

Appendix D – Capital Programme and Treasury Budget Report as at September 2019

Introduction

The following report provides an update on the Council's Capital Programme and the Treasury activity as at September 2019. It also provides an estimate of the borrowing requirement for 2019/20 to fund this plan.

Capital Programme 2019/20

The revised Capital Programme budget as at September 2019 is £105.0m, which includes £25.0m for Invest to Save (I2S) Schemes. The agreed investment as per the Medium Term Financial Plan (MTFS) was £114.1m. The movement between the MTFS position and the £124.4m as at April 2019 was a result of reprofiling of budget from 2018/19.

Work has been undertaken to reduce the capital programme to £80m per year, excluding invest to save. Invest to save is shown separately due to the projects only proceeding where they lead to savings which cover the associated capital financing costs in the year they occur, and the capital financing costs are recharged to service budgets. As a result reducing the budget on these projects does not lead to revenue savings. By the inherent nature of these projects the expenditure is less likely to suffer from the same constraints as the Council not having the project officer capacity to deliver a programme over £80m.

The budget includes an allowance for further slippage. This figure is likely to be exceeded following decisions expected shortly to reduce or slip budgets on certain projects.

The actual expenditure as at September 2019 is £28.3m (53.9% of the revised budget to date). The latest forecast for expenditure is £105.0m, therefore the Council is expecting to spend a further £76.7m before March 2020.

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 in line with the capital strategy, and monitor the expenditure and progress of schemes.

The following table shows the breakdown of the Council's Capital Programme over the directorates and how this investment is to be financed. This includes amounts approved by 23 September Cabinet and put forward for approval in 2020/21 MTFS.

Directorate	MTFS Budget £000	1st April Budget £000	Current Budget FY £000	Revised Budget YTD £000	Actual YTD £000
Customer & Digital Services	4,800	5,415	4,688	2,344	1,390
Governance	90	90	-	-	-
People & Communities	34,671	31,521	26,741	13,371	9,599
Place & Economy	38,726	47,736	40,546	20,273	11,397
Resources	847	3,875	12,668	6,334	5,886
Slippage allowance			(4,643)	(2,322)	
TOTAL	79,134	88,636	80,000	40,000	28,272
Grants & Contributions	26,826	32,855	36,530	18,265	13,582
Capital Receipts	23,150	23,150	23,150	-	-
Borrowing	29,158	32,630	20,320	21,735	14,690
TOTAL	79,134	88,636	80,000	40,000	28,272
Invest to Save	34,999	35,800	25,000	12,500	-
Invest to Save Borrowing	34,999	35,800	25,000	12,500	-

Borrowing and Funding the Capital Programme

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 Capital Programme. The current plan assumes that 43.2% of the budgeted expenditure will be funded by borrowing.

The Council's total borrowing as at the end of September 2019 was £448.6m (see following table). The level of debt is measured against the Council's Authorised Limit for borrowing of £785.5m which must not be exceeded and the Operational Boundary (maximum working capital borrowing indicator) of £670.6m. These limits are set to enable borrowing in advance of need to take advantage of favourable loan rates in consideration of future years capital programme.

The Council's Total Borrowing as at 30 September 2019

Borrowings	Less than 1yr £000	1-2yrs £000	2-5yrs £000	5-10yrs £000	10+yrs £000	Total £000	Ave. Interest Rate %
PWLB	-	5,628	11,000	22,520	330,439	369,587	3.5
Local Authority	39,000	22,500	-	-	-	61,500	1.0
Market Loans	-	-	-	-	17,500	17,500	4.5
Total Borrowing	39,000	28,128	11,000	22,520	347,939	448,587	3.2
% of total Borrowing	9%	6%	2%	5%	78%		
Borrowing Limit (PI)	40%	40%	80%	80%	100%		

The majority of the debt is taken on a 10+yr basis from the PWLB. On 9 October 2019 the Treasury and PWLB announced an increase in the margin over gilt yields of 100bps on top of the current margin of 80 bps which the Council has paid prior to this date for new borrowing from the PWLB. There was no prior warning that this would happen and it now means that every local authority has

to fundamentally reassess how to finance their external borrowing needs and the financial viability of capital projects in their capital programme due to this unexpected increase in the cost of borrowing. Representations are going to be made to HM Treasury to suggest that areas of capital expenditure that the Government are keen to see move forward e.g. housing, should not be subject to such a large increase in borrowing costs.

The Council's current borrowing strategy has been to take advantage of shorter term Local Authority loans which are currently available below bank rate, with a view to undertaking some longer term borrowing later in the year. This is because despite the PWLB's long term interest rates having been historically low, they have also been volatile. This approach minimises in-year interest cost and flexibility.

The market response to the sudden PWLB rate change is still emerging and the Council's longer term borrowing strategy will be reviewed to take account of this. Some commentators are now referring to PWLB as the lender of last resort and future long term borrowing from other providers eg pension funds and banks may be more cost efficient.

The following table shows the activity in loans held by the Council for the year to date, with £88.2m of loans being repaid and new loans of £79.2m taken to date.

Loans Portfolio £000		
April 2019 b/f		457,587
repayment of loans to date	(88,180)	
new loans in year	79,180	
net increase/(decrease) to date		(9,000)
Loans portfolio as at September 2019		448,587

Total interest payable on existing loans for the year (£448.6m) is expected to be £14.6m.

The Council currently holds £14.6m of S106, POIS and CIL funding, of this £3.0m is earmarked for specific projects. The Capital Review Group (CRG) will continue to review the funding at the monthly meetings with a view to allocate the remaining funding to reduce the borrowing costs to the Council. CRG invites 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 September 2019 the Council's external investments totalled £1.4m.

Capital Receipts Used To Fund Minimum Revenue Provisions

Capital Receipts are used to repay debt, and this debt repayment is factored into the Minimum Revenue Provision as approved in the MTFs. Close monitoring of the receipts from asset sales is maintained as any change to the budget will 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 2020. The £10.8m Capital Receipts in the MTFs

will be used to repay debt and forms part of the calculation of the reducing the overall debt through MRP.

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	8,361	8,361	8,361	-
Amber	2,458	2,458	-	2,458
Red	-	-	-	-
Total (not inc Investment Assets)	10,819	10,819	8,361	2,458
Investment Assets	-	-	-	-
Total Capital Receipts	10,819	10,819	8,361	2,458