

4.0 CAPITAL EXPENDITURE OUTTURN AND FINANCING 2020/21

OVERVIEW

4.1 This section of the report presents a summary of the actual capital expenditure incurred in 2020/21 including details of the financing of that expenditure.

CAPITAL PLAN

- 4.2 For the purposes of this report, the final capital outturn expenditure for the financial year 2020/21 is compared to the Capital Plans for 2020/21 as at Quarter 3 of both 2019/20 (original) and 2020/21 (latest revised).
- 4.3 Both Plans are submitted to Executive then County Council for approval as part of the following year's budget / MTFs suite of reports as shown below:

	Original 2020/21 Plan	Latest Revised 2020/21 Plan
Approved by Executive	04/02/2020	26/01/2021
Approved by County Council	18/02/2020	17/02/2021

CAPITAL EXPENDITURE IN 2020/21

- 4.4 A comparison of the capital expenditure incurred in 2020/21 to the forecasts in both the original Capital Plan and the latest revised Capital Plan referred to in **paragraph 4.2** is as follows:

Item	Original Plan £m	Latest Plan £m	Capital Outturn £m	Variance Original Plan £m	Variance Latest Plan £m
Gross Capital Spend	133.6	163.1	119.6	-13.9	-43.5
Grants and Contributions	-112.3	-145.9	-114.9	-2.6	31.0
Net Capital Spend	21.3	17.2	4.7	-16.5	-12.5

- 4.5 The outturn variances referred to throughout the remainder of this report are based on a comparison with the latest revised 2020/21 Capital Plan reported to and approved by Executive in February 2021.

4.6 A summary of the outturn position for gross capital spend at Directorate level is set out below:

Service	Appendix	Gross Latest Plan £m	Gross Outturn Spend £m	Gross Spend Variance £m
HAS	B	2.6	0.1	-2.5
BES	C	111.5	89.9	-21.6
CYPS	D	33.7	20.2	-13.5
CSD	E	15.3	9.4	-5.9
Total		163.1	119.6	-43.5

4.7 A more detailed summary can be found at **Appendix A** with individual statements for each Directorate being provided at **Appendices B to E**. These Appendices also show the outturn position for related capital income from grants and contributions, and a net spend which is funded from capital receipts and borrowing.

4.8 The gross capital underspend of £43.5m represents underspending in all 4 Directorates.

4.9 In **Health and Adult Services**, the underspend of £2.5m relates, in the main, to the development of Extra Care schemes where the completion of and legal transfer of facilities have been delayed. Ongoing legal discussions with providers relating to the legal charge to protect the grant in the event of future additional borrowing by the provider has delayed payment.

4.10 In **Children and Young People's Service**, the £13.5m underspend can mainly be attributed to delays as a result of Covid 19. £5.0m was forecast to be spent on works to the condition of school buildings, however, a large number of schemes have been delayed until 2021/22 to ensure the safety of both pupils, staff and contractors on site. Basic Need schemes (£6.1m) have also been affected by similar delays as well as delays due to land transfer issues in relation to the proposed new primary schools at Manse Farm and North Northallerton. The £2.4m balance includes a variety of schemes: block provisions for compliance and health and safety (£0.1m), catering equipment (£0.2m) and school-led schemes (£1.7m).

4.11 The main element of **Central Services** underspend of £5.9m relates to the slower than expected draw down of loans by both Brierley Homes and NYHighways (£4.9m). Changes to the Brierley Homes development plan following Covid-related disruption, planning/land acquisition outcomes and ongoing viability assessment activity led to all 2020/21 land purchases taking place much later in the year than had initially been anticipated; as a result subsequent construction activity was similarly delayed. Direct construction costs initially projected at £6.6m for 20/21 were in the region of £1.3m following delayed commencement of on-site works. The expected delivery of vehicle orders for NYHighways in March were delayed due to component shortages.

The balance of the Central Services underspend relates to the County Hall redevelopment completing under budget (£0.5m), the T&C Roadmap device refresh programme pausing due to Covid (£0.5m), lower than anticipated material damage insurance claims from schools (£0.4m) and other minor underspends in year across the remainder of the programme.

- 4.12 **Business and Environmental Services** realised an overall underspend of £21.6m on the latest revised 2020/21 Capital Plan. In Highways, £7.0m relates to the provision made available for the advance purchase of vehicles by NYHighways which has been significantly slower than originally anticipated. A further £6.4m of specific grant funded schemes (Safer Roads and the A19 Chapel Haddlesey) have not progressed as had been originally forecast. During the fourth quarter of 2020/21, £5.4M of LTP grant funded schemes were slipped into 2021/22. Analysis as to the reasons for this unusual level of slippage, particularly those schemes that did not become apparent until the closedown process had been completed, is underway within the service.

IMPLICATIONS OF 2020/21 CAPITAL UNDERSPENDING AND PROPOSED CARRY FORWARD TO 2021/22

- 4.13 The County Council's Financial Procedure Rules allows the carrying forward of under/overspends both for approved capital expenditure and scheme specific capital income.
- 4.14 The various components of this net £12.5m underspend and the proposed carry forward to 2021/22 is as follows:

Item	£m
2020/21 Q3 Capital Plan - Latest Revised Update (Gross Spend)	163.1
Less 2020/21 Capital Outturn (Gross Spend)	119.6
= Gross Capital Underspend	43.5
Less Reduction in Grants and Contributions	-31.0
= Net Capital Underspend	12.5
Less Capital Scheme variations not proposed for Carry Forward	0.9
= Adjusted Net Underspend Proposed for Carrying Forward	13.4

- 4.15 This proposed carry forward will not impact on the long term capital financing arrangements for the Capital Plan as borrowing and use of capital receipts can be used flexibly between years.

