

Appendix 8 - Asset Investment and Treasury Budget Report as at September 2017

Introduction

The following report provides an update on the Council's Asset Investment Plan and the Treasury activity as at September 2017. It also provides an estimate of the borrowing requirement for 2017/18 to fund the Asset Investment Plan.

Asset Investment Plan 2017/18

The revised Asset Investment Plan budget as at September 2017 is £117.3m, which includes £24.5m for Invest to Save (I2S) Schemes. The agreed investment as per the Medium Term Financial Plan (MTFS) was £219.3m. The movement between the MTFS position and the £324.7m as at Apr-17 was a result of slippages mainly due to delays completing projects from 2016/17.

The actual investment expenditure as at September 2017 is £31.2m (53.2% of the revised budget to September). The latest forecast provided by project managers predicts an overall spend of £117.3m, therefore the Council is expecting to spend a further £111.4m before March 2018. The Capital Review group on the 10th October revised the capital budget from the £197.7m to the revised budget shown in this report. It is unlikely that capital spending will reach the budgeted levels by the end of the financial year except in projects that are grant funded. The programme will be reviewed and updated in phase 2.

The I2S budget is for schemes that must cover the cost of borrowing and minimum revenue provision (MRP) from either income generation or from generated savings.

The Asset Investment Plan can be funded via three core elements, external third party income (including grants), and capital receipts generated from the sale of Council assets, and borrowing from the external market. For the 2016/17 MTFS onwards the approved strategy is to use Capital Receipts as part of a contribution to the Minimum Revenue Provision (MRP) therefore they are no longer factored into the funding of the Asset Investment.

The following table shows the breakdown of the Council's Asset Investment over the directorates and how this investment is to be financed.

| Directorate | MTFS Budget | 1st April Budget | Current Budget FY | Revised Budget YTD | Actual YTD | Forecast Investment & Financing |
|------------------------|----------------|------------------|-------------------|--------------------|---------------|---------------------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Governance | - | 49 | 49 | 24 | - | - |
| Growth & Regeneration | 38,564 | 44,704 | 39,787 | 19,894 | 7,860 | 39,787 |
| People & Communities | 64,416 | 77,783 | 49,543 | 24,771 | 13,166 | 49,543 |
| Resources | 23,378 | 32,575 | 3,416 | 1,708 | 1,730 | 3,416 |
| Invest to Save | 92,954 | 169,546 | 24,509 | 12,254 | 8,456 | 24,509 |
| TOTAL | 219,312 | 324,657 | 117,303 | 58,651 | 31,212 | 117,303 |
| Grants & Contributions | 44,259 | 50,297 | 42,716 | 21,358 | 15,546 | 42,715 |

| Directorate | MTFS Budget | 1st April Budget | Current Budget FY | Revised Budget YTD | Actual YTD | Forecast Investment & Financing |
|------------------|----------------|------------------|-------------------|--------------------|---------------|---------------------------------|
| Capital Receipts | 942 | - | 1,083 | - | - | 1,083 |
| Borrowing | 174,111 | 274,360 | 73,504 | 37,293 | 15,666 | 73,504 |
| TOTAL | 219,312 | 324,657 | 117,303 | 58,651 | 31,212 | 117,303 |

The movement of £207.4m between the budget as at April 17 (£324.7m) and the current budget of £117.3m follows a comprehensive review of the Asset Investment Plan. A number of large projects across all directorates have been reprofiled to more accurately reflect the spending over future years. The reprofiling of the programme has not included changes to core programmes such as school places, just a review of delivery dates.

There are three school projects where additional corporate resources are required. This will enable preliminary works for the projects to move forward and ensure that EFA grant can be applied as it becomes available. The additional resources required are set out in the table. Capital financing costs will be added to the MTFS as appropriate. These cost will be added to the next update of the capital programme.

| All £k | 2017/18 | 2018/19 | 2019/20 |
|-----------------------|------------|--------------|--------------|
| Hampton Lakes Primary | | 2,000 | 1,500 |
| Paston Primary | | | 552 |
| Marshfields | 400 | 1,500 | |
| Totals | 400 | 3,500 | 2,052 |

Borrowing and Funding the Asset Investment Plan

It is a statutory duty for the Council to determine and keep under review the level of borrowing it considers to be affordable. The Council's approved Prudential Indicators (affordable, prudent and sustainable limits) are outlined in the approved Treasury Management Strategy. The Council borrows only to fund the Asset Investment Plan. The current plan assumes that 81.5% of the budgeted expenditure will be funded by borrowing.

The Council's borrowing as at the end of September 2017 was £389.4m (see table below). The debt is measured against the Council's Authorised Limit for borrowing of £914.1m which must not be exceeded and the Operational Boundary (maximum working capital borrowing indicator) of £811.0m

| Borrowings | Less than 1yr £000 | 1-2yrs £000 | 2-5yrs £000 | 5-10yrs £000 | 10+yrs £000 | Total £000 | Ave. Interest Rate % |
|-----------------|--------------------|-------------|-------------|--------------|-------------|------------|----------------------|
| PWLB | - | - | 4,500 | 16,143 | 308,944 | 329,587 | 3.7 |
| Local Authority | 12,000 | 6,000 | 20,500 | - | - | 38,500 | 1.6 |
| Market Loans | - | - | - | - | 17,500 | 17,500 | 4.5 |

| | | | | | | | |
|----------------------|--------|-------|--------|--------|---------|---------|-----|
| LEP Loan | 784 | 3,000 | - | - | - | 3,784 | 0.0 |
| Total Borrowing | 12,784 | 9,000 | 25,000 | 16,143 | 326,444 | 389,371 | 3.5 |
| % of total Borrowing | 3% | 2% | 6% | 4% | 84% | | |
| Borrowing Limit (PI) | 40% | 40% | 80% | 80% | 100% | | |

The treasury management budget is being further reviewed with the Council's treasury advisors, Capita.

The table below shows the activity in Loans for the year to date:

| Loans Portfolio £000 | | |
|---|---------|----------------|
| April 17 brought forward | | 395,371 |
| Repayment of loans | (9,000) | |
| New loans | 3,000 | |
| Net increase/(decrease) | | (6,000) |
| Loans portfolio as at September 17 | | 389,371 |

Total interest payable on existing loans for the year (£389.4m) is expected to be £13.5m.

As at September 2017 the Council held £23.2m of S106 and Planning Obligation Implementation Scheme (POIS) funding available for funding Asset Investment projects. To date £5.3m has been earmarked for specific projects. The process for allocation requires project managers to successfully submit project plans meeting the criteria for which the contributions were intended.

The Capital Receipts are monitored on a monthly basis and each sale given a status of Red, Amber or Green to identify the likely receipts before March 2018. The MTFS includes a contribution of £12.7m Capital Receipts, which includes £2.2m rolled forward from uncompleted disposals in 16/17. Any shortfall of actual cash receipts in year will therefore have a direct impact on the final Revenue position and in turn the underpinning of the MTFS approach. The revenue forecast assumes that 100% of green receipts and 50% of amber receipts are achieved.

Investments

The Council aims to achieve the optimum interest on investments commensurate with the proper levels of security and liquidity. In the current economic climate the Council considers it appropriate to keep investments short term to cover cash-flow fluctuations, and only invest with Barclays (the Council's banking provider) and Bank of Scotland (part of the Lloyds Banking Group), the Debt Management Office and Local Authorities although the Council has recently opened a Money Market Fund account to help mitigate the investment risks, whilst increasing returns.

As at September 2017 the Council's external investments totalled £19.6m. Investments have yielded £42.5k for the year to date.

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