coronavirus epidemic in March forced it into making two emergency cuts in Bank Rate first to 0.25% and then to 0.10%. These cuts were accompanied by increases in quantitative easing (QE)by the Bank of England of £200bn (March) and £100bn (June) with the total of QE purchases now £745bn. It is not currently thought likely that the MPC would go as far as to cut Bank Rate to negative rates, although the Governor of the Bank of England has said all policy measures will be considered. The Governor also recently commented about an eventual tightening in monetary policy – namely that he favours unwinding QE before raising interest rates. Some forecasters think this could be as far away as five years.

1.4 The Government introduced various schemes to subsidise both employed and self-employed jobs for three months to the end of June. Measures were also introduced to help businesses access loans from their banks, (with the Government providing guarantees to the banks against losses), The furlough scheme was subsequently extended for another three months to October, but with employers having to take on graduated increases in paying for employees during that period. The Bank of England expects the unemployment rate to double to 8%.

1.5 The Government measures to support jobs and businesses will result in an increase in the annual budget deficit for the current year, from about 2% to nearly 17%. Economic statistics during June were giving a preliminary indication that the economy was recovering faster than previously expected. However, it may be a considerable time before economic activity recovers fully to its previous level.

1.6 The annual inflation rate dropped to 0.5% in May from 0.8% in April. In May's Monetary Policy Report, the Bank of England predicted that inflation would hit their 2% target by 2022.

USA

1.7 Once coronavirus started to impact the US, the Fed cut rates twice by 0.50%, and then 1.00%, in Marchto 0.00 – 0.25%. Near the end of March, Congress agreed a $2trn stimulus package (worth about 10% of 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. In addition, there was $500bn of funding from the Treasury's Exchange Stabilization Fund which will provide loans for hard-hit industries, including $50bn for airlines. Some states started reopening in mid-May after a two-month shutdown but a few have had to reimpose localised lockdowns since then.

EUROZONE

1.8 The Eurozone economy shrank by 3.6% on quarter in the first three months of 2020. Since 12th March, the ECB has implemented a range of new policies including providing additional cheap loans for commercial banks, easing capital requirements for the banking sector, and reformed its asset purchase programmes. So far, it has increased its planned asset purchases for this year by €1,470bn on top of the €20bn per month which it was already committed to. At its 4 June monetary policy meeting, the ECB Governing Council also committed to continue net asset purchases until at least the end of June 2021.

CHINA

1.9 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 lockdown of the country and a major contraction of economic activity in February-March 2020.

JAPAN

1.10 Japan has been struggling to stimulate consistent significant GDP growth for years 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. Japan appears to have escaped the worst effects of the virus as yet.

WORLD GROWTH

1.11 The trade war between the US and China on tariffs was a major concern to financial markets and was depressing worldwide growth during 2019. This year, coronavirus is the inevitable big issue which is going to sweep around most countries in the world and have a major impact in causing a world recession in growth in 2020.

4.0 CAPITAL FIVE YEAR SPENDING PLAN 2020/21

4.1 OVERVIEW

4.1.1 The Capital Plan sets out the County Council's longer term capital investment plans. These plans support the Council's strategic and service objectives by maximising the assets and infrastructure necessary to support service delivery whilst minimising the impact on the revenue budget. Sitting behind the Plan is the Council's Capital Strategy which provides a high level overview of how capital expenditure, capital financing and treasury management contribute to this end.

4.2 REFRESHING THE CAPITAL PLAN

4.2.1 The schemes and programmes within the Capital Plan are regularly reviewed to track whether or not they are being delivered to both schedule and budget. Refreshed on a quarterly basis, this report details the Capital Plan for Q1 2020/21 and reflects the additions and adjustments, including the reprofiling of budgets, since the last version was approved.

4.2.2 The Council is currently planning to invest £176.8m on capital schemes across the County in 2020/21 and £256.1m, in total, over the next 5 years. Included this Quarter, are the unspent capital allocations from 2019/20 which were reported to Executive on 28 July 2020.

4.2.3 The latest Capital Plan is set out, by directorate, at Appendices A-D with the gross expenditure, by directorate, summarised in the following table:

	Quarter 1 1 April to 30 June 2020				
	2020/21 £k	2021/22 £k	2022/23 £k	Later Years £k	Total £k
Business & Environmental Services	117,107.3	8,138.8	437.0	1,172.4	**126,855.5**
Children & Young People's Service	42,069.9	18,968.4	9,026.8	16,233.2	**86,298.3**
Central Services	14,058.6	8,647.8	600.0	5,355.2	**28,661.6**
Health & Social Care	3,592.7	7,241.8	253.5	3,199.4	**14,287.4**
	176,828.5	**42,996.8**	**10,317.3**	**25,960.2**	**256,102.8**

Additions to the Capital Plan this Quarter

4.2.4 Only individual additions to the Capital Plan that are of a value in excess of £250k are detailed in this report in the table below:

Directorate	Scheme Heading	Scheme Detail	Budget £k
BES	Harrogate-York Rail Scheme	Provision of additional capacity and train frequency in the Harrogate Growth Corridor in partnership with Network Rail. Funded with £9,600.0k Local Growth Fund Grant.	9,854.0
BES	Rural Connected Communities (5G)	Two year DCMS funded research and development project into a sustainable model for 5G enablement in rural areas of the county with low connectivity, in partnership with the private sector.	1,000.0
CYPS	School Condition Programme 2020/21	Subject of a separate report to Executive (9 June 2020). Funded from annual DfE School Condition Grant allocation.	9,783.4
			20,637.4

Reprofiling of Approved Schemes within the Capital Plan

4.2.5 The following table sets out the reprofiling and accelerated spend since the last Plan was presented to Executive (Reduction (-) or increase in the annual profiled spend):

	REPROFILED EXPENDITURE AS AT Q1 2020/21				
	Quarter 1 1 April to 30 June 2020				
	2020/21 £k	2021/22 £k	2022/23 £k	Later Years £k	Total £k
Business & Environmental Services					
Structural Maintenance of Roads & Bridges	-2,852.9	2,972.0	0.0	-119.1	**0.0**
Flood Risk Management	-79.5	79.5	0.0	0.0	**0.0**
Major Highways Schemes	-3,218.1	3,297.0	12.0	-90.9	**0.0**
Local Enterprise Partnership	499.9	0.0	0.0	-499.9	**0.0**
	-5,650.6	**6,348.5**	**12.0**	**-709.9**	**0.0**
Children & Young People's Service					
Schools					
Basic Need programme	-5,996.8	1,553.4	4,081.0	362.4	**0.0**
School Condition Programme	-3,468.2	3,172.4	295.8	0.0	**0.0**
Capital Maintenance Programme	-1,334.1	1,334.1	0.0	0.0	**0.0**
	-10,799.1	**6,059.9**	**4,376.8**	**362.4**	**0.0**
Central Services					
South Cliff, Scarborough	1,212.0	0.0	0.0	-1,212.0	**0.0**
Loans to Limited Companies	-11,366.6	6,862.8	0.0	4,503.8	**0.0**
	-10,154.6	**6,862.8**	**0.0**	**3,291.8**	**0.0**
Total Capital Expenditure	**-26,604.3**	**19,271.2**	**4,388.8**	**2,944.3**	**0.0**

4.2.6 In Highways, the DfT Safer Roads Grant funded scheme in relation to safety improvements on the A6108 between Ripon and Scotch Corner has been reprofiled from 2020/21 to 2021/22. The grant funding of £2,972k is due to be received in September 2020 which does not allow sufficient time to fully plan and deliver the scheme. RFA related funding has been brought forward from later years to fund works in the current annual programme.

