

Temporary increase in Investment Limits and Revised Prudential and Treasury Indicators 2019/20

On 23 July 2019 Council approved a temporary increase in investment limits to allow higher balances to be held in liquid accounts, in order to manage cash flow until the purchase of the TVS Site is completed.

Prudential and Treasury Indicators in Tables 1 to 7 following were revised to take account of rephrasing of expenditure from 2018/19 and other changes in 2019/20, plus the addition of the TVS Site purchase to the 2019/20 capital programme. The purchase is to be funded by external borrowing, and the Operational Boundary and Authorised Limit in particular needed to be increased before taking the borrowing. The margin between the Authorised Limit and Operational Boundary has been increased to allow temporary borrowing, probably from another local authority, to cover the payment of Value Added Tax. When the VAT is reclaimed from HMRC the temporary borrowing will be repaid.

Investment Counterparties 2019/20

Category	Institutions	LAS Colour Code	Maximum Period	Limit per Institution
Banks & Building Societies: Call Accounts /Term Deposits / Certificates of Deposit (CDs)				
Government related/guaranteed entities	DMADF (DMO)	Yellow	6 months	Unlimited
	UK Local Authority	Yellow	1 year 2 years	£6m per LA (previously £3m) £2m per LA; £4m in total
UK part-nationalised institutions	Royal Bank of Scotland group	Blue	1 year	£6m per group (previously £4m per group)
UK-incorporated Institutions	UK banks and building societies of high credit quality	Orange	1 year	£6m per group (or institution if independent) (previously £3m)
		Red	6 months	
		Green	3 months	
Money Market Funds				
Money Market Funds	MMFs of high credit quality - AAA rated		Instant access	£6m per fund (previously £3m)

Notes

- (1) Changes from the limits approved by Council on 26 February 2019 are highlighted in **bold**
- (2) £6m limit per local authority, bank/group, building society or MMF is for instant access accounts only, not term deposits
- (3) The increase in limits is temporary. Limits will revert to those approved by Council on 26/2/19 following completion of the purchase of the TVS Site

Maximum durations suggested by Link Asset Services (LAS)

Yellow	5 years
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days

Revised Prudential and Treasury Indicators 2019/20

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Capital expenditure

This prudential indicator (Table 1) is a summary of the Council's capital expenditure plans, both those agreed previously, budgets rephased from 2018/19, and other changes to the 2019/20 capital programme.

Table 1 - Capital Expenditure 2019/20	2019/20 Estimate £000	From 2018/19 £000	Other Changes £000	2019/20 Revised £000
Customer & Digital	0	884	0	884
Early Intervention & Support	1,869	68	874	2,811
Policy & Governance	1,750	388	(200)	1,938
Regeneration & Inward Investment	10,367	6,013	33,029	49,409
Capital Expenditure Total	13,986	7,353	33,703	55,042

Capital financing

Table 2 below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Table 2 - Capital Financing 2019/20	2019/20 Estimate £000	All Changes £000	2019/20 Revised £000
Capital expenditure from Table 1	13,986	41,056	55,042
Capital Receipts	(410)	(256)	(666)
Grants & Contributions	(4,215)	(3,423)	(7,638)
Revenue and Reserves	(785)	(881)	(1,666)
Net financing needed for year	8,576	36,496	45,072

The Council's borrowing need (the Capital Financing Requirement)

The Council's Capital Financing Requirement (CFR) is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The Council is asked to approve the revised CFR projections in Table 3:

Table 3 - Capital Financing Requirement 2019/20	2019/20 Estimate £000	2019/20 Changes £000	2019/20 Revised £000
Opening CFR	51,879	(2,596)	49,283
Net financing need for the year (Table 2)	8,576	36,496	45,072
Less MRP/VRP	(570)		(570)
Closing CFR	59,885	33,900	93,785

Treasury portfolio position

The Council's projected treasury portfolio position is summarised below in Table 4. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

Table 4 - Portfolio Position 2019/20	2019/20 Estimate £000	2019/20 Changes £000	2019/20 Revised £000
Debt at 1 April	24,879	(3,889)	20,990
Other long-term liabilities (OLTL)	15	0	15
Total gross debt 1 April	24,894	(3,889)	21,005
Expected change in Debt	11,392	37,789	49,181
Expected change in OLTL	0	0	0
Expected change in gross debt	11,392	37,789	49,181
Gross debt 31 March	36,286	33,900	70,186
Capital Financing Requirement (Table 3)	59,885	33,900	93,785
Under / (over) borrowing	23,599	0	23,599

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

The Council has achieved budget savings in financing capital expenditure by using its own cash balances as a source of internal borrowing, thereby reducing interest payments on external borrowing, rather than investing cash but earning a low rate of return.

The revised forecast of year-end resources in 2019/20 is presented in Table 5.

Table 5 - Year-End Resources 2019/20	2019/20 Estimate £000	2019/20 Changes £000	2019/20 Revised £000
Core Funds/Working Balances	(24,599)	0	(24,599)
Under/(over) borrowing (Table 4)	23,599	0	23,599
Expected investments	(1,000)	0	(1,000)

Treasury Indicators: limits to borrowing activity

The Operational Boundary

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

The revised Operational Boundary in Table 6 takes account of the rephasing of capital expenditure to be funded by borrowing from 2018/19, and changes to the capital programme in 2019/20.

Table 6 - Operational Boundary 2019/20	2019/20 Estimate £000	2019/20 Changes £000	2019/20 Revised £000
Debt	36,271	33,900	70,171
Other long-term liabilities	15	0	15
Operational Boundary	36,286	33,900	70,186

The **Authorised Limit** for external debt

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

- This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
- The Council is asked to approve the following revised Authorised Limit in Table 7:

Table 7 - Authorised Limit 2019/20	2019/20 Estimate £000	2019/20 Changes £000	2019/20 Revised £000
Debt	39,271	40,303	79,574
Other long-term liabilities	15	0	15
Authorised Limit	39,286	40,303	79,589