FINANCING OF 2020/21 CAPITAL EXPENDITURE

4.16 Total capital expenditure of £119.6m in 2020/21 has been financed as follows:

Item	£m
New Internal Borrowing	2.3
Grants and Contributions	104.7
Schemes financed from Revenue	7.0
Capital Receipts from Property Sales	2.5
Loan Repayments	3.1
= Total Capital Expenditure to be Financed in 2020/21	119.6

4.17 The £2.3m figure in the table above is a balancing figure, which effectively represents the increased level of borrowing for capital purposes made from internal sources. In 2018/19, the Council introduced a new approach to identifying, assessing and implementing longer term investments in commercial property that target commercial returns greater than those available from traditional investments. This led to £11.8m of investment in 2018/19. No such investments were made in either 2019/20 or 2020/21 resulting in a reduction in this balancing figure of 75% and 36% respectively on that for the previous financial year.

4.18 The level of internal borrowing required for non-commercial capital expenditure has been minimised through the prioritisation of grants and contributions received by the County Council to fund eligible capital expenditure.

4.19 A more detailed comparison of the above funding package with that underlying both the original and latest revised Capital Plans approved by Members in February 2020 and February 2021, respectively, is provided at **Appendix F**.

CAPITAL RECEIPTS

4.20 The County Council's policy on capital receipts is one that requires that all such receipts shall be used to finance capital expenditure in the year in which the receipts are generated.

4.21 The outturn position on Capital Receipts is as follows:

Item	£m
Receipts from the Sale of Other Land, Buildings and Equipment	2.5
Loan Repayments	3.1
= Total Capital Receipts in 2020/21	5.6
Capital Receipts used to fund Capital Expenditure in 2020/21	-5.6
= Capital Receipts Carried Forward to 2021/22	0.0

4.22 The £5.6m available Capital Receipts as at 31 March 2021 have been used to fund capital spending in the year. This approach is advantageous in terms of treasury management activities and reducing capital financing costs in 2020/21.

FUTURE AVAILABILITY OF CAPITAL RESOURCES

- 4.23 The latest revised Capital Plan update report at Q3 identified a potential £16.9m of unallocated capital funding that could potentially become available in the Capital Plan period. This sum arose mainly from additional capital receipts that had been identified, net of additional capital funding allocations approved by Executive. Following the 2020/21 outturn position and the latest forecast of capital receipts up to 2021/22, the surplus capital resources has reduced slightly to £15.4m.
- 4.24 However, it is currently difficult to predict the level of capital receipts that will be achieved over the next few years with any degree of certainty. Given this scenario, the current forecast of surplus corporate capital funding does include some fairly significant potential receipts that are relatively uncertain in terms of timing and amount.
- 4.25 The surplus corporate capital resources could be made available for either:
- (i) new capital investment (i.e. additional schemes), or
 - (ii) reducing prudential borrowing in 2021/22 or subsequent years and therefore achieving debt financing cost savings in the Revenue Budget/MFTS, or
 - (iii) holding for the time being with no immediate decision to either spend or reduce borrowing. This course of action would result in additional short-term interest being earned within Corporate Miscellaneous.
- 4.26 Members have previously agreed to adopt option (iii) above and retain any surplus capital funding for the time being. Another factor that influenced this decision was that the forecast funding levels include a capital receipts risk in terms of both forecast receipts slipping into a future year and/or not achieving their estimate.
- 4.27 Given the factors mentioned above, it is proposed that option (iii) be reaffirmed at this stage and that the unallocated funding is held in reserve for the time being. Future further investment proposals are likely to include Capital projects and initiatives however and these will be incorporated into a future quarterly Capital report.

NEW APPROVALS

- 4.28 **Update Extra Care Facilities in Harrogate** - The acquisition of approximately three acres of land on the east side of Beckwith Head Road, Beckwith, Harrogate, is required for the purposes of progressing the scheme to assist with social care market development in the Harrogate area. The cost of the acquisition is £1.8m and will be on terms to be agreed by the Corporate Director – Strategic Resources. As reported in the Q3 Capital Report that was included in the MFTS Reports in January 2021, the funding is already set aside within the Capital Programme for Extra Care.

RECOMMENDATIONS

4.29 The Executive is recommended:

- (a) to note the position on capital outturn as detailed in **Appendices A to E**
- (b) to recommend to the County Council, the proposed carry forward to 2021/22 of the net capital underspend totalling £13.3m as set out in **paragraph 4.14**
- (c) to approve the financing of capital expenditure as detailed in **paragraph 4.16** and **Appendix F**
- (d) to approve the proposed acquisition of land on the east side of Beckwith Head Road, Beckwith, Harrogate, as detailed in **paragraph 4.28**

CAPITAL OUTTURN 2020/21 - APPENDICES

- Appendix A** Capital Expenditure and related Income 2020/21 compared with the Capital Plan (original and latest) at Directorate level
- Appendix B** Health and Adult Services
- Appendix C** Business and Environmental Services
- Appendix D** Children and Young People's Service
- Appendix E** Central Services
- Appendix F** Financing of Capital Expenditure 2020/21