4.2.7 Slower progress than expected due to Covid 19 has resulted in the reprofiling of flood related works into 2021/22.

4.2.8 The contract to deliver the planned improvements to Junction 47 of the A1(M) has now been signed following delays due to Covid 19 and further funding discussions. The works are planned to be completed by the end of 2021/22 followed by a five-year landscape maintenance programme. The budget has been reprofiled to reflect this. Some minor reprofiling from Later Years to 2020/21 of the funding relating to the Bedale Aiskew Leeming Bar Bypass has been required to offset an overspend in relation to landscaping that was reported at Q4.

4.2.9 The Local Enterprise Partnership's 'Growing Places Fund' is, primarily, a loan facility for investments in capital infrastructure projects that aim to create economic and employment growth in North Yorkshire. The loan repayments are reinvested in the form of either new loans or grants. The expenditure and loan repayment profile has been reviewed in light of a number of loans being converted to grants and a lack of suitable opportunities to award loans.

4.2.10 A total of six Basic Need schemes have been reprofiled due to various reasons:

- Barlby CP extension (PFI): legal issues have delayed the potential start date resulting in the reprofiling of £1,000k budget from 2020/21 to 2021/22.
- Sherburn Hungate PS extension: work commenced on site in July 2020; due to Covid 19 delays, it is not now expected to be completed until April 2021. As such, budget of £110k has been reprofiled to offset expenditure in 2021/22.
- Manse Farm new primary school build: the budget has been reprofiled to reflect a delay in the construction of the new school due to a revised housing trajectory by the developer.
- Harrogate West new primary school build: the location of a site upon which to build is still under discussion with promoters (potential academy chains) and Harrogate Borough Council following the stalling of the development of the Bluecoat Park site. Funding has been reprofiled from 2020/21 and 2021/22 to 2022/23.
- Malton School extension: delivery of the scheme is now scheduled to extend into 2021/22 resulting in the reprofiling of budget of £555.4k.

- Easingwold CP: S106 developer contributions have been received but a scheme has not been identified due to low pupil number projections. Funding of £362.4k has been reprofiled from 2020/21 to Later Years.

4.2.11 A significant number of School Condition schemes and, unusually for this time of the year, Capital Planned Maintenance programmed works have been reprofiled into 2021/22 as a result of Covid 19. Once the decision was made to re-start the capital programme in May, there was insufficient lead time remaining to enable some schemes to be delivered. Whilst contractors have been unable to tender for works with staff having been furloughed, schools have, understandably, shown a reluctance to support additional traffic on their sites at a time when they are trying to accommodate the safe return of pupils and staff. It is hoped that some smaller maintenance works can be undertaken during the October and February half terms. The spend profile will be reviewed again at Q2.

4.2.12 Scarborough Borough Council led works to maintain the sea wall and stabilise the South Cliff have been completed and the final account is expected shortly. As such, the NYCC contribution of £1,202k has been brought forward from Later Years.

4.2.13 Updated loan drawdown schedules reflecting the latest Brierley Homes development plans are addressed in the Capital Plan this Quarter following the inclusion of the additional loan facility of up to £22.9m in 2019/20.

Removal of Budgets

4.2.14 A number of budgets have been identified as being no longer required and so have been removed from the Capital Plan.

4.2.15 Scarborough Borough Council secured a financial contribution of £1,900k from the County Council towards the £9m works to repair the Grade II listed piers at Whitby. Completed under budget, the Borough Council has confirmed that there is no longer a requirement for the County Council to make that contribution.

4.2.16 Necessary drainage works to travellers' sites across the County also came in under budget by £18.8k. This has also been removed at Q1.

4.2.17 The changes to the Capital Plan outlined above are summarised in the table below:

SUMMARY OF CHANGES SINCE THE LAST CAPITAL PLAN UPDATE	2020/21	2021/22	2022/23	Later Years	Total
	Capital Plan as at Q1 2020/21				
	£k	£k	£k	£k	£k
	133,553.3	19,301.9	5,648.5	30,002.2	188,505.9
Changes this Quarter:					
Total schemes carried forward from 2019/20	22,606.2	0.0	0.0	0.0	22,606.2
Total reprofiling between years	-26,604.3	19,271.2	4,388.8	2,944.3	0.0
Total variations in the funding of schemes	47,273.3	4,423.7	280.0	-6,986.3	44,990.7
Updated Gross Capital Spend	176,828.5	42,996.8	10,317.3	25,960.2	256,102.8

Other Capital Updates

Transforming Cities Fund

4.2.18 The Leeds City Region has been awarded £317m of capital funding to drive up productivity through improved connections between urban centres and suburbs with a focus on investment in infrastructure to improve public and sustainable transport connectivity. Of this, the County Council and three of the district councils have been awarded £31.4m to improve access to and from bus and rail stations. £18.6m will be expended by the Council, £957k by Craven DC, £3,311.4k by Harrogate BC and £10,316.5k by Selby DC. A total of £300k will be contributed to the programme from the Council's Sustainable Transport and Air Quality budgets alongside various contributions from the district councils. Once the programme of works is confirmed, it will be added to the Capital Plan.

Getting Building Fund

4.2.19 The YNYER Local Enterprise Partnership has been awarded £15.4m from the Government's Getting Building Fund for investment in local, 'shovel-ready' infrastructure projects to stimulate jobs and support economic growth in the wake of the Covid 19 pandemic.

4.2.20 The Ministry of Housing, Communities and Local Government announced the ten projects to be supported from this allocation on 4th August 2020. Included in this list is the A19 Chapel Haddlesey scheme that is currently included in the Highways programme as highlighted in paragraph 4.3.4.

School Condition Grant

4.2.21 On 29 June, the Prime Minister announced an additional £560m for repairs and upgrades to school buildings on top of funding already allocated this year (as shown in paragraph 4.5.4). A further announcement made on 4th August set out the allocation to be made through the School Condition Grant to the

Council. The additional allocation of £4,543.6k equates to a further 46.44% of funding on top of the original 2020/21 allocation. Officers will begin the task of addressing a suitable programme of works from the backlog of maintenance works identified and the logistics of delivery over the next 18 to 24 months.

4.2.22 All funding updates will be added to the Capital Plan at Q2.

Ryedale Federation Loan

4.2.23 The Ryedale Federation of four schools was recently granted approval to convert to a new Multi Academy Trust. As part of the conversion process, a novation has been agreed to transfer the school loans currently in place with the federated schools to the new Multi Academy Trust on commercial terms.

