

Appendix D - Asset Investment and Treasury Budget Report as at December 2018

Introduction

The following report provides an update on the Council's Asset Investment Plan and the Treasury activity as at December 2018. It also provides an estimate of the borrowing requirement for 2018/19 to fund this plan.

Asset Investment Plan 2018/19

The revised Asset Investment Plan budget as at December 2018 is £99.6m, which includes £1.7m for Invest to Save (I2S) Schemes. The agreed investment as per the Medium Term Financial Plan (MTFS) was £158.7m. The movement between the MTFS position and the £181.3m as at April 2018 was a result of slippages mainly due to delays completing projects from 2017/18.

This revised budget includes the following items be approved for:

- the Stamp Duty payable (£600k) on Sand Martin House as this has been assessed as a finance lease
- purchasing Refuse Collection Vehicles (RCV) (£700k) and
- a loan facility for Local Authority Trading Company (LATCo) to provide working capital and to cover start up costs (£1,450k).

The actual investment expenditure as at December 2018 is £55.0m (75.8% of the revised budget to date). The latest forecast for expenditure is £99.6m, therefore the Council is expecting to spend a further £44.6m before March 2019.

The Council has a Capital Review Group (CRG) which meets monthly to ensure that the capital programme is not aspirational in terms of the timing of the delivery of schemes, to challenge and ensure the future five years programme is line with the capital strategy, and monitor the expenditure and progress of schemes.

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

Sub-Directorate	MTFS Budget	1st April Budget	Current Budget FY	Revised Budget YTD	Actual YTD
	£000	£000	£000	£000	£000
Governance	49	49	-	-	-
Growth & Regeneration	55,239	63,363	49,897	37,423	29,280
People & Communities	58,883	64,692	35,046	26,284	20,632
Resources	16,195	1,119	10,209	7,657	4,290
Invest to Save	28,350	52,064	1,703	1,277	759
<i>SMH Stamp Duty</i>	-	-	600	0	-
<i>LATCo Loan & RCVs</i>	-	-	2,150	0	-
TOTAL	158,716	181,287	99,605	72,641	54,961
Grants & Contributions	40,486	46,335	39,249	29,436	28,841
Capital Receipts	1,000	1,000	1,000	750	1,000
Borrowing	117,230	133,952	36,206	42,455	25,120
TOTAL	158,716	181,287	99,605	72,641	54,961

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 Treasury Management Strategy approved as part of the MTFs. The Council borrows only to fund the Asset Investment Plan. The current plan assumes that 59.6% of the budgeted expenditure will be funded by borrowing.

The Council's total borrowing as at the end of December 2018 was £427.6m (see following table). The level of debt is measured against the Councils Authorised Limit for borrowing of £706.5m which must not be exceeded and the Operational Boundary (maximum working capital borrowing indicator) of £659.7m. These limits are set to enable borrowing in advance of need to take advantage of favourable loan rates in consideration of future years capital investment programme.

Borrowings	Less than 1yr £000	1-2yrs £000	3-5yrs £000	5-10yrs £000	10+yrs £000	Total £000	Ave. Interest Rate %
PWLB	-	4,500	7,128	15,715	332,244	359,587	3.6
Local Authority	28,000	22,500	-	-	-	50,500	1.6
Market Loans	-	-	-	-	17,500	17,500	4.5
Total Borrowing	28,000	27,000	7,128	15,715	349,744	427,587	3.4
% of total Borrowing	7%	6%	2%	4%	82%		
Borrowing Limit (PI)	40%	40%	80%	80%	100%		

The majority of the debt is taken on a 10+yr basis. The Acting Corporate Director of Resources believes it to be prudent to take advantage of a relatively low long term fixed rate of interest as it mitigates some of the risk of PWLB rate rises. Long term interest rates remain relatively low e.g. the standard PWLB rate for 50yr loans including the certainty rate was 2.50% at end of December 2018. The historically low PWLB rates are a result of the investor fears and confidence creating an ebb and flow situation between favouring more risky assets i.e. equities, or the safe haven of bonds and have been fluctuating recently due to uncertainty over Brexit negotiations.

The following table shows the activity in loans held by the Council for the year to date, with £22m of loans being repaid and £30m of new borrowing taken to fund the capital programme:

Loans Portfolio £000		
April 2018 b/f		419,587
repayment of loans to date	(22,000)	

new loans in year	30,000	
net increase/(decrease) to date		8,000
Loans portfolio as at December 2018		427,587

Total interest payable on existing loans for the year (£427.6m) is expected to be £14.0m.

The CRG is now reviewing the Council's £17.1m of S106 and Planning Obligation Implementation Scheme (POIS) funding at the monthly meetings. To date £8.7m has been earmarked for specific projects but more work needs to be done by the services to allocate the remaining funding to reduce the borrowing costs to the Council. CRG will invite the S106 Officer to the meeting to discuss current investment projects which may be able to use this funding to reduce this funding balance further.

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 cashflow fluctuations. This financial year investment returns have been from Barclays (the Council's banking provider), CCLA Money Market funds, the Debt Management Office and Local Authorities.

As at December 2018 the Council's external investments totalled £3.5m and have yielded interest to date of £0.088m, which reflects both relatively the low cash balances held to minimise the cost of borrowing and low interest rates being available in the economic climate

Capital Receipts

Capital Receipts are used as part of a contribution to fund the Minimum Revenue Provision as approved in the MTFS. Close monitoring of the receipts from asset sales is maintained as any significant change will now have a direct impact on the revenue position.

Capital Receipts are monitored on a monthly basis and each sale given a status of Red, Amber or Green to identify the likely receipt before March 2019. The MTFS includes a contribution of £2.9m Capital Receipts to fund the MRP, with the revised receipts figure including a further £6.7m rolled forward from uncompleted disposals in 2017/18.

Capital Receipts To Off Set Revenue MRP Charge RAG Status	MTFS Budget £000	Revised Budget £000	Received to Date £000	Not yet received £000
Green	-	5,919	620	5,299
Amber	2,922	700	-	700
Red	-	-	-	-
Total (not inc Investment Assets)	2,922	6,619	620	5,999
Investment Assets	-	-	-	-
Total Capital Receipts	2,922	6,619	620	5,999

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