4.2.24 Local authorities are prohibited from using resources to financially support academy schools by regulation and, as such, the loan will be funded from General Reserves (not Schools Block Reserves) and a commercial rate of 3.1% + Base Rate will be applied to the novated loan agreement to bring the loan into line with other loans to third parties.

NY Highways Limited Company – Advance Purchase of Vehicles

4.2.25 The Government’s requirement that two-tier councils, like those in North Yorkshire which are actively considering devolution, restructure as single tier unitary authorities has brought into question the planned delivery of highways operations through a Teckal company (NY Highways Limited) from 1 June 2021. Following a review, this is still considered to be the best value solution and, as this is not affected by the geography of the Council, it is therefore proposed to proceed on this basis.

4.2.26 Due to the lengthy lead time involved in procuring the specific specialist vehicles required for operational delivery by NY Highways, the Q2 2019/20 Capital Plan included approval to draw down funding of up to £2m for the advance procurement of these vehicles by the County Council. The cost will be recharged to NY Highways, once operational and at an appropriate time.

4.2.27 As the project has progressed, further scoping has been undertaken which has resulted in the identification of additional requirements. As a result, an additional £8m is requested to allow further orders to be placed on the same basis as the original approval. This will bring the total funding included in the Capital Plan for the advance purchase of vehicles to £10m.

NY Highways Limited Company – Loan facility Agreement

4.2.28 The April 2019 report to Executive setting out proposals for the migration of highways operational delivery to NY Highways included approval for the provision of a loan facility to the company of £4.5m to fund set up costs and vehicle purchase.

4.2.29 Approval is now sought to increase the loan provision to NY Highways by £6.5m to bring the facility in line with the capital expenditure requested in paragraph 4.2.27 (£10m) plus company set up costs of £1m. This will bring the total loan facility available to NY Highways to £11m, to be repaid, as NY Highways is able, over the initial years of the company's operation.

4.2.30 A facility agreement setting out the value of a loan and repayments schedule will be drawn up by Legal Services. Once that agreement is signed and sealed, the loan can be added to the Capital Plan.

4.3 RISKS

4.3.1 Every effort is made to identify, assess and minimise the level of risk associated with a scheme or programme within the Capital Plan. Larger schemes and programmes are subject to assessment and monitoring under the Council's Risk Management Strategy.

Current Identified Risks

4.3.2 The table below sets out the types of risk that have been identified against current schemes and programmes within the Capital Plan.

	Over-Programming	Costs	Funding	Time	Receipts	Delivery
Business & Environmental Services						
Structural Maintenance of Roads	x	x				
Kex Gill Realignment		x	x			
Local Growth Fund			x	x		x
Children & Young People's Service						
School Capital Programme		x	x	x	x	x

Structural Maintenance of Roads

4.3.3 As previously reported, in order to maximise spend against plan each year, Business and Environmental Services set a rolling two-year capital works programme for Highways which includes additional schemes that, on paper, would result in an over-programming of works against available funding. In reality, this is unlikely to result in a budget overspend as approved schemes will either (i) be programmed together as a single scheme thereby reducing costs, (ii) be reprofiled into the following year or (iii) be removed from the programme altogether.

4.3.4 The current value of the over-programming of approved budget is £329.4k. This includes £6.5m in relation to the A19 Chapel Haddlesey flood scheme which is the subject of a £6m bid to the Ministry of Housing, Communities and Local Government's 'Getting Building Fund'. If the bid is successful, the service will mitigate any potential under-programming by bringing forward schemes that are 'shovel ready' and/or addressing unforeseen weather related landslips and drainage requirements as they happen to the value of £6.2m.

4.3.5 At the time of the production of the Q1 Capital Plan, a funding decision was pending, the scheme proceeding *at risk* against the LTP Grant funding.

AUGUST UPDATE: Funding of £6m has since been confirmed which removes this particular risk to LTP Grant funding and will reduce the value of the budget over-programming and forecast at Q2.

Highways Overspend

4.3.6 As outlined above, there is a potential for the annual Highways programme to overspend at year end due to the way in which the programme is developed. It is understood that any such overspend, although funded from the following year's LTP Grant, has to be funded in year.

4.3.7 In recent years, overspends have been met from short term loans from available cash resources within Highways, namely the Highways Cat 4 Roads Match Funding Reserve. By the end of 2020/21, this Reserve will be fully expended.

4.3.8 A proposal is therefore being made to secure a recurring annual short term cashflow arrangement of up to £2m that would allow Highways to bridge the funding gap over year end until LTP Grant is available to repay the loan amount in the new financial year. Whilst every attempt is made throughout the year to balance the budget, such an arrangement would provide a safety net for any unforeseen circumstances.

Technology and Change 'Roadmap'

4.3.9 Approval for a programme of investment in ICT Infrastructure and New Ways of Working expired in March 2020. Funding amounting to £1823.1k in relation to that approval remains unspent and has been carried forward into 2020/21 pending a review of future spending requirements.

Kex Gill Realignment

4.3.10 Further to previous reporting, a firm funding commitment has still not been received from the Department for Transport (DfT). The estimated overall project budget currently stands at £39.5m, £4.95m of which is being funded from the Council's Strategic Capacity Reserve.

4.3.11 If DfT do approve the scheme for funding in the coming weeks, it is estimated that construction works would start in January 2021 at the earliest, a year later than last reported. However, this is based on there being no requirement for a Public Inquiry.

Local Growth Fund

4.3.12 2020/21 marks the final year of the current Local Growth Fund programme and the Cities & Local Growth Unit have taken a different approach to the release of the funding as a result of this and Covid 19. Following the slippage of funded schemes nationally since March, the Unit wishes to take a more active role in understanding the contractual status of projects and assessing the risk and level of slippage. Instead of releasing the grant in a single instalment at the start of the financial year, the Unit has released two thirds with the final third due after the completion of a review over the summer. Whilst there is a risk that funding may be withheld, it is deemed to be a low risk as the Unit has confirmed that funding will be released in relation to contractually committed works where there are plans to manage spend across the programme in year. The Local Enterprise Partnership is working to achieve full spend before 31st March 2021.

Basic Need, School Condition and Capital Planned Maintenance Programmes

4.3.13 The school programmes have recommenced following lockdown with the majority of Basic Need schemes due on site this summer as planned. The risk to the delivery of the programme is the potential for future lockdowns as a result of a second wave of Covid 19. In terms of budgets, additional costs relating to safe distancing working is having to be factored in.

4.3.14 Feasibility studies are being commissioned for the 2021/22 programme although there is concern that Align Property Partners and the Property Service may struggle to manage a standard annual programme of works plus the backlog from this year's programme in 2021/22.

4.3.15 The value of the DfE's School Condition Grant allocation for 2020/21 is £368k lower (-3.6%) than that received in 2019/20 and reflects the academisation of a number of local authority schools during the previous financial year. Whilst this is less of a fall in funding than was the case last year (-12.4%), it is still a reduction in funding that has to be managed across the remaining backlog of works across the school estate. As more schools convert, the level of funding allocated to the Council will continue to reduce as funds are diverted away to academy trusts.

4.3.16 As reported at Q1 last year, a project has commenced to quantify overall capital needs for SEND and Special Schools linked to the High Needs Block overspend. There being no national capital funding specifically for special educational needs, an estimate in the region of £10-£15m was quoted as being required to address capital issues in this area. In 2020/21, £1.6m School Condition Grant has been ring-fenced in the programme to offset some of the works required.

4.4 CAPITAL FORWARD PLAN

4.4.1 The intention of the Capital Forward Plan is to ensure that there is a methodical approach to developing proposals for new capital schemes to be added to the Capital Plan and, in particular, the process for securing funding.

4.4.2 The Technical (Capital) and Strategic teams within Finance, are the key contacts for officers developing funding proposals that require both grant applications and access to central funding reserves.

4.4.3 There are no new proposals this quarter.

4.5 CAPITAL FINANCING

4.5.1 The financing of the Capital Plan is realised, primarily, through the receipt of Government grants. In addition, the Council can utilise revenue contributions, reserves, capital receipts from the sale of assets such as surplus land and buildings, and, as a last resort, it can borrow from either the Public Works Loan Board or money markets.

4.5.2 The main grants received and included in the Capital Plan relate to Highways and Schools and, as such, the Council's Capital Plan can be heavily influenced by Government department priorities. Grants, in total, fund 74% of the total 2020/21 Capital programme. Where confirmed, grants have been added to the Capital Plan in the years to which they are due to be received.

4.5.3 Revenue contributions, whilst reflected in capital budgets, are also addressed in the associated revenue budgets.

4.5.4 Details of confirmed new grant allocations for 2020/21 are shown in the table below:

Directorate	Grant	Grant Value £
BES	Local Transport Plan Grant: - Integrated Transport Block - Highways Maintenance Block – Needs - Highways Maintenance Block - Incentive	 3,023,000 23,858,000 4,969,000
BES	Pothole and Challenge Fund	20,773,000
BES	Local Growth Fund Grant	14,632,518
CYPS	School Condition Grant	9,783,429
CYPS	Devolved Formula Capital Grant (Schools)	1,410,628

4.5.5 In addition, a number of the County's schools have been awarded additional devolved grant funding.

4.5.6 The DCMS funded Rural Gigabit Connectivity Programme is supporting schools in areas that are unlikely to benefit from commercial investment by 2033 to access gigabit-capable connections via school fibre broadband installation.

4.5.7 In response to Covid 19 and the closure of schools during lockdown, the DfE has provided funding for schools to set up a new education platform where one does not exist to enable pupils to continue their learning at home. Funding available is £1.5k per primary and £2k per secondary school.

4.5.8 Whilst the funding is being routed through the Council, the DCMS and DfE are liaising directly with schools and so, until the funds are received, the total of funding allocated for both programmes is unknown. Current receipts this year total £131.5k.

Financing the Refreshed Capital Plan

4.5.9 The table below indicates that there is potentially £15.6m of unallocated capital funding that might become available over the Capital Plan period (depending upon the realisation of forecast capital receipts).

Source	2020/21 £k	2021/22 £k	2022/23 £k	2023/24 £k	Later Yrs £k
Forecast Sources of Finance					
Borrowing	13,394	8,957	-10,894	0	3,579
Grants and Capital Contributions	146,014	20,638	6,364	0	17,209
Schemes financed from Revenue	17,940	6,402	3,100	0	573
Capital Receipts	4,903	7,185	11,747	0	14,611
= Total Forecast Capital Funding	**182,251**	**43,182**	**10,317**	**0**	**35,972**
- Updated Capital Plan	-176,829	-42,997	-10,317	0	-25,960
= Unallocated Capital Resources	5,422	185	0	0	10,012
Total potentially unallocated available over full capital reserves resources Capital Plan period	15,619				

4.5.10 Some of the forecast receipts making up this 'Corporate Capital pot' are not expected to be realised for some time yet. As a result, the availability of this unallocated funding is speculative in terms of both timing and amount. Against this background, any material spending of the 'pot' combined with significant reductions in the expected value of potential capital receipts in the pipeline could result in its becoming 'overdrawn'. Such a scenario would result in the requirement for additional Prudential Borrowing to finance the existing Capital plan.

4.5.11 Assuming that the forecasts remain accurate, the options for this unallocated resource are:

a) To retain, resulting in the earning of short term interest within Corporate Miscellaneous; or
b) To make available for either new capital investment or for reducing Prudential Borrowing which would, in turn, result in financing cost savings in the Revenue Budget.

4.5.12 The current position, as previously agreed by Members, remains to retain any surplus capital funding for the time being.

4.6 RECOMMENDATIONS

4.6.1 The Executive is recommended to:

(a) Approve the refreshed Capital Plan summarised at **paragraph 4.2.3**;

(b) Approve the additional funding of £8m to purchase vehicles in advance on behalf of the NY Highways company as set out at **paragraph 4.2.27**;

(c) Approve the increase in loan facility for the NY Highways company (**paragraph 4.2.29**);

(d) Approve the establishment of a recurring annual short term cashflow arrangement of up to £2m to support the effective profiling of the highways programme (**paragraph 4.3.8**);

(e) Agree that the expired approvals in relation to Technology and Change be held for a further 12 months pending a review (**paragraph 4.3.9**); and

(f) Agree that no action be taken at this stage to allocate any additional capital resources (**paragraph 4.5.12**)

APPENDICES TO THE CAPITAL PLAN

A BUSINESS & ENVIRONMENTAL SERVICES

B CHILDREN & YOUNG PEOPLE'S SERVICE

C CENTRAL SERVICES

D HEALTH & ADULT SERVICES

E FINANCING OF THE CAPITAL PLAN

2020/21 CAPITAL BUDGET MONITORING - POSITION TO 30 JUNE 2020

BUSINESS AND ENVIRONMENTAL SERVICES

ITEM	Total £000	Expenditure to 31.3.20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Later Years £000
GROSS EXPENDITURE						
HIGHWAYS & TRANSPORTATION ANNUAL PROGRAMME						
Structural Maintenance	109,776	42,553	64,250	2,972	-	-
Integrated Transport	5,854	-	5,854	-	-	-
New and Replacement Road Lighting Columns	10,701	7,511	3,191	-	-	-
Regional Funding Allocation	445	-	-	-	-	445
Overprogrammed Works	329 CR	-	329 CR	-	-	-
Flood Risk Management	3,074	40	1,424	1,240	370	-
HIGHWAYS & TRANSPORTATION MAJOR PROJECTS						
Kex Gill Realignment	4,950	2,840	2,111	-	-	-
Junction 47 Improvements	7,766	609	3,800	3,297	12	48
Harrogate- York Rail Scheme	9,854	-	9,854	-	-	-
Bedale-Aiskew-Leeming Bar Major Scheme	25,651	25,052	80	60	40	420
A174 Sandsend Slope Stabilisation	7,032	7,032	-	-	-	-
WASTE & COUNTRYSIDE SERVICES						
Waste Management Service	1,070	-	780	15	15	260
Waste Procurement Project	5,632	5,534	98	-	-	-
ECONOMIC PARTNERSHIP UNIT						
Rural Connected Communities (5G)	1,000	4	441	555	-	-
Heritage Services	175	-	175	-	-	-
GROWTH, PLANNING & TRADED SERVICES						
Local Growth Deal	86,902	62,512	24,391	-	-	-
LEP Growing Places Fund	988	-	988	-	-	-
TOTAL GROSS SPEND	**280,620**	**153,765**	**117,107.3**	**8,139**	**437**	**1,172**
CAPITAL GRANTS & CONTRIBUTIONS						
Capital Grants						
- Local Transport Plan Grant	36,596 CR	2,269 CR	34,327 CR	-	-	-
- National Productivity Investment Fund	3,434 CR	580 CR	2,854 CR	-	-	-
- Safer Roads Fund	11,552 CR	653 CR	7,927 CR	2,972 CR	-	-
- Highways England Grant	813 CR	29 CR	-	784 CR	-	-
- BALB	23,140 CR	23,140 CR	-	-	-	-
- EA Grant	5,656 CR	4,763 CR	431 CR	405 CR	57 CR	-
- Waste Capital Grants	425 CR	-	425 CR	-	-	-
- DfT Grant	20,773 CR	-	20,773 CR	-	-	-
- Local Growth Deal	127,051 CR	87,879 CR	38,873 CR	300 CR	-	-
- DCMS Grant	1,000 CR	4 CR	441 CR	555 CR	-	-
Other Capital Grants	24 CR	-	24 CR	-	-	-
Capital Contributions	3,481 CR	1,580 CR	1,466 CR	415 CR	20 CR	-
S106 Contributions	728 CR	-	283 CR	-	-	445 CR
LEP Growing Places Fund/Teckal Loan Repayments	2,988 CR	-	988 CR	2,000 CR	-	-
Revenue Contributions						
- Road Lighting Columns	9,858 CR	7,511 CR	2,347 CR	-	-	-
- Structural Maintenance of Roads	15,000 CR	14,798 CR	202 CR	-	-	-
- Kex Gill	4,950 CR	2,840 CR	2,111 CR	-	-	-
- Flood Risk Management	1,438 CR	40 CR	735 CR	370 CR	293 CR	-
- Junction 47	2,323 CR	-	-	2,263 CR	12 CR	48 CR
- Harrogate-York Rail	254 CR	-	254 CR	-	-	-
- BALB (PIP)	2,402 CR	1,802 CR	80 CR	60 CR	40 CR	420 CR
- Other Revenue Contributions	1,011 CR	418 CR	468 CR	15 CR	15 CR	95 CR
TOTAL GRANTS AND CONTRIBUTIONS	**274,897 CR**	**148,304 CR**	**115,009 CR**	**10,139 CR**	**437 CR**	**1,008 CR**
TOTAL NET EXPENDITURE	**5,723**	**5,461**	**2,098.1**	**2,000 CR**	**-**	**165**

APPENDIX B

	2020/21 CAPITAL BUDGET MONITORING - POSITION TO 30 JUNE 2020					
	CHILDREN AND YOUNG PEOPLE'S SERVICE					
ITEM	**Total £000**	**Expenditure to 31.3.20 £000**	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**	**Later Years £000**
GROSS EXPENDITURE						
NYCC MANAGED SCHOOL SCHEMES						
Basic Need Schemes	55,387	-	26,176	9,516	4,081	15,614
School Condition Schemes	11,412	-	7,138	3,468	296	510
Capital Maintenance Programme	3,834	-	2,500	1,334	-	-
General Compliance & Health and Safety	274	-	274	-	-	-
Strategic Management of Capital	361	-	361	-	-	-
SCHOOL MANAGED SCHEMES						
Self Help Schemes	9,948	-	3,948	3,000	3,000	-
Devolved Formula Capital Grant Funding	3,980	-	1,160	1,410	1,410	-
NYCC NON-SCHOOL MANAGED SCHEMES						
Catering Equipment	720	-	240	240	240	-
Prevention & Commissioning	109	-	-	-	-	109
Children & Families	212	-	212	-	-	-
Aiming High for Disabled Children - Short Breaks	61	-	61	-	-	-
TOTAL GROSS SPEND	**86,298**	**-**	**42,070**	**18,968**	**9,027**	**16,233**
CAPITAL GRANTS & CONTRIBUTIONS						
NYCC MANAGED SCHOOL SCHEMES						
Capital Grants						
- Basic Need Grant	22,410 CR	-	12,103 CR	5,292 CR	2,188 CR	2,827 CR
- Devolved Capital Grant	250 CR	-	165 CR	85 CR	-	-
- School Condition Grant	15,172 CR	-	9,684 CR	5,191 CR	296 CR	-
- Special Provision Capital Fund Grant	239 CR	-	239 CR	-	-	-
- Other Capital Grants	38 CR	-	38 CR	-	-	-
Capital Contributions						
- Section 106 Income	30,517 CR	-	12,970 CR	2,502 CR	1,893 CR	13,151 CR
SCHOOL MANAGED SCHEMES						
Capital Grants						
- Devolved Capital Grant	3,980 CR	-	1,160 CR	1,410 CR	1,410 CR	-
- Sport Organisation Grants	948 CR	-	948 CR	-	-	-
Capital Contributions						
- Self Help Capital Contributions	1,500 CR	-	500 CR	500 CR	500 CR	-
- School Budgets Revenue Contributions	7,500 CR	-	2,500 CR	2,500 CR	2,500 CR	-
NYCC NON-SCHOOL MANAGED SCHEMES						
Capital Grants						
- Other Capital Grants	109 CR	-	-	-	-	109 CR
Revenue Contributions						
- Catering Equipment	720 CR	-	240 CR	240 CR	240 CR	-
- Other Revenue Contributions	273 CR	-	273 CR	-	-	-
TOTAL GRANTS AND CONTRIBUTIONS	**83,655 CR**	**-**	**40,820 CR**	**17,721 CR**	**9,027 CR**	**16,087 CR**
TOTAL NET EXPENDITURE	**2,643**	**-**	**1,250**	**1,248**	**-**	**146**

APPENDIX C

Item 5

ITEM	2020/21 CAPITAL BUDGET MONITORING - POSITION TO 30 JUNE 2020					
	CENTRAL SERVICES					
	Total £000	Expenditure to 31.3.20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Later Years £000
GROSS EXPENDITURE						
County Hall Redevelopment	6,444	3,091	2,918	435	-	-
Property Rationalisation	1,500	259	491	750	-	-
ICT Infrastructure (FCS)	471	-	471	-	-	-
New Ways of Working	1,352	-	1,352	-	-	-
Super Fast Broadband Scheme	840	154	-	-	-	686
Library Schemes	769	731	38	-	-	-
Purchase of Vehicles, Plant & Equipment	300	-	100	100	100	-
Material Damage Provision	1,500	-	500	500	500	-
South Cliff, Scarborough	1,212	-	1,212	-	-	-
Capital Investments	-	11,865	-	-	-	-
Capital Loan Provisions	-	500	-	-	-	-
Loans to Limited Companies	30,737	12,229	6,976	6,863	-	4,669
Investments in Limited Companies	500	500	-	-	-	-
TOTAL GROSS SPEND	**45,625**	**29,328**	**14,059**	**8,648**	**600**	**5,355**
CAPITAL GRANTS & CONTRIBUTIONS						
Capital Grants						
- Regional Improvement Grant	-	-	-	-	-	-
- Performance Reward Grant	800 CR	124 CR	-	-	-	676 CR
Capital Contributions						
Loan Repayments	30,848 CR	389 CR	389 CR	4,593 CR	11,747 CR	13,731 CR
Revenue Contributions						
- Revenue Contributions - Property	6,194 CR	3,091 CR	2,918 CR	185 CR	-	-
- Revenue Contribution - Technology & Change	1,392 CR	29 CR	1,352 CR	-	-	11 CR
- Revenue Contribution - Other	1,212 CR	-	1,212 CR	-	-	-
- Revenue Contribution - Library Kiosks	741 CR	703 CR	38 CR	-	-	-
- Revenue Contributions - Limited Companies	500 CR	500 CR	-	-	-	-
TOTAL GRANTS AND CONTRIBUTIONS	**41,687 CR**	**4,836 CR**	**5,909 CR**	**4,778 CR**	**11,747 CR**	**14,417 CR**
TOTAL NET EXPENDITURE	**25,975**	**34,164**	**8,150**	**3,870**	**11,147 CR**	**9,062 CR**

APPENDIX D

Item 5

2020/21 CAPITAL BUDGET MONITORING - POSITION TO 30 JUNE 2020

HEALTH AND ADULT SERVICES

ITEM	Total £000	Expenditure to 31.3.20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Later Years £000
GROSS EXPENDITURE						
Maintaining Fabric / Facilities of Properties	1,027	-	383	390	254	-
Extra Care Scheme (Invest to Save)	13,261	-	3,210	6,852	-	3,199
TOTAL GROSS SPEND	**14,287**	**-**	**3,593**	**7,242**	**254**	**3,199**
CAPITAL GRANTS & CONTRIBUTIONS						
Capital Grants						
- PSS Capital Grant	609 CR	-	383 CR	226 CR	-	-
Revenue Contributions						
- Revenue Contributions - PIP Funding	3,979 CR	-	3,210 CR	769 CR	-	-
TOTAL GRANTS AND CONTRIBUTIONS	**4,587 CR**	**-**	**3,593 CR**	**995 CR**	**-**	**-**
TOTAL NET EXPENDITURE	**9,700**	**-**	**-**	**6,247**	**254**	**3,199**

FINANCING OF CAPITAL PLAN

Q1 2020/21

	2020/21 £000s	2021/22 £000s	2022/23 £000s	Later Yrs £000s
A FORECAST FUNDING AVAILABLE				
1 Borrowing				
Prudential (Unsupported) Borrowing	14,082	-1,400	600	-34,885
Rephased borrowing (capital expenditure & receipts slippage)	-688	10,357	-11,494	38,464
	13,394	8,957	-10,894	3,579
2 Capital Grants and Contributions				
Health & Adult Services	383	226	0	0
Business & Environmental Services	107,824	5,431	77	445
Children & Young People's Service	37,807	14,981	6,287	16,087
Central Services	0	0	0	676
	146,014	20,638	6,364	17,209
3 Schemes financed from Revenue				
Health & Adult Services	3,210	769	0	0
Business & Environmental Services	6,197	2,708	360	563
Children & Young People's Service	3,013	2,740	2,740	0
Central Services	5,520	185	0	11
	17,940	6,402	3,100	573
4 Capital Receipts available to finance Capital Spending				
Other capital receipts from sale of properties	3,526	592	0	880
LEP Growing Places Loan Repayment (classed as capital receipts)	988	0	0	0
Highways Teckal Advance Purchase Provision	0	2,000	0	0
Company & Other Loan Repayments (treated as capital receipts)	389	4,593	11,747	13,731
	4,903	7,185	11,747	14,611
= Total Forecast Funding Available	**182,251**	**43,181**	**10,317**	**35,972**
B CAPITAL PLAN Updated gross spend	**-176,829**	**-42,997**	**-10,317**	**-25,960**
C FUNDING REMAINING	**5,423**	**185**	**-1**	**10,012**
D TOTAL FUNDING REMAINING				**15,618**

5.0 PRUDENTIAL INDICATORS

5.1 The Prudential Code requires appropriate arrangements to be in place for the monitoring, reporting and revision of Prudential Indicators previously set and these arrangements were agreed by the County Council in 2004.

5.2 Updated Prudential Indicators for 2020/21 to 2022/23 were approved by Executive on 4 February 2020 and subsequently by County Council on 19 February 2020 and were based on a 2019/20 Q3 Capital Plan as at 31 December 2019.

5.3 The Annual Treasury Management and Prudential Indicators report for 2019/20 was submitted to Executive on 28 July 2020. This reported the 2019/20 outturn position on Prudential Indicators compared with the last updated set of Indicators for the year, as approved by County Council in February 2020. The 2019/20 outturn report did not however consider any consequential changes to the Indicators set for the three year period 2020/21 to 2022/23.

5.4 It is therefore necessary to consider and revise the Prudential Indicators for the three years up to 31 March 2023. As a result of Capital Plan updates and other changes, many of the Prudential Indicators need revising, particularly those for capital spending, the consequential capital financing requirement and authorised debt levels.

5.5 Rather than consider individual Prudential Indicators in isolation a full review of all Indicators has been undertaken as part of the ongoing financial monitoring process.

5.6 A Prudential Indicators update and monitoring report is therefore attached as **Appendix A**. This sets out each Prudential Indicator in terms of the:

(a) Indicators approved in February 2020

(b) updated Indicators as at August 2020

(c) comments on the reasons for significant variations being proposed

5.7 In general the updated Indicators reflect a number of common factors including:

(a) 2019/20 outturn – capital spending, capital financing and borrowing as reported to Executive on 28 July 2020

(b) an updated Capital Plan (per **Section 4** of this report)

(c) latest information and approvals on schemes self funded from grants, contributions and from revenue

(d) updated forecasts of debt charge estimates and interest earned on surplus cash balances

(e) various other miscellaneous refinements

RECOMMENDATION

5.8 The Executive recommends to the County Council that it approves the revised Prudential Indicators for the period 2020/21 to 2022/23 as set out in **Appendix A**.

Appendix A - Prudential Indicators 2020/21 – 2022/23 update

Item 5

PRUDENTIAL INDICATORS UPDATE – FOR 2020/21 TO 2022/23
(EXECUTIVE – 25 AUGUST 2020)

CAPITAL EXPENDITURE & EXTERNAL DEBT INDICATORS	Comment

1 Estimated Ratio of capital financing costs to the net Revenue Budget

(a) *Formally required Indicator*

This reflects capital financing costs (principal plus interest) on external debt plus PFI and finance leasing charges less interest earned on the temporary investment of cash balances.

The estimated ratios of financing costs to the net Revenue Budget for the current and future years, and the actual figure for 2018/19 and 2019/20 are as follows:

Year	February 2020		Update August 2020	
	Basis	**%**	**Basis**	**%**
2019/20	probable	10.8	actual	10.8
2020/21	estimate	10.5	estimate	10.7
2021/22	estimate	10.1	estimate	10.8
2022/23	estimate	10.3	estimate	10.3

(b) *Local Indicator*

This local Indicator reflects a policy decision to cap Capital Financing costs at 10% of the net annual Revenue Budget. The Indicator is different to the formally required Indicator at (a) above in that it only reflects the cost components of interest on external debt plus lost interest on internally financed capital expenditure, together with a revenue provision for debt repayment. Unlike the formally required PI it does not reflect interest earned on surplus cash balances or PFI / finance leasing charges.

Year	February 2020		Update August 2020	
	Basis	**%**	**Basis**	**%**
2019/20	probable	6.2	actual	6.2
2020/21	estimate	5.8	estimate	5.7
2021/22	estimate	5.4	estimate	5.3
2022/23	estimate	5.2	estimate	5.1

Comment

The estimates of financing costs include current Capital Plan commitments based on the latest 2020/21 Q1 Capital Plan.

The updated estimates for 2020/21 to 2022/23 reflect the net effect of a range of factors, principally

(a) savings being achieved through the ongoing policy of financing capital borrowing requirements internally from cash balances

(b) variations in the level of annual borrowing requirements resulting from a range of factors, but principally capital expenditure slippage between years

(c) variations in borrowing costs (interest plus a revenue provision for debt repayment) reflecting latest interest rate forecasts to 2022/23

(d) variations in interest earned on cash balances resulting from continuing current historically low interest rates but offset by continuing higher levels of cash balances (formal Indicator only).

APPENDIX A

Prudential Indicator	Comment

2 Capital Expenditure - Actual and Forecasts

The actual capital expenditure that was incurred in 2018/19 and 2019/20 and the latest estimates of capital expenditure to be incurred for the current and future years are:

Year	February 2020		Update August 2020	
	Basis	£m	**Basis**	£m
2019/20	probable	121.8	actual	99.1
2020/21	estimate	133.6	estimate	176.8
2021/22	estimate	18.6	estimate	43.0
2022/23	estimate	5.6	estimate	10.3

The above figures reflect the updated Capital Plan (Q1 2019/20) together with:-

(i) expenditure on fixed assets funded directly from the Revenue Budget and not included in the Capital Plan.

(ii) an estimated allowance for future expenditure re-phasing between years.

Comment

The Indicators approved by Executive on 4 February 2020 were based on a Capital Plan up to 31 December 2019. This Indicator now reflects the Capital Outturn in 2019/20 and the Capital Plan update for Q1 2020/21.

The variations are principally a result of:-

(a) additional provisions and variations to existing provisions which are self-funded from Capital Grants and Contributions, revenue contribution and earmarked capital receipts

(b) Capital expenditure re-phasing between years including slippage from 2019/20 outturn and Q1 2020/21 to later years

(c) various other Capital approvals and refinements reflected in the latest Capital Plan update

Prudential Indicator	Comment

3 Capital Financing Requirement (CFR)

Actuals and estimates of the Capital Financing Requirement (CFR) at the defined year ends are as follows:

Date	February 2020				Update August 2020			
	Basis	**Borrowing**	**Other Long Term Liabilities (PFI etc)**	**Total**	**Basis**	**Borrowing**	**Other Long Term Liabilities (PFI etc)**	**Total**
		£m	£m	£m		£m	£m	£m
31 Mar 20	probable	299.8	155.1	454.9	actual	297.5	155.1	452.6
31 Mar 21	estimate	306.7	151.6	458.3	estimate	294.4	151.6	446.0
31 Mar 22	estimate	292.0	176.2	468.2	estimate	292.1	176.2	468.3
31 Mar 23	estimate	281.7	170.6	452.3	estimate	270.2	170.6	440.8

The CFR measures the underlying need for the County Council to borrow for capital purposes. In accordance with best professional practice, the County Council does not earmark borrowing to specific items or types of expenditure. The County Council has an integrated treasury management approach and has adopted the CIPFA Code of Practice for Treasury Management. The County Council has, at any point in time, a number of cashflows, both positive and negative, and manages its treasury position in terms of its overall borrowings and investments in accordance with its approved Annual Treasury Management Strategy. In day to day cash management, no distinction is made between revenue and capital cash. External borrowing arises as a consequence of all the financial transactions of the County Council as a whole and not simply those arising from capital spending. In contrast, the CFR Indicator reflects the County Council's underlying need to borrow for capital purposes only.

Comment

The February 2020 figures were based on a Capital Plan approved as at 31 December 2019.

The updated figures reflect the following variations to the February 2020 figures

(a) re-phasing between years of expenditure that is funded from borrowing including slippage between years identified at 2019/20 outturn and Q1 2020/21

(b) capital receipts (including company loans) slippage between years that affect year on year borrowing requirements

(c) variations in the level of the Corporate Capital Pot which is used in lieu of new borrowing until the Pot is required

(d) additions and variations to schemes / provisions approved that are funded from Prudential Borrowing

(e) variations in the annual Minimum Revenue Provision for debt Repayment which arise from the above

(f) Other Long Term Liabilities now include the Allerton Waste Recovery Park PFI Scheme

Prudential Indicator	Comment
4 Gross Debt and the Capital Financing Requirement The Prudential Code emphasises that in order to ensure that over the medium term debt will only be for a capital purpose, the County Council should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the previous year (2019/20), plus the estimate of any additional capital financing requirement for the current (2020/21) and next three financial years (2021/22 to 2022/23). If, in any of these years, there is a reduction in the capital financing requirement, this reduction should be ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with gross external debt. This Prudential Indicator is referred to as gross debt and the comparison with the capital financing requirement (**Indicator 3**) and is a key indicator of prudence. The Corporate Director – Strategic Resources reports that the County Council had no difficulty in meeting this requirement up to 2019/20 nor are any difficulties envisaged for the current or future years of the Medium Term Financial Strategy up to 2022/23. For subsequent years, however, there is potential that the County Council may not be able to comply with the new requirement as a result of the potential for the annual Minimum Revenue Provision (MRP) reducing the Capital Financing Requirement below gross debt. This potential situation will be monitored closely. This opinion takes into account spending commitments, existing and proposed Capital Plans and the proposals in the Revenue Budget 2020/21 and Medium Term Financial Strategy report.	This Prudential Indicator was changed in 2013/14 to reflect the comparison of gross debt (external debt plus other long term liabilities less debt administered on behalf of the Police Authority) with the Capital Financing Requirement (CFR). The comparator debt figure had previously been net debt which was gross debt less investments. The Prudential Code requires that where there is a significant difference between the gross debt and the gross borrowing requirement, as demonstrated by the CFR, then the risks and benefits associated with this strategy should be clearly stated in the annual Treasury Management Strategy. The County Council's gross debt figure is currently significantly below the CFR figures shown in **Indicator 3** because of annual capital borrowing requirements being funded internally from cash balances (i.e. running down investments) rather than taking out new external debt. This situation, however, could be reversed in future as a result of two key factors: (i) externalising some or all of the internally financed CFR together with (ii) the potential for the annual Minimum Revenue Provision (MRP) for debt repayment reducing the CFR below gross debt because the debt cannot readily be prematurely repaid without incurring significant penalties (premiums). This potential situation will be monitored carefully by the Corporate Director – Strategic Resources.

Prudential Indicator	Comment
5 Authorised Limit for External Debt In respect of its external debt, it is recommended that the County Council approves the following Authorised Limits for its total external debt for the next three financial years. The Prudential Code requires external borrowing and other long term liabilities (PFI and Finance leases) to be identified separately. The authorised limit for 2020/21 will be the statutory limit determined under section 3(1) of the Local Government Act 2003.	The Corporate Director – Strategic Resources confirms that these authorised limits are consistent with the County Council's current commitments, updated Capital Plan and the financing of that Plan, the 2020/21 Revenue Budget and Medium Term Financial Strategy and with its approved Treasury Management Policy Statement. The Corporate Director – Strategic Resources also confirms that the limits are based on the estimate of most likely prudent, but not worst case, scenario with sufficient headroom over and above this to allow for operational issues (e.g. unusual cash movements). To derive these limits a risk analysis has been applied to the Capital Plan, estimates of the capital financing requirement and estimates of cash flow requirements for all purposes. The updated figures reflect a number of refinements which are also common to the Capital Financing Requirement (see **Indicator 3**) and Operational Boundary for external debt (see **Indicator 6**). Explanations for these changes are provided under **Indicators 3 and 6** respectively.

Year	February 2020			August 2020		
	Borrowing	Other Long Term Liabilities (PFI etc)	Total	Borrowing	Other Long Term Liabilities (PFI etc)	Total
	£m	£m	£m	£m	£m	£m
2020/21	424.0	151.6	575.6	385.5	151.6	537.1
2021/22	395.8	176.2	572.0	382.2	176.2	558.4
2022/23	424.6	170.6	595.2	409.2	170.6	579.8

Prudential Indicator	Comment
6 Operational Boundary for External Debt It is recommended that the County Council approves the following Operational Boundary for external debt for the same period. The proposed operational boundary for external debt is based on the same estimates as the Authorised Limit (ie **Indicator 5** above) but also reflects an estimate of the most likely prudent, but not worst case, scenario without the additional headroom included within the Authorised Limit to allow for eg unusual cash flows.	The Operational Boundary represents a key management tool for the in year monitoring of external debt by the Corporate Director – Strategic Resources. The updated figures reflect refinements which are common to the Capital Financing Requirement (see **Indicator 3** above), together with (a) relative levels of capital expenditure funded internally from cash balances rather than taking external debt (b) loan repayment cover arrangements and the timing of such arrangements These two financing transactions affect external debt levels at any one point of time during the financial year but do not impact on the Capital Financing Requirement.

Year	**February 2020**			**August 2020**		
	Borrowing	**Other Long Term Liabilities (PFI etc)**	**Total**	**Borrowing**	**Other Long Term Liabilities (PFI etc)**	**Total**
	£m	£m	£m	£m	£m	£m
2020/21	404.0	151.6	555.6	365.5	151.6	517.1
2021/22	375.8	176.2	552.0	362.2	176.2	538.4
2022/23	404.6	170.6	575.2	389.2	170.6	559.8

Prudential Indicator	Comment
7 Actual External Debt The County Council's external debt is set out below and consists of external borrowing from the PWLB and money markets plus other long term liabilities such as PFI and finance leases which are classified as external debt for this purpose.	The updated estimates reflect refinements which are common to the Capital Financing Requirement (see **Indicator 3** above) together with the relative levels of capital expenditure internally funded from cash balances rather than taking external debt.

Date	February 2020				Update August 2020			
	Basis	Borrowing	Other Long Term Liabilities (PFI etc)	Total	Basis	Borrowing	Other Long Term Liabilities (PFI etc)	Total
		£m	£m	£m		£m	£m	£m
31 Mar 20	probable	263.1	155.1	418.2	actual	263.1	155.1	418.2
31 Mar 21	estimate	236.0	151.6	387.6	estimate	236.0	151.6	387.6
31 Mar 22	estimate	221.8	176.2	398.0	estimate	221.8	176.2	398.0
31 Mar 23	estimate	208.5	170.6	379.1	estimate	208.5	170.6	379.1

It should be noted that actual external debt is not directly comparable to the Authorised Limit (**Indicator 5 above**) and Operational Boundary (**Indicator 6 above**) since the actual external debt reflects a position at one point in time.

Prudential Indicator	Comment
8 Limit of Money Market Loans (Local Indicator) Borrowing from the money market for capital purposes (as opposed to borrowing from the PWLB) is to be limited to 30% of the County Council's total external debt outstanding at any one point in time. The actual position at 31 March 2020 was 8% (£20m out of a total of £263.1m) against an upper limit of 30%	This limit was introduced as a new Local Prudential Indicator in 2009/10, although the 30% limit has featured as part of the Borrowing Policy section of the County Council's Annual Treasury Management and Investment Strategy for many years.

Prudential Indicator	Comment
9 Maturity Structure of Borrowing The upper and lower limits for the maturity structure of County Council borrowings are as follows:- The amount of projected borrowing maturing in each period as a percentage of total projected borrowing that is fixed rate:	These limits are reviewed annually and have been updated to reflect the current maturity structure of the County Council's debt portfolio.

Period	Lower Limit	Upper Limit	Actual 1 April 20	Forecast 1 April 21
	%	%	%	%
under 12 months	0	50	6	6
12 months and within 24 months	0	25	6	0
24 months and within 5 years	0	50	3	7
5 years and within 10 years	0	75	3	12
10 years and within 25 years	10	100	7	23
25 years and within 50 years	10	100	74	52
			100	100

Prudential Indicator	Comment
10 Total Principal Sums Invested for periods longer than 365 days The 2020/21 aggregate limit of £40m for 'non specified' investments longer than 365 days is based on a maximum of 20% of estimated 'core cash funds' up to2022/23 being made available for such investments. The purpose of this prudential limit for principal sums invested for longer than 365 days is for the County Council to contain its exposure to the possibility of loss that might arise as a result of it having to seek early repayment or redemption of principal sums invested.	**No change to this limit is proposed.** Prior to 1 April 2004, Regulations generally prevented local authorities from investing for longer than 364 days. As a result of the Prudential Regime however, these prescriptive regulations were abolished and replaced with Government Guidance from April 2004. This Guidance gives authorities more freedom in their choice of investments (including investing for periods longer than 364 days) and recognises that a potentially higher return can be achieved by taking a higher (ie longer term) risk. This flexibility requires authorities to produce an Annual Investment Strategy that classifies investments as either **Specified** (liquid, secure, high credit rating & less than 365 days) or **Non Specified** (other investments of a higher risk). Non Specified investments are perfectly allowable but the criteria and risks involved must be vigorously assessed, including professional advice, where appropriate. Therefore, investments for 365 days+ are allowable as a Non Specified investment under the Government Guidance. The use of such investments is therefore now incorporated into the County Council's Annual Treasury Management and Investment Strategy